



**Science For A Better Life**



**Dresdner Kleinwort  
German Investment Seminar**

**Dr. Alexander Rosar  
EVP Investor Relations**

**January 8-10, 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 driving the Health Care focus
- We are delivering growth and performance
- We are developing new growth opportunities
- We are optimistic about future developments

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 3

## Transformation Continued at Full Speed 9 months 2006 highlights



### Driving the Health Care focus

- Acquisition of Schering creates a leader in specialty care
- Disposal programme accomplished
- Successful integration of Roche's OTC business

### Delivering growth and performance

- Strong growth momentum: Sales +14%
- Double-digit underlying EBIT progression (+13%)
- Major new restructuring / savings projects initiated

### Developing new growth opportunities

- Pharma pipeline value significantly increased
- CropScience is on track for targeted €1bn 2006 sales with new products
- Successful start of polycarbonate production in China

### Optimistic about future developments

- On track for group underlying EBITDA margin target of 19%
- Clear priorities for 2007
- Committed to target attainment and execution

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 4



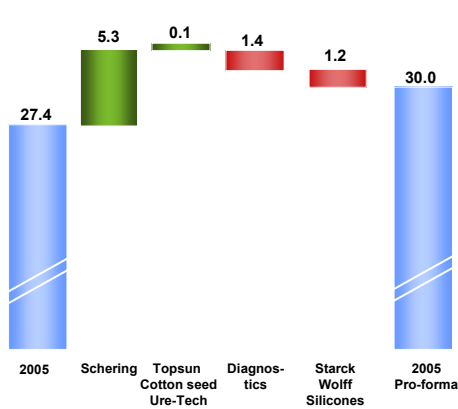
## ■ Driving the Health Care Focus

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 5

## During 2006 We Continued to Improve Our Portfolio



Pro-forma Sales (in €bn)



- €17bn acquisition of Schering creates a leader in specialty care
- €100m acquisition of Topsun provides platform for OTC business expansion in China
- Two small scale acquisitions to strengthen growing cotton seed portfolio
- Two small scale transactions to move further along the value chain in MaterialScience (UreTech, system houses)
- Disposals to finance Schering transaction and to sharpen the focus of the portfolio

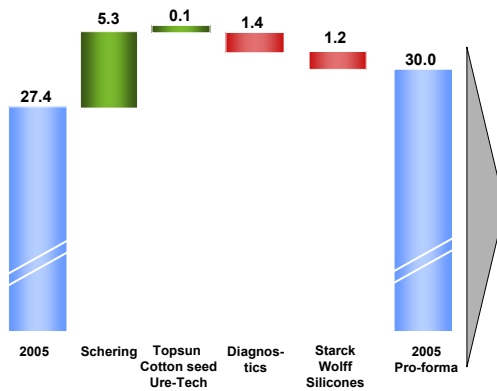
Following the substantial performance improvements during the last years, we were positioned to accelerate our successful strategy

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 6

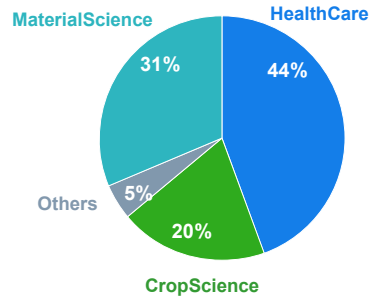
## During 2006 We Continued to Improve Our Portfolio



Pro-forma Sales (in €bn)



Divisional Sales Split (2005 pro-forma in €bn)



Following the substantial performance improvements during the last years, we were positioned to accelerate our successful strategy

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 7

## Acquisition of Schering Creates a Leader in Specialty Pharmaceuticals



### Specialty Franchises

1. Roche/Genentech	\$ 13bn
2. Johnson&Johnson	\$ 12bn
3. Amgen	\$ 10bn
4. Pfizer	\$ 8bn
5. Novartis	\$ 8bn
6. Sanofi-Aventis	\$ 8bn
7. <b>Bayer-Schering</b>	<b>\$ 8bn</b>
8. GlaxoSmithKline	\$ 8bn
9. AstraZeneca	\$ 5bn
10. Wyeth	\$ 5bn

**Bayer-Schering:** hematology, multiple sclerosis, oncology, gynecology, contrast media

Source: WoodMackenzie, 2004 Corporate Franchise Analysis

### Advantages of Specialty Approach

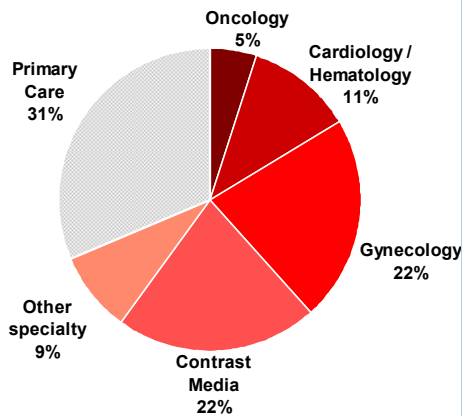
- Less about scale, more about innovation
- Products addressing high unmet medical need
- Focused marketing, less promotion intensive
- Limited sales force and marketing requirements
- Products have better cost / clinical benefit characteristics
- More profitable and easier to defend business segment

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 8

## Acquisition of Schering Accelerates Focus towards Specialty Care



### Pro-forma Pharma Portfolio\*



### Key Characteristics

- Focus areas can grow faster due to increased flexibility in resource allocation
- Bayer will concentrate on three key areas: Oncology, Cardiology / Hematology and Gynecology
- Balanced portfolio of growth and cash generating businesses
- The combined portfolio is already 70 % specialty care

\* 2005 Pro-forma revenues excluding Plasma sales of €296m

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 9

\* 2005 Pro-forma revenues excluding Plasma sales of €296m

## Disposal Programme Accomplished – Opportunity to Reduce Net Debt by > €5bn



### Divestment of Diagnostics business unit for €4.2bn to Siemens

- HealthCare focus sharpened on pharmaceuticals and consumer health
- After-tax proceeds of €3.6bn, expected book gain around €2bn
- Transaction closed

### Divestment of H.C. Starck and Wolff Walsrode

- Reduction of cyclical exposure, financing of Schering acquisition
- Auction on H.C. Starck disposal successfully concluded – transaction volume approx. €1.2bn
- Dow to acquire Wolff Walsrode – transaction volume not disclosed
- Closing expected in Q1'07

### Divestment of 49.9% interest in GE Bayer Silicones joint venture

- Financing of Schering acquisition, attractive timing
- Proceeds of €475m, improvement of FY'06 non-operating result by ~€250m

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 10

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



OTC sales in €m	9 mths 06	9 mths 05	Δ%
Aspirin	347	324	+7
Aleve	171	124	+38
Canesten	122	110	+11
Bepanthen	101	86	+17
Supradyn	99	92	+8
One-A-Day	89	87	+2
Alka-Seltzer	75	69	+9
Consumer Care (total)	1,875	1,705	+10

- Synergies realized ahead of schedule at lower than expected costs
- No business disruption during integration phase
- Strong underlying growth 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

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 11

## A Decade of Increasing Focus for Growth



1996 Sales €24.9bn

2005 Sales €30.0bn\*

HealthCare
CropProtection
Polymers
H.C. Starck
Wolff Walsrode
Lanxess
EC Erdölchemie
Haarmann & Reimer
Agfa
Real estate

- Major examples since 1996
- Generics
  - Household insecticides
  - Plasma
  - **Diagnostics - closed**
  - Antitrust requirements

- **Signed<sup>1)</sup>**
- **Signed<sup>1)</sup>**

- spun-off

- divested
- divested
- **Silicones - closed**
- divested
- divested

1) Pending

- + **Schering**
- + Roche OTC
- + Chiron Diagnostics
- + Visible Genetics
- + Pritor
- + Aventis CropScience
- + Flint
- + Seed treatment activities
- + Lyondell Polyols

HealthCare
CropScience
MaterialScience

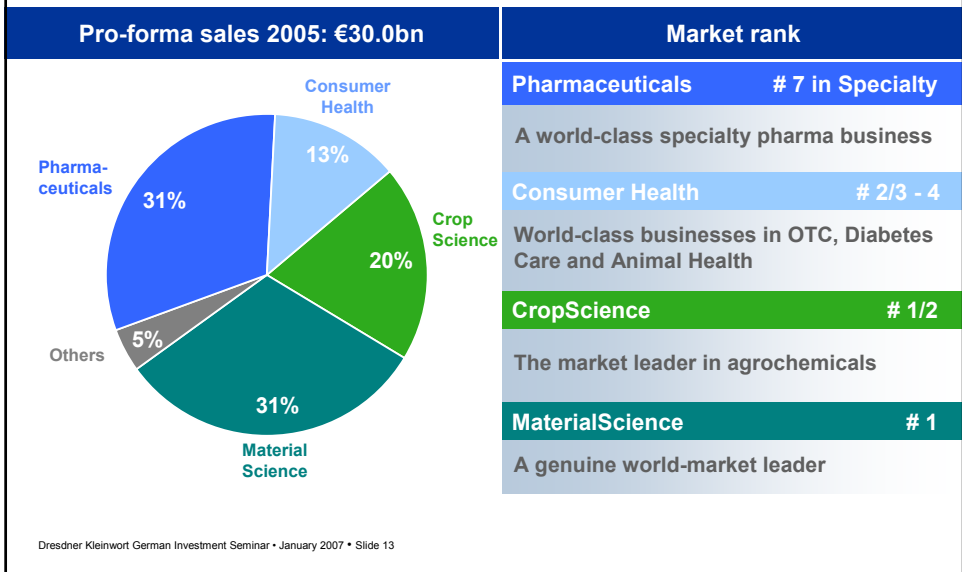
Headcount 142,200

Headcount 109,000\*

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 12

\* Pro-forma combined business of Bayer and Schering

# The New Bayer – A Leader in its Markets



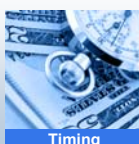
# Bayer's Portfolio Management Strategy



- 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



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



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



## Bayer's Transformation has paid off – Business Portfolio greatly Improved



- Market leading positions in almost all markets
- Portfolio balance clearly shifted towards Health Care (now 44% of group sales)
- Health Care business grown from €9 bn in 2002 to a future €14-15bn business
- Pharmaceuticals sales more than doubled (from €5 bn in 2002 to now over €10bn)
- Specialty focus increased from 30% to over 70%
- Doubled the size of our OTC business
- Became market leader in agrochemicals
- Focused our MaterialScience portfolio on two key technologies
- Exited all our mature chemicals activities in several stages

**We will continue to execute our clear strategy**

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 15



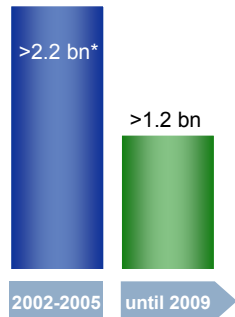
■ **Delivering Growth and Performance**

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 16

## Restructuring Actions will Continue to Improve our Cost Base



(in € million)



### Major new initiatives

- €700m synergies from the integration of Schering
- €300m new programme to reduce infrastructure and process costs at CropScience
- €200+m initiative to reduce overall G&A costs (running since 2005)
- €125m programme at Bayer service company (60% ownership) initiated

In addition to the €2.2 bn group wide efficiency improvement projects we are planning to generate further efficiency improvements of > €1.2bn by 2009

\*restated for Lanxess

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 17

## We are Accelerating the Integration of Schering

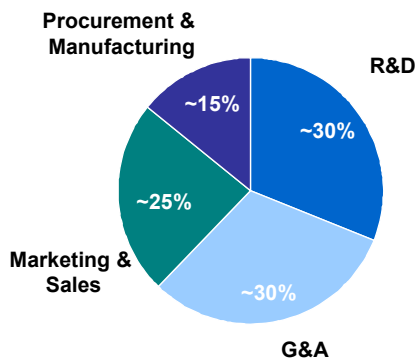


- Domination and profit and loss transfer agreement registered on October 27
- Extensive preparations allowed immediate implementation of several major decisions
- Management team nominated down to 3rd level
- R&D activities will be consolidated on three major sites Berlin, Wuppertal, Germany and Berkley, 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

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 18

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

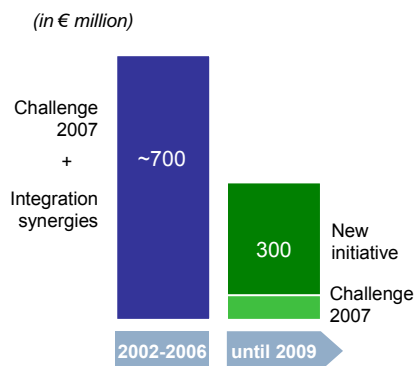


- Integration cost\* approx. €1bn majority in 2006 and 2007
- Approx. €400m special charges in Q4'06
- €165m synergies already announced, implementation underway
- Expect to generate €250+m synergies in 2007 and to fully realize synergy target by 2009

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

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 19

## €300m New Restructuring Initiative at CropScience



- New efficiency initiative to reduce infrastructure and process costs
- Approx. €300m savings p.a. by the year 2009
- Expected cash charge of approx. €330m along with write-downs of about €120m, mainly in 2007 and 2008
- Accretive to EBIT starting 2008

Volume of restructuring measures since acquisition of Aventis CropScience in 2002 is expected to amount to more than € 1 billion

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 20

## Overview on new Package of CropScience Measures



Savings by functions / business operations units as of 2010



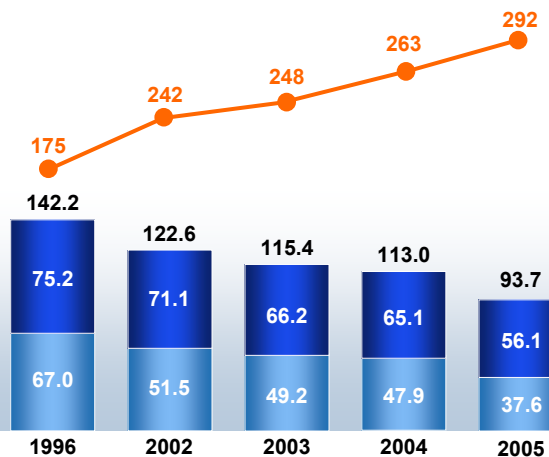
- Industrial Operations & QHSE
- Development
- Research
- Central Functions
- Business Operations Units

- Reduction of personnel costs by cutback of about 1,500 positions worldwide
- Consolidation of global production network with site closures, divestments and restructuring in all regions  
→ Reduction from currently about 50 sites to approx. 35 sites in 2010
- Further saving measures, e.g. sourcing, waste, energy, maintenance etc.
- Measures expected to be largely implemented by end of 2009

New Initiative to support achievement of 25% underlying EBITDA-margin target by 2009

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 21

## Efficiency Enhancements Already Visible: Employee Productivity Greatly Improved



Sales per employee (€ thousands) + 67%

Employees (in thousands)

Total - 34%

Foreign - 25%

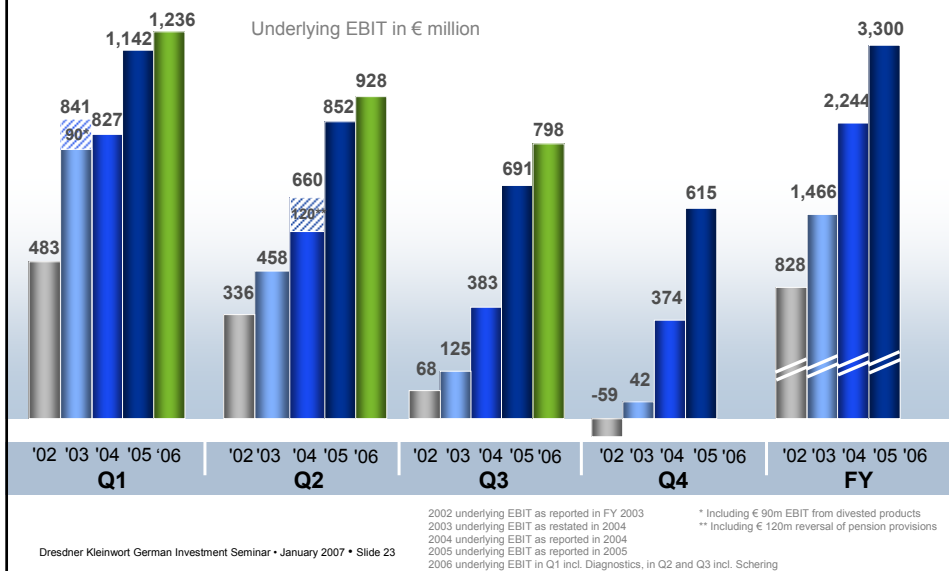
Domestic - 44%

Personnel expenses (% of sales)

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 22

## This is a Strategy which is already working

15 consecutive quarters with yoy underlying EBIT progression



## Strong Performance Continued in 2006



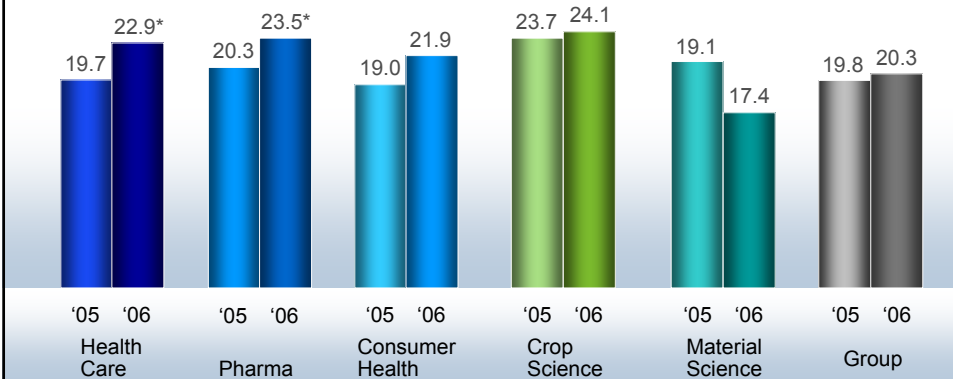
in € million	9 mths '06	9 mths '05	Δ
Sales	21,971	19,249	+ 14%
EBITDA underlying	4,457	3,814	+ 17%
EBIT underlying	2,931	2,590	+ 13%
Net income	1,372	1,551	(11.5%)
Core EPS*	2.56	2.46	+ 4%
Gross cash flow	3,260	2,790	+ 17%
Operating free cash flow	1,541	1,395	+ 10%
	<b>30 Sep 2006</b>	<b>30 Jun 2006</b>	<b>Δ</b>
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

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



9 months underlying EBITDA margin in %



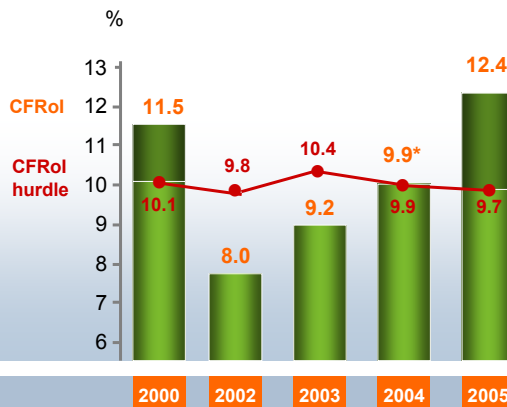
\* Including Schering

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 25

## Profitable Growth – Record Returns over Cost of Capital in 2005



### Value Generation in 2005



- CVA of € 823m generated
- All subgroups exceeded their target returns including asset reproduction
- CFRoI is the ratio of gross cash flow to capital invested (€28.1bn)
- CFRoI-hurdle (9.7%) as minimum requirement covers cost of capital and reproduction of depletable assets
- Group WACC at 7.0%

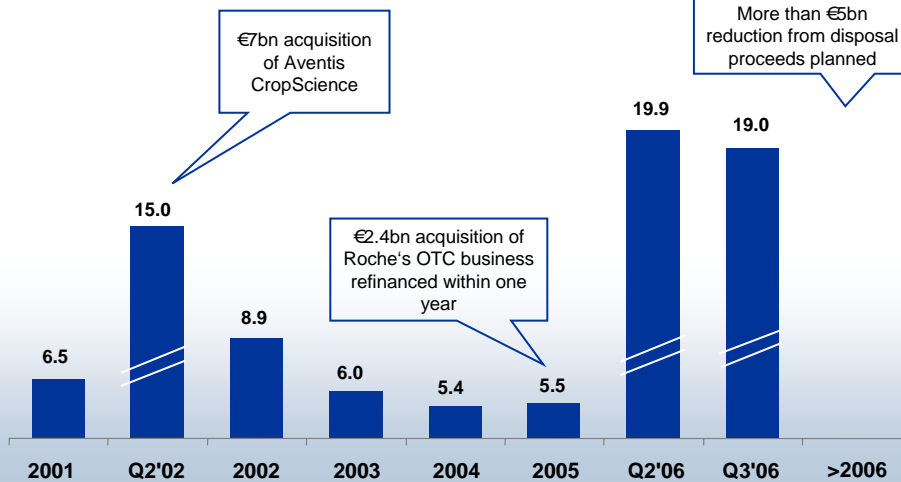
Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 26

\*CFRoI as reported, 10.8% if restated

## Track record of successful net debt reduction



in €billion



Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 27

## Bayer's Transformation has paid off – Operating Performance greatly Improved



- Profitable growth – record returns over cost of capital in 2005
- Underlying EBIT greatly improved (from €828m in 2002 to €3.3bn in 2005)
- Now 15 consecutive quarters with yoy underlying EBIT progression
- HealthCare and MaterialScience EBITDA targets achieved ahead of schedule
- Achievement of CropScience EBITDA target supported by launch of new restructuring initiative
- Employee productivity improved by 67% (between 1996 and 2005)
- Identified significant scope to further improve the cost base

On track for Group underlying EBITDA-margin of 19% in 2006 and further improvements in the future

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 28



## ■ Developing new growth opportunities

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 29

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



- Nexavar recorded an encouraging start in the kidney cancer market. Clinical trial programs including HCC, NSCLC, melanoma, breast and other cancer types ongoing
- Approval for Betaferon in early MS and Yaz in PMDD received
- Rivaroxaban phase III program involving more than 20,000 patients for stroke prevention in arterial fibrillation and treatment of venous thromboembolism initiated (submission planned for 2010).  
Phase III program for VTE prevention on track for submission in late 2007 in EU and 2008 in the US
- Campath achieved milestone for further label expansion in chronic lymphatic leukemia
- Four projects moved into Phase II clinical testing
- Pipeline strengthened through collaboration with Regeneron for VEGF-Trap

Review of Schering's pipeline assets underway –  
Up-date at Bayer Investor Conference during 1H'07

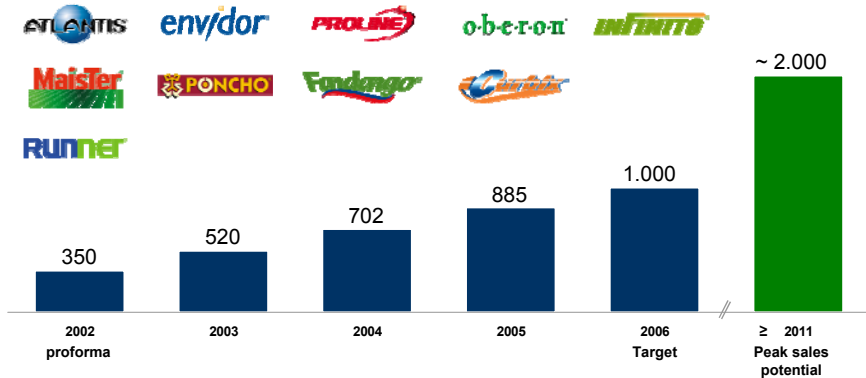
Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 30



# On track for targeted €1bn sales from new active ingredients in CropScience



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 € 2 billion

# Successful Portfolio Optimization at Bayer CropScience



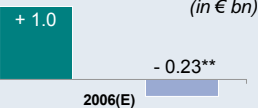
Launch of innovative active ingredients  
2000 - 2006

Clothianidin	Mesosulfuron
Ethiprole	Methoxyfenozide
Fenamidon	Propoxycarbazone
Fentrazamide	Prothioconazole
Fluoxastrobin	Spirodiclofen
Fluopicolide	Spiromesifen
Foramsulfuron	Thiacloprid
Iodosulfuron	Trifloxystrobin
Iprovalicarb	

Portfolio optimization to drive value



Topline impact 2006e



Divestments / phase out of compounds  
2000 - 2006

Acetamidrid	Monolinuron
Amitraz	Ofurace
Asulam	Omethoate
Azocyclotin	Oxydemethon
Bifenox	Phosalone
Bromuconazole	Phoxim
Chlortoluron	Propoxur
Dichlofluanid	Prothiofos
Diuron	Pyrazophos
Fenobucarb	Sulfotep
Flurcarbazone	Triticonazole
IPU	Trichlorfon
Linuron	Vamidotion
Metamitron	

+ 2 further substances in 2006\*

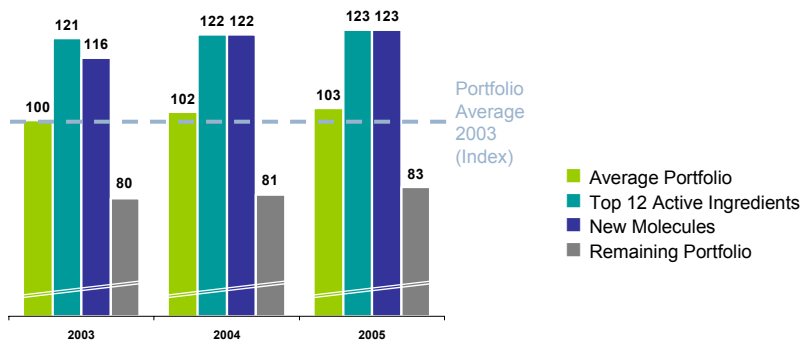


\* planned  
\*\* based on sales in last year before divestment

## Focus on Top Products and New Actives with Over-proportional Margin Contribution



Gross Margin Development of our Crop Protection Portfolio 2003-2005  
(Index: Portfolio Average 2003 = 100)

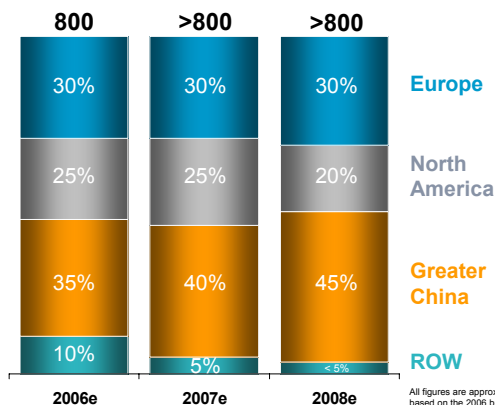


Dresdner Kleinwort German Investment Seminar - January 2007 - Slide 33

## Bayer MaterialScience Focused Capital Investment in China



CapEx on fixed assets  
in million €



- Competitive CapEx funding to secure long-term volume growth in line with market dynamics
- Investment focus of US\$ 1.8bn in China (in 2003-2009) demonstrates commitment to participate in future growth of this region
- € 2.5bn total budget in 2006-2008e
  - € 1.6bn for strategic growth projects
  - € 0.9bn for maintenance and efficiency projects

All figures are approximations based on the 2006 budget

Greater China: PR China, Taiwan, Hongkong

Bayer MaterialScience capital expenditures efficiently deployed

Bayer Investor Handout - Q3'06 - Slide 34

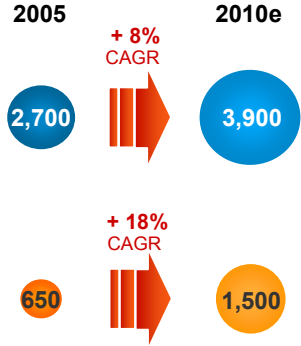
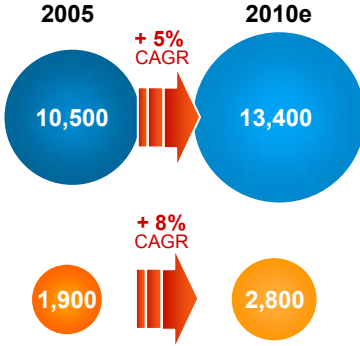
# China Outpaces Global Growth in Our Major Businesses PUR and PCS



## Polyurethanes consumption

In 1000 tons

## Polycarbonates consumption



Bayer estimates, PCS incl. Blends

Greater China: PR China, Taiwan, Hongkong

**China is set to become the world's largest PUR market by 2015**

**China already is the world's largest PCS market today**

Bayer Investor Handout • Q3'06 • Slide 35

# Exploiting Growth Opportunities of Our Businesses



Strengthen our regional competitiveness through local production in China



PUR	PCS	CAS
<b>MDI</b> 80kt in 2006 (crude MDI splitter) <b>350 kt in 2008*</b>	<b>PCS</b> 40 kt in 2005 (PC compounding) <b>PCS</b> 100 kt in 2006 <b>+100 kt in 2008*</b>	Desmodur® N 12 kt in 2003 Desmodur® L 11 kt in 2004
<b>TDI</b> 160 kt in 2009**		<b>HDI</b> 30 kt in 2006 +20 kt thereafter**

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

\*under construction  
\*\*planned

All numbers are name plate capacities  
Dates for HDI refer to mechanical completion

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 36

## Bayer's Transformation has paid off – We are Developing New Growth Opportunities



- Pharma pipeline value significantly increased
- On track for targeted €1bn 2006 sales from new active ingredients in CropScience
- Product-mix improvements expected to support CropScience margins
- MaterialScience is exploiting the significant growth potential through business expansion in Asia

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 37



- Optimistic about Future Developments

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 38

## 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>	<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>

\*Incl. Schering, H.C. Starck, Wolff Walsrode; excl. Diagnostics

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 39

## Bayer's Transformation Will Continue – Priorities for 2007



- Drive performance and exploit potential of significantly improved portfolio
  - FY 2007 financial guidance, including up-date of 2009 HealthCare target, with our Q4 releases on March 15
- Maintain strong growth momentum
  - Presentation of combined pharma pipeline at Bayer Investor Conference during 1 H 2007
- Successfully integrate Schering and realize targeted synergies
- Continue to optimize business portfolio
- Reduce net debt



## ■ Calendar & Contacts

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 41

## Calendar of Events



Date	Event	Publication
Thursday, March 15, 2007	Investor Conference Call	2006 Annual Report
Friday, April 27, 2007	Annual Stockholders' Meeting 2007	
Tuesday, May 08, 2007	Investor Conference Call	First Quarter Results Stockholders' Newsletter
Tuesday, August 07, 2007	Investor Conference Call	Second Quarter Results Stockholders' Newsletter
Tuesday, November 06, 2007	Investor Conference Call	Third Quarter Results Stockholders' Newsletter

Dresdner Kleinwort German Investment Seminar • January 2007 • Slide 42

## Investor Relations Contacts



### **Dr. Alexander Rosar**

#### **Head of Investor Relations**

Phone: +49-214-30-81013

E-mail: alexander.rosar@bayer-ag.de

### **Dr. Jürgen Beunink**

#### **Investor Relations Manager**

Phone: +49-214-30-65742

E-mail: juergen.beunink@bayer-ag.de

### **Peter Dahlhoff**

#### **Investor Relations Manager**

Phone: +49-214-30-33022

E-mail: peter.dahlhoff@bayer-ag.de

### **Ilia Kürten**

#### **Investor Relations Manager**

Phone: +49-214-30-35426

E-mail: ilia.kuerten@bayer-ag.de

### **Ute Menke**

#### **Investor Relations Manager**

Phone: +49-214-30-33021

E-mail: ute.menke@bayer-ag.de

### **Judith Nestmann**

#### **Investor Relations Manager**

Phone: +49-214-30-66836

E-mail: judith.nestmann@bayer-ag.de

### **Dr. Olaf Weber**

#### **Investor Relations Manager**

Phone: +49-214-30-33567

E-mail: olaf.weber@bayer-ag.de