Q3 2006 Analyst and Investor Briefing

November 27, 2006

- **Sales** increased by 26.0% to €7,783m (Q3'05: €6,177m); Volume +6%, price +/-0%, currency -2%, portfolio +22%. Portfolio and currency adjusted sales increased +6.4% (Schering €1,410m).

- **Underlying EBIT** up 22.2% to €798m (Q3'05: €653m), driven by Pharma and Consumer Health (Schering: €80m).

- **Net Special Items** of -€139m include: *HealthCare*: Total -€106m, mainly due to Schering and a write-down of cancer drug Viadur (€25m)
  CropScience: Total -€15m from restructuring charge and divestiture gain of a product line.
  MaterialScience: Total -€32m, mainly for site consolidation and litigation.

- **Reported EBIT** dropped by 17.2% to €659m (Q3'05: €796m), including Schering (€9m). Q3'05 contained gain of €244m from change in pension plan.

- **Underlying EBITDA** at €1,505m up 38.5% (Q3'05: €1,087m). Contribution from Schering: €392m.

- **Reported EBITDA** at €1,170m down by 6.9% (Q3'05: €1,257m) including €91m from Schering. Please **see annex** (page 4) for details on the impact of Schering on EBIT and EBITDA.

- **Non-operating result** down by 49.5% to -€272m (Q3'05: -€182m) including net interest expenses of -€214m (Q3'05: -€116m).

- **Net income** (incl. discontinued operations) down by 35.1% to €320m (Q3'05: €493m); **EPS** accordingly at €0.42 (Q3'05: €0.68)

- **Core EPS** at €0.79 (Q3'05: €0.64). Details on EPS/Core EPS see page 5.

- **Gross cash flow** up by 35.6% to €1.170m (Q3'05: €863m). Delta **Working Capital** €351m. **Net cash flow (cont.)** at €1,521m (Q3'05: €1,374m). **Investments** down by 6.1% to €325m. **Operating free cash flow** at €1,170m (Q3'05: €1,080m).

- **Net debt** qoq down by €924m to €19,021m and up by €13,527m compared to December 31, 2005.

€ million	Q3 2005 Sales	Q3 2005 EBIT rep.	Q3 2005 Special Items	Q3 2005 EBIT under-lying	Q3 2005 EBITDA rep.	Q3 2005 EBITDA under-lying	Q3 2006 Sales	Q3 2006 EBIT Rep.	Q3 2006 Special Items	Q3 2006 EBIT under-lying	Q3 2006 EBITDA rep.	Q3 2006 EBITDA under-lying
HealthCare	**2,019**	**353**	**36**	**317**	**476**	**413**	**3,482**	**392**	**(106)**	**498**	**565**	**882**
Pharma	1,029	188	30	158	256	214	2,444	199	(92)	291	337	640
Cons. Health	990	165	6	159	220	199	1,038	193	(14)	207	228	242
CropScience	**1,171**	**70**	**53**	**17**	**227**	**174**	**1,049**	**(12)**	**(15)**	**3**	**140**	**143**
CP	979	53	44	9	175	131	872	(7)	(15)	8	130	133
ES/BS	192	17	9	8	52	43	177	(5)	0	(5)	10	10
MaterialSc.	**2,639**	**406**	**40**	**366**	**542**	**502**	**2,920**	**261**	**(32)**	**293**	**398**	**427**
Materials	1,030	192	27	165	247	220	1,067	67	0	67	123	123
Systems	1,609	214	13	201	295	282	1,853	194	(32)	226	275	304
Reconc.	**348**	**(33)**	**14**	**(47)**	**12**	**(2)**	**332**	**18**	**14**	**4**	**67**	**53**
Group	**6,177**	**796**	**143**	**653**	**1,257**	**1,087**	**7,783**	**659**	**(139)**	**798**	**1,170**	**1,505**

Outlook

The outlook refers to continuing operations, including Schering. It does not reflect the Diagnostics business, which is to be divested and is reported under discontinued operations.

We expect Bayer Group sales to amount to about €30 billion for the full year 2006, including €3.0 billion in revenues from the Schering business.

Excluding the Diagnostics business now to be divested, we achieved underlying EBIT of €3,158 million and underlying EBITDA of €4,787 million in fiscal 2005. We aim to significantly improve on these numbers in 2006, and expect to achieve underlying EBITDA of approximately €5.7 billion, including about €0.7 billion from the Schering business. As explained in the previous interim report, this figure is adjusted for non-cash charges arising from the acquisition-related step-up of Schering inventories, thus ensuring comparability with future periods. Further details of the calculation of EBIT and EBITDA before special items for Schering are given in the Stockholders' Newsletter, page 29.

We expect to achieve underlying EBIT of approximately €3.5 billion in 2006, with the Schering business contributing about €0.1 billion to this total. Following the entry of the domination and profit and loss transfer agreement with Schering in the commercial register on October 27, 2006, we have embarked on the integration of Schering. We expect to incur net special charges of €0.6 billion in the fourth quarter, including €0.4 billion related to Schering. The €0.6 billion figure includes €0.3 billion in non-cash charges comprising write-downs and effects of the purchase price allocation.

With the integration of Schering proceeding on schedule, we are now planning an underlying EBITDA margin in HealthCare of approximately 22 percent for the full year 2006. This guidance already reflects expected increases in marketing and R&D costs in the fourth quarter.

Bayer CropScience continues to anticipate a negative market environment in the fourth quarter, particularly in Brazil. We therefore uphold our forecast of a drop in sales and a year-on-year decline in the underlying EBITDA margin for 2006 as a whole.

We maintain a positive view of the market environment for our MaterialScience business. For the full year 2006, we continue to aim for underlying EBIT and EBITDA on a par with the previous year. Some risks are inherent in the effects of raw material cost increases and the production shortfalls that have occurred.

We are targeting an EBITDA margin (before special items) for the Bayer Group of about 19 percent.

Q3'06 HealthCare

Pharmaceuticals sales up 137.5% to €2,444m with Schering contributing €1,410m. *Primary Care:* Adalat down to €155m (-6.1%). Cipro sales €117m (-13.3%). Avelox sales up 23.4% to €79m driven by market share increase. Levitra also gained market share (€77m, +14.9%). *Hematology/Cardiology:* Trasylol down 39.7% to €38. Kogenate (€199m, +6.4%) compared to strong previous year quarter (BioSet launch). Negative sales impact of €37m from cessation of distribution of plasma products with Talecris. Rx Aspirin Cardio up 13.0% (€52m) with growth in major markets. *Oncology*: Sales €54m with Nexavar contributing €37m. *Schering:* Betaferon up 10.3% to €246m. Yasmin sales (including Yaz and Yasminelle) increased by 24.8% to €206m.
Underlying EBIT up 84.2% to €291m due to Schering inclusion (€80m) and optimization of cost structures. Underlying EBITDA at €640m, up 199.1% (Schering €392m).

Consumer Health sales advanced by 4.8% to €1,038m. Aleve with ongoing recovery (€62m, +21.6%). Strong performance of the Bepanthen product family (€32m, +23.1%).

Ascensia flat +0.6% (€178m) due to destocking in US. Aspirin OTC sales increased by 2.7% to €116m.
Underlying EBIT up 30.2% to €207m. Underlying EBITDA at €242m (+21.6%)

Q3'06 CropScience

Crop Protection sales down by 10.9% to €872m. Portfolio and currency adjusted down by 6.6%. Sales of **Insecticides** decreased by 7.6% to €267m mainly due to drought in US, unfavourable Fx development and divested products. **Fungicides** sales down by 31.5% to €152m mainly caused by difficult farm situation in Brazil, especially for soy and unfavourable weather conditions in main regions. Sales in the **Herbicides** division decreased by 7.5% (€310m) despite a good start into fall cereals season in EU. **Seed Treatment** up 7.5% to €143m driven by new products.
Underlying EBIT in Crop Protection down by €1m to €8m. Underlying EBITDA up €2m to €133m.

Environmental Science/BioScience sales down by 7.8% to €177m. Environmental Science down 5.5% to €137m. BioScience reduced sales by 14.9% to €40m.
Underlying EBIT down by €13m to -5€m due to increased marketing efforts in Environmental Science. Underlying EBITDA at €10m (-76.7%)

Q3'06 MaterialScience

Materials segment sales improved by 3.6% to €1,067m. Polycarbonates sales up 4.0% to €695m, strong volume growth compensated for price declines.

Underlying EBIT down 59.4% to €67m, mainly due to lower selling prices and higher raw material costs. Underlying EBITDA at €123m (-44.1%).

Systems segment sales were up 15.2% to €1,853m, with Polyurethanes up 15.2% to €1,328m. MDI with higher volumes but lower prices. TDI up mainly on price enhancements. Polyols up on improved prices. Coatings raw materials continued growth of 16.0% to €385m driven by strong demand and price increases.
Underlying EBIT up by 12.4% to €226m. Higher raw material prices were compensated by increasing prices and volumes. Underlying EBITDA at €304m (+7.8%)

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Forward-looking statements

Annex

Q3'06 Performance of Bayer Schering Pharmaceuticals (BSP)

Euro million	Q3´05 Bayer Pharma	Q3´05 Schering	Q3´06 Bayer Pharma	Q3´06 Δ% yoy	Q3´06 Schering	Q3´06 BSP
Sales	**1,029**	•	**1,034***	**0.5**	**1,410**	**2,444**
EBITDA	**256**	•	**246**	**-3.9**	**91**	**337**
Special items	42	•	-2	•	-301	-303
•*work-down of inventory step-up*	*0*	•	*0*	•	*-267*	*-267*
•*capitalization of amortization as part of inventory*	*0*	•	*0*	•	*0*	*0*
•*Schering integration*	*0*	•	*0*	•	*-30*	*-30*
•*other*	*42*	•	*-2*	•	*-4*	*-6*
underlying EBITDA	**214**	•	**248**	**15.9**	**392**	**640**
EBIT	**188**	•	**190**	**1.1**	**9**	**199**
Special items	30	•	-21	•	-71	-92
•*work-down of inventory step-up*	*0*	•	*0*	•	*-267*	*-267*
•*capitalization of amortization as part of inventory*	*0*	•	*0*	•	*230*	*230*
•*Schering integration*	*0*	•	*0*	•	*-30*	*-30*
•*other*	*30*	•	*-21*	•	*-4*	*-25*
underlying EBIT	**158**	•	**211**	**33.5**	**80**	**291**

*) + 6.5% sales growth if adjusted for Trasylol impact (-€25m) and cessation of plasma product distribution in Canada (-€37 m)

Bayer

Calculation of Core Earnings per Share

Earnings per share according to IFRS are affected by the purchase price allocation (see Stockholders' Newsletter page 41) and other special factors. To enhance comparability over time, we also determine core earnings per share (from continuing operations), from which these factors are excluded. We do this by eliminating from net income as per the income statement the amortization of intangible assets, asset writedowns (including any impairment losses), special items in EBITDA and extraordinary factors affecting income from investments in affiliated companies (such as divestment gains or write-downs), including the related tax effects. We also deduct income from discontinued operations.

Calculation of Core Earnings per Share*				
€ million	3rd Quarter 2005	3rd Quarter 2006	First Nine Months 2005	First Nine Months 2006
Net income	493	320	1,551	1,372
+ Amortization and write-downs of intangible assets	153	190	418	470
+ Write-downs of property, plant and equipment	41	23	50	48
+/– Special items (other than write-downs)	(170)	335	74	497
+/– Extraordinary income/loss from investments in affiliated companies	–	–	–	–
+/– Tax adjustment	(9)	(193)	(190)	(355)
+/– Income/loss from discontinued operations	(39)	(51)	(105)	(78)
Core net income from continuing operations	469	624	1,798	1,954
+/– Financing expenses for the mandatory convertible bond, net of tax effects	–	25	–	48
Adjusted core net income	469	649	1,798	2,002
Million shares				
Weighted average number of outstanding ordinary shares**	730.34	760.28	730.34	740.43
Potential shares to be issued upon conversion of the mandatory convertible bond	–	60.12	–	41.30
Adjusted weighted average number of outstanding ordinary shares	730.34	820.40	730.34	781.73
Basic and diluted core earnings per share from continuing operations (€)	0.64	0.79	2.46	2.56

* Adjusted core net income and core earnings per share are not defined in the International Financial Reporting Standards. These indicators are therefore to be regarded only as supplementary information. The company believes that they give readers a clearer picture of the results of operations and ensure greater comparability of data over time.

** including newly issued shares from the capital increase *pro rata temporis*

Bayer

November 27, 2006

Acquisition of Schering:
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 billion euros per annum. This will be the run-rate of acquisition related additional amortization charges for 13 years on average.

An approximately 1 billion euros step-up of inventories will probably be worked down over the next 2.5 years reflecting the lifespan of these assets. As rough guidance, charges of approximately 470 million euros in 2006, 300 million euros in 2007 and 180 million euros in 2008 are assumed. These charges will be a component of special items.

The extraordinary charges resulting from the work-down of the stepped up inventories are partly offset by capitalizing part of the additional amortization in newly produced inventory.

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.

As rough guidance for the impact on the reported EBIT, this means that in 2006 approximately 80 percent of the amortization charge associated with the acquisition of Schering, or roughly 380 million euros, will be capitalized, reducing the P&L effect of the amortization from 480 million euros to 100 million euros. In addition, the 470 million euros work-down of the inventory step-up has to be accounted for, leading to overall charges of 570 million euros in the reported EBIT for 2006. The capitalized amortization charge of about 380 million euros will be treated as a special item offsetting 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 will be approximately 90 million euros in 2006. Hence, the effect on the underlying EBIT line is expected to be around 480 million euros.

For 2007, the effect of capitalizing additional amortization in inventory will be approximately 630 million euros, whereas the work-down of inventory step-up will be roughly 300 million euros. The reported EBIT impact should therefore be approximately 970 million euros, whereas the impact on the underlying EBIT is estimated to be in the range of 920 million euros.

Underlying EBITDA excludes the work-down of the inventory step-up and of course any depreciation and amortization effects. The one-time gains resulting from capitalizing part of the additional amortization charges are not relevant for the EBITDA line.

Acquisition of Schering - Indicative Impact of Additional Amortization*

In € million, figures rounded	Q4 2006e	FY 2006e	FY 2007e	FY 2008e	FY 2009e
Work-down of inventory step-up	**-200**	**-470**	**-300**	**-180**	**0**
Amortization of intangibles & tangibles, excl. trademarks	-210	-460	-870	-850	-850
> Of which capitalized as part of inventory	150	380	630	690	690
Expensed amortization capitalized in previous period			-380	-630	-690
Amortization of trademarks	-10	-20	-50	-50	-50
Amortization	**-70**	**-100**	**-670**	**-840**	**-900**
EBIT impact	**-270**	**-570**	**-970**	**-1,020**	**-900**
EBIT special items	-50	-90	-50	-120	0
Underlying EBIT impact	**-220**	**-480**	**-920**	**-900**	**-900**
EBITDA impact	**-200**	**-470**	**-300**	**-180**	**0**
EBITDA special items	-200	-470	-300	-180	0
Underlying EBITDA impact	**0**	**0**	**0**	**0**	**0**

* Status: November 27, 2006
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.

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