



Science For A Better Life



Third Quarter Results 2006

## Investor Conference Call

Werner Wenning, CEO

November 27 | 2006

## Disclaimer




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.



- **Delivering growth and performance**
- **Executing a clear strategy**
- **Optimistic about future developments**

## Transformation Continues at Full Speed Q3'06 Highlights



**Delivering growth and performance**

- Strong business expansion: sales +26%
- Continued margin improvement: underlying EBITDA +39%
- Strong cash generation: Gross cash flow +36%
- 15th consecutive quarters with y-o-y progression in underlying EBIT

**Executing a clear strategy**

- Bayer Schering Pharma synergy target of €700m validated bottom-up
- Integration underway, major decisions announced after registration of domination agreement
- Late state pipeline strengthened through collaboration with Regeneron for VEGF-Trap
- Acquisition of Chinese OTC company Topsun provides platform for expansion into China
- Final design of the phase III study program for rivaroxaban chronic indications determined
- Approval for Betaferon in early MS and Yaz in PMDD received
- Inauguration of new state-of-the-art polycarbonate plant in China
- New restructuring initiative at Bayer services expected to generate €125m savings
- Closure of MDI plant in New Martinsville to further boost efficiency
- Divestment of 49.9% interest in GE Bayer Silicones announced for proceeds of €475m
- Auction on H.C. Starck disposal successfully concluded – transaction volume approx. € 1.2bn

**Optimistic about future developments**

- On track for Group underlying EBITDA margin target of 19%
- Exciting news flow ahead

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## Acquisitions Provide Additional Boost – Sales and Earnings Increase Strongly



in € million	Q3'06	Q3'05	Δ
Sales	7,783	6,177	+ 26%
EBITDA underlying	1,505	1,087	+ 39%
EBIT underlying	798	653	+ 22%
Net income	320	493	- 35%
Core EPS*	0.79	0.64	+ 23%
Gross cash flow	1,170	863	+ 36%
Operating free cash flow	1,170	1,080	+ 8%
	30 Sep 2006	30 Jun 2006	Δ
Net debt	19,021	19,945	- 924
Pension liabilities	7,043	6,237	+ 806

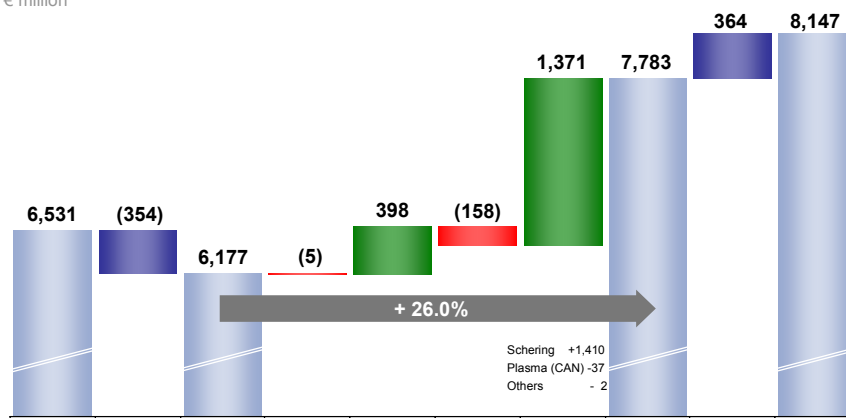
\* Fully diluted, derived from adjusted net income of €655m over 820.40 million shares, see also Q3 Interim Report for further details

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## Group Sales Growth Driven by Strong Volumes and Acquisition



In € million



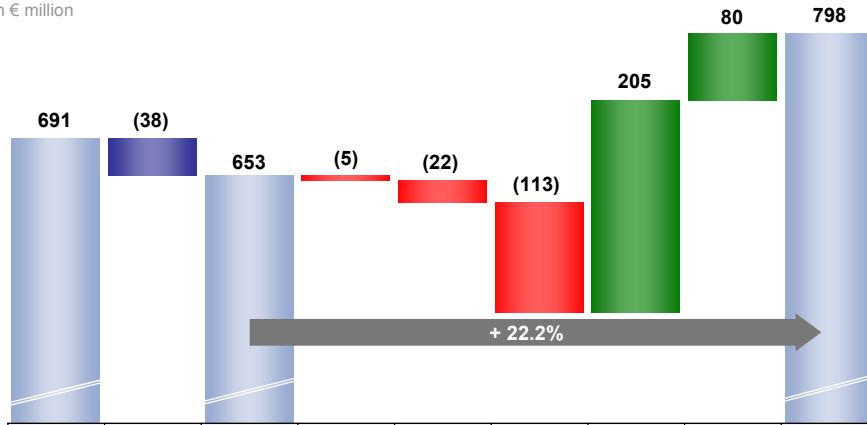
\*Plasma (CAN) = termination of the plasma distribution in Canada

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## Group Underlying EBIT Driven by Higher Volumes and Performance



In € million



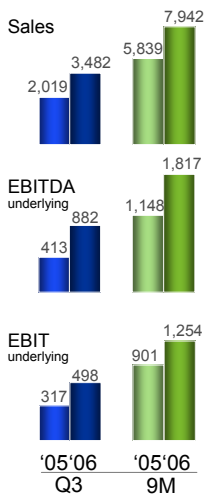
Reported Q3'05	Diagnostics (DO)	Restated Q3'05	Prices	Translation	Raw material/energy costs	Volumes/Performance	Schering	Continuing Q3'06
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## HealthCare – Outlook Raised Following Strong Underlying Margin Expansion in Q3 and 9M



In € million



### Sales +72.5% reported, +7.5% adjusted\*

- Strong performance of key products: Betaferon +10%, Yasmin +25%, Avelox +23%, Levitra +15%, Advantage +9%, Kogenate +6%
- Nexavar continued to do well, generating sales of €37m
- Ascensia flat after destocking following US price increase in July
- Trasylol at €38m (down 40%)
- Schering added €1,410m sales, termination of plasma distribution in Canada diminished sales by €37m

### Underlying EBIT +57.1% underscoring the potential of the business combination

- Driven by the strong performance of pharmaceuticals (+84%) and Consumer Health (+30%)
- Underlying EBIT Bayer Pharma excl. Schering up 34%

### Improved financial outlook 2006

- 22% underlying EBITDA margin expected
- Contribution of ~€700m underlying EBITDA from Schering expected
- Expected higher R&D expenses in Q4 as pipeline advances strongly, marketing and sales expenses back on normal levels in Q4 (combined impact ~€100m)

\*Fx and portfolio adjusted

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## We are Accelerating the Integration of Schering

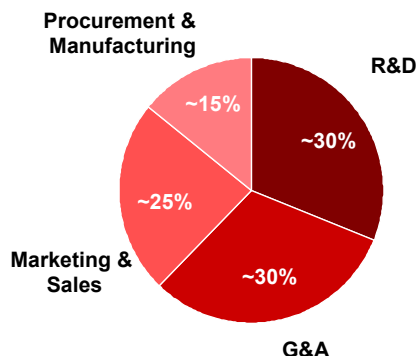


- Domination and profit and loss transfer agreement registered on October 27
- Extensive preparations allowed immediate implementation of several major decisions
- Management team nominated down to 3rd level
- R&D activities will be consolidated on three major sites Berlin, Wuppertal, Germany and Berkley, USA
- R&D sites in West Haven and Richmond will be closed
- US Pharma Headquarters will be located in Wayne and Montville, New Jersey
- Concept for the future of some 70 Bayer Schering Pharma sites decided

- €700m synergy target validated
- Update on 2009 HealthCare margin target during Q4 conference call

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## €700m Synergy Target From Integration of Schering Validated



- Integration cost\* approx. €1bn majority in 2006 and 2007
- Approx. €400m special charges in Q4 '06 (thereof ~€300m non-cash)
- €165m synergies already announced, implementation underway
- Expect to generate €250+m synergies in 2007 and to fully realize synergy target by 2009

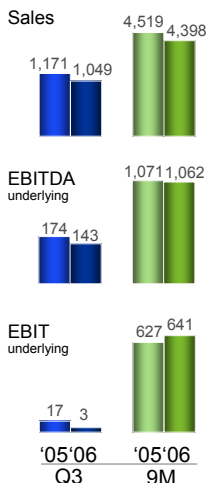
\*excluding work down of step-up on inventories and impact from purchase price allocation

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## CropScience – Solid Performance in Challenging Markets, Counteractions Initiated



In € million



### Sales -10.4%, Fx and portfolio adjusted -5.9%

- Insecticides -8% on Fx, disposals and drought in the US
- Fungicides -32% due to unfavorable weather and Brazil
- Herbicides -8%, good start of cereals season in EU
- Seed treatment +8% due to success of new products
- Environmental/BioScience almost flat if adj. for Fx
- New product sales up +16% on target for sales of 1 billion in 2006

### Underlying EBIT down €14m in the quarter but up during 9M

- Savings and product mix improvements compensated

### Financial outlook

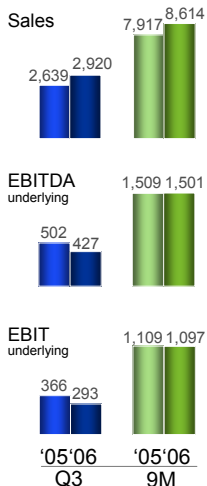
- 2006 sales and underlying EBITDA margin below previous year
- Targeting additional efficiency improvements of €300m through new restructuring program
- Continuous product mix improvements
- Targeting to achieve 25% EBITDA margin by 2009

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## MaterialScience – Continued Strong Demand



In € million



### Sales +10.6%

- Growth driven by higher volumes (+11%), prices slightly up (+1%)
- Polycarbonates growth accelerated (+4%) on very strong volumes, yet weaker selling prices
- MDI with strong volumes but lower prices
- TDI posted very strong, mainly price driven growth
- Polyols up double-digit on higher prices
- Coating raw materials business continued steady expansion

### Underlying EBIT -19.9% chiefly on higher raw material costs

- €113m higher raw material costs, not fully passed on to customers
- Strong performance of polyurethanes and coating raw materials business

### Financial outlook 2006

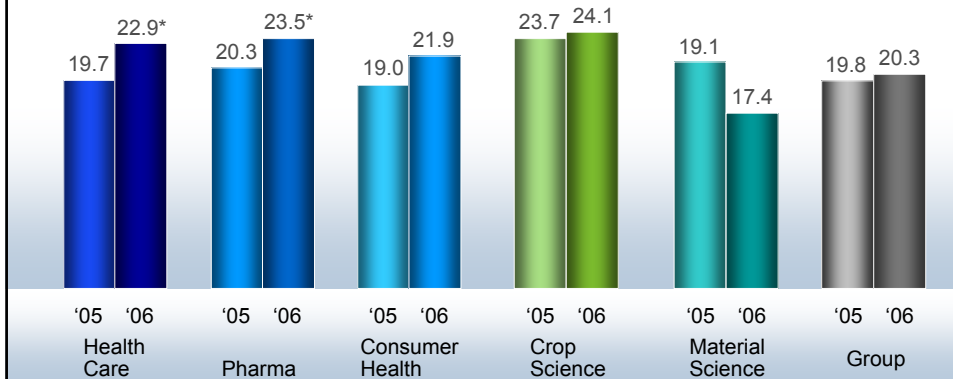
- Underlying EBIT and EBITDA expected on a par with previous year
- Expect market environment to remain positive
- Some risks inherent to higher raw material cost and production shortfalls

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## Group Underlying EBITDA Margin at 20.3% in First 9 Months



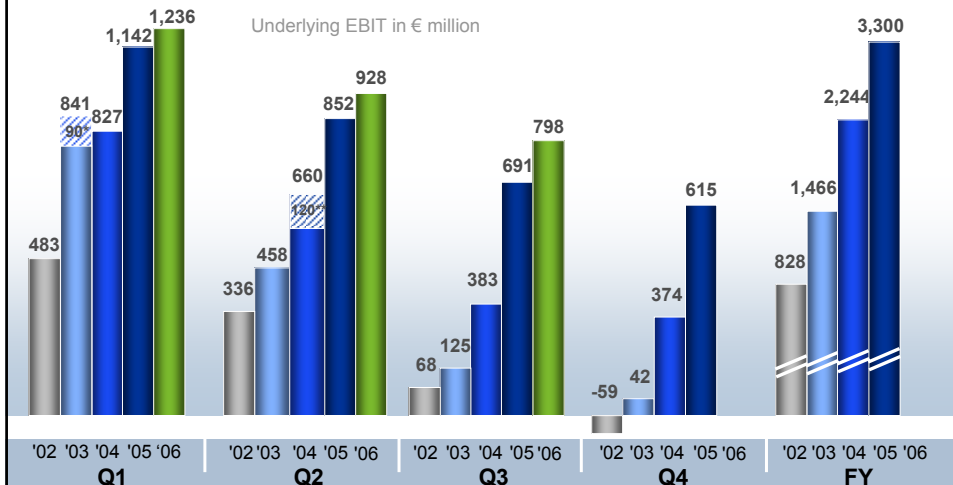
9M Underlying EBITDA margin in %



\* Including Schering

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## Upward Trend at Bayer Continued



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 in Q1 incl. Diagnostics, in Q2 and Q3 incl. Schering

\* Including € 90m EBIT from divested products

\*\* Including € 120m reversal of pension provisions

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## Outlook 2006 – On Target for Mid-Term Financial Objective



Group	Subgroups
<ul style="list-style-type: none"><li>■ <b>Sales: approx. € 30bn*</b></li><li>■ <b>EBITDA underlying: approx. € 5.7bn</b> Approx. €700m underlying EBITDA contribution from Schering expected</li><li>■ <b>EBIT underlying: approx. € 3.5bn</b></li><li>■ <b>Underlying EBITDA margin target</b> Generate approx. 19%</li></ul> <p>*Incl. Schering, H.C. Starck, Wolff Walsrode; excl. Diagnostics</p> <p>Q3 2006 Investor Conference Call • Werner Wenning • Page 15</p>	<ul style="list-style-type: none"><li>■ <b>HealthCare – Raised</b> Underlying EBITDA margin approx. 22%</li><li>■ <b>CropScience – Unchanged vs. Q2</b> Sales and underlying EBITDA margin below last year</li><li>■ <b>MaterialScience – Unchanged vs. Q2, some risks emerged</b> Underlying EBIT and EBITDA on a par with previous year</li></ul>



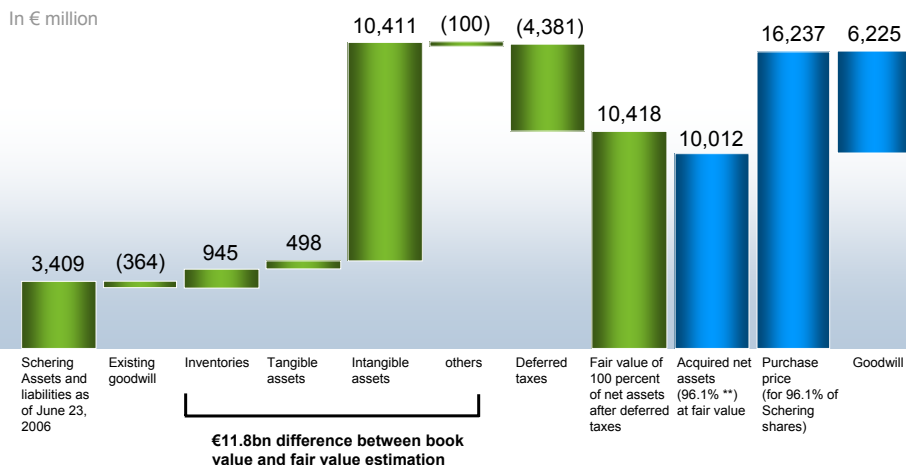
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## Acquisition of Schering - Indicative Purchase Price Allocation\*



\* All figures are indicative as the purchase price allocation is still provisional. Figures may change during the finalization of the process.

\*\* as of September 30, 2006 Bayer controlled 96.1% of issued and outstanding Schering shares

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## Impact of the Schering Acquisition\*



- Sales contribution in 2006 approx. €3bn
- Underlying EBITDA contribution of around €0.7bn in 2006
- Additional amortization of intangibles and step-up of inventory (Not cash-relevant, not tax-deductible)
  - Impact on reported EBIT approx. -€570m in 2006  
approx. -€0.9m to -€1bn p.a. thereafter
  - Impact on underlying EBIT approx. -€480m in 2006  
approx. -€0.9bn p.a. thereafter
  - No impact on underlying EBITDA
- Tax payment rate increases; effective tax rate for the Group at 32-33% for 2006 and estimated at approx. 35% going forward.
- Non-operating result for 2006 now expected at approx. -€800m\*\*
- Approx. €0.4bn one-time charges related to the acquisition of Schering assumed for Q4'06, of which €0.3bn are not cash relevant

\* All figures are indicative as of November 27, 2006.

\*\* Including approx. €250m one-time gain from the divestiture of Bayer's stake in the GE-Bayer Silicons JV. Subject to closing of the transaction in 2006.

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## Acquisition of Schering - Indicative Impact of Additional Amortization\*



In € million, figures rounded	Q4 2006e	FY 2006e	FY 2007e	FY 2008e	FY 2009e
<b>Work-down of inventory step-up</b>	<b>-200</b>	<b>-470</b>	<b>-300</b>	<b>-180</b>	<b>0</b>
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
<b>Amortization</b>	<b>-70</b>	<b>-100</b>	<b>-670</b>	<b>-840</b>	<b>-900</b>
<b>EBIT impact</b>	<b>-270</b>	<b>-570</b>	<b>-970</b>	<b>-1,020</b>	<b>-900</b>
EBIT special items	-50	-90	-50	-120	0
<b>Underlying EBIT impact</b>	<b>-220</b>	<b>-480</b>	<b>-920</b>	<b>-900</b>	<b>-900</b>
<b>EBITDA impact</b>	<b>-200</b>	<b>-470</b>	<b>-300</b>	<b>-180</b>	<b>0</b>
EBITDA special items	-200	-470	-300	-180	0
<b>Underlying EBITDA impact</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* Status: November 27, 2006

All figures are indicative as the purchase price allocation is still provisional. Assumptions subject to change.  
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