



Investor Handout

# Meet Management in May

May 10-11, 2006 | Leverkusen



Science For A Better Life

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## Agenda



- Bayer is Accelerating its Successful Strategy
- Key Deliverables 2005 and Outlook
  - Bayer HealthCare
  - Bayer CropScience
  - Bayer MaterialScience

# Bayer Positioned to Accelerate its Successful Strategy



2002	Major Milestones Achieved	2005
 <p><b>Sales</b> €29.6bn</p> <hr/> <p><b>Underlying EBIT</b> €0.8bn</p> <hr/> <p><b>CFRoI</b> 8.0%</p> <hr/>	<ul style="list-style-type: none"> <li>Fast, flexible and market-oriented new holding organization</li> <li>More than €2.2bn in savings and efficiency improvements</li> <li>Reduction of net debt by almost €10bn</li> <li>A world-leading agrochemical business</li> <li>A world-leading OTC business</li> <li>A focused, growing Pharma business</li> <li>A promising, late-stage Pharma pipeline</li> <li>Exit of mature, low-growth chemicals businesses in several steps</li> </ul>	 <p><b>Sales</b> €27.4bn</p> <hr/> <p><b>Underlying EBIT</b> €3.3bn</p> <hr/> <p><b>CFRoI</b> 12.4%</p> <hr/>
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# A Decade of Increasing Focus for Growth



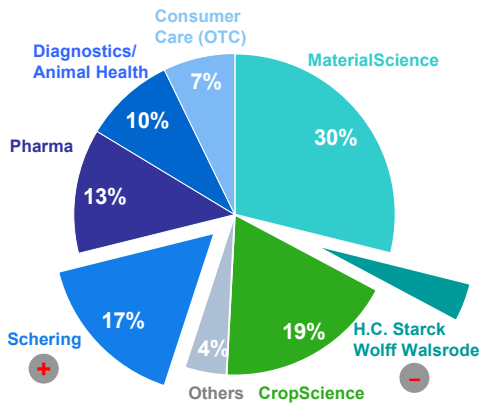
1996 Sales €24.9bn	2005 Sales €31.4bn*
<div style="display: flex; flex-direction: column; align-items: center;"> <div style="background-color: #0056b3; color: white; padding: 5px; text-align: center;">HealthCare</div> <div style="background-color: #70ad47; color: white; padding: 5px; text-align: center;">CropProtection</div> <div style="background-color: #008080; color: white; padding: 5px; text-align: center;">Polymers</div> <div style="background-color: #000080; color: white; padding: 5px; text-align: center;">H.C. Starck</div> <div style="background-color: #000080; color: white; padding: 5px; text-align: center;">Wolff Walsrode</div> <div style="background-color: #800000; color: white; padding: 5px; text-align: center;">Lanxess</div> <div style="background-color: #808080; color: white; padding: 5px; text-align: center;">EC Erdölchemie</div> <div style="background-color: #808080; color: white; padding: 5px; text-align: center;">Haarmann &amp; Reimer</div> <div style="background-color: #804000; color: white; padding: 5px; text-align: center;">Agfa</div> <div style="background-color: #808080; color: white; padding: 5px; text-align: center;">Real estate</div> </div>	<p style="text-align: center; font-size: small;">Major examples since 1996</p> <div style="display: flex; justify-content: space-between;"> <ul style="list-style-type: none"> <li>– Generics</li> <li>– Household insecticides</li> <li>– Plasma</li> <li>– Antitrust requirements</li> <li>– To be divested</li> <li>– To be divested</li> <li>– spun-off</li> <li>– divested</li> <li>– divested</li> <li>– divested</li> <li>– divested</li> </ul> <ul style="list-style-type: none"> <li>+ Schering</li> <li>+ Roche OTC</li> <li>+ Chiron Diagnostics</li> <li>+ Visible Genetics</li> <li>+ Pritor</li> <li>+ Aventis CropScience</li> <li>+ Flint</li> <li>+ Seed treatment activities</li> <li>+ Lyondell Polyols</li> </ul> </div>
<div style="display: flex; flex-direction: column; align-items: center;"> <div style="background-color: #0056b3; color: white; padding: 5px; text-align: center;">HealthCare</div> <div style="background-color: #70ad47; color: white; padding: 5px; text-align: center;">CropScience</div> <div style="background-color: #008080; color: white; padding: 5px; text-align: center;">MaterialScience</div> </div>	
<p>Headcount 142,200</p>	<p>Headcount 114,000*</p>
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\* Pro-forma combined business of Bayer and Schering

# A Leader in its Markets



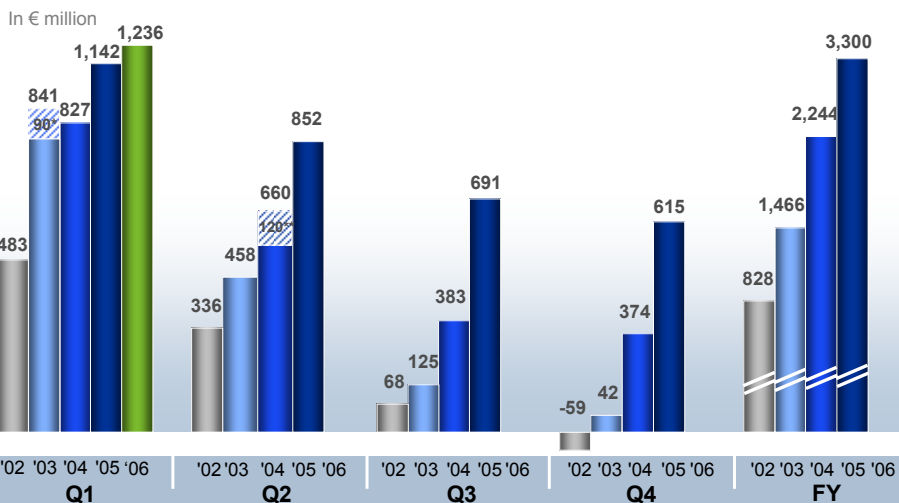
Pro-forma sales 2005: €31.4bn



- Pharmaceuticals** # 7 in Specialty
- A world-class specialty pharma business
- Consumer Care (OTC)** # 2/3
- Creating a world-leading business
- Animal Health / Diagnostics** # 4
- World-class business
- CropScience** # 1/2
- The market leader in agrochemicals
- MaterialScience** # 1/2
- A genuine world-market leader

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# Upward Trend at Bayer Continued



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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

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

## Group: Key Financials 2005



In € million	FY 2005	FY 2004	Δ
↑ Sales	27,383	23,278	+ 17.6 %
↑ EBITDA underlying	5,082	4,069	+ 24.9 %
↑ EBIT underlying	3,300	2,117	+ 55.9 %
↑ Net income	1,597	685	+ 133.1 %
↑ Net cash flow (continuing)	3,542	2,262	+ 56.6 %
↑ Operating free cash flow	2,113	1,199	+ 76.2 %
↑ Net debt	5,494	5,422	+ 1.3 %

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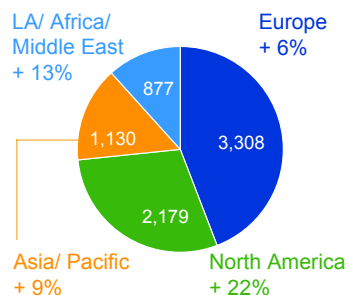
## Q1'06 – Successful Start into Fiscal Year 2006



### Key Figures Q1'06

	Sales € 7,494m	EBIT* € 1,236m	Net income € 600m
Δ%	+ 12%	+ 8%	- 8%
Δ% Adjusted <sup>(2)(3)</sup>	+ 6%		+/- 0

### Regional Sales Performance



\* underlying

<sup>(2)</sup> Sales currency & portfolio adjusted

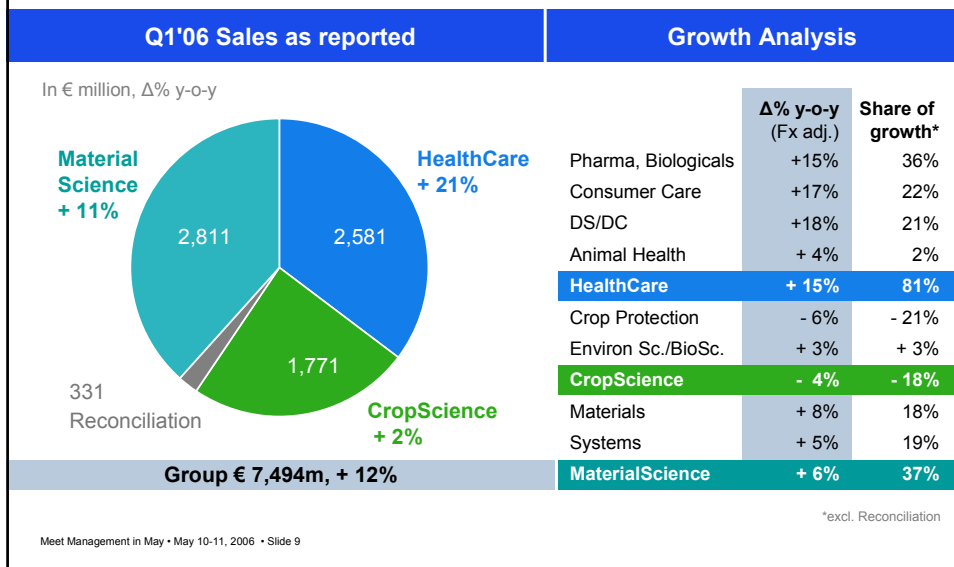
<sup>(3)</sup> Net Income excluding € 52m after-tax profit in Q1'05 from discontinued operations

Δ y-o-y  
In € million

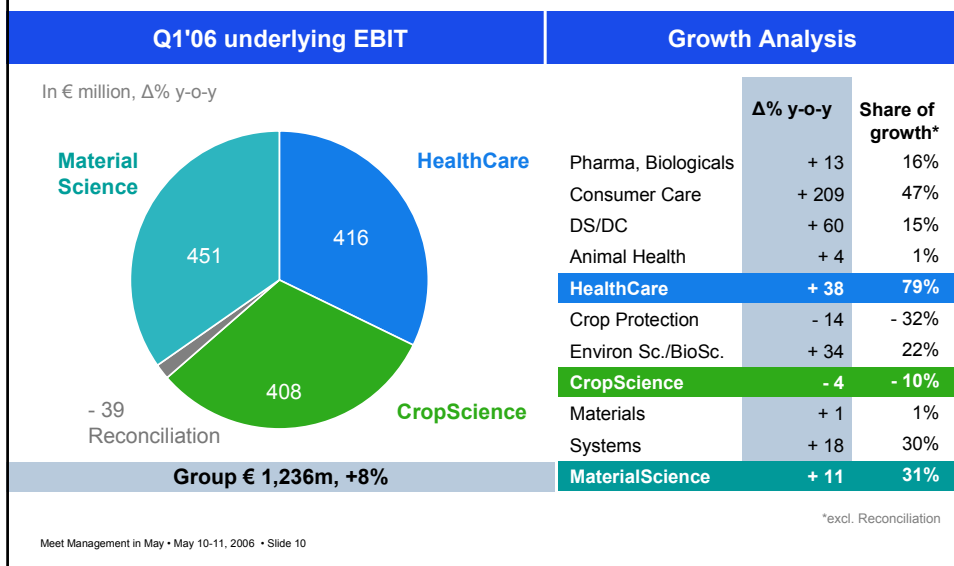
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# Strong Growth Momentum Sustained



# Record Underlying EBIT Performance



## Strategic Priorities



- Fully exploit commercial potential of leadership positions
- Maximise benefits from acquisition of Schering
- Maintain operational focus and deliver performance
- Continuously improve portfolio, focussing on strengthen Pharma and Consumer OTC
- Develop new growth opportunities through R&D and expansion into Asia
- Generate value and achieve overall EBITDA margin of 22 %

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## FY 2006 Outlook (excluding Schering) – Further Improvements Expected



### Group

### Subgroups



- **Sales growth expectations**  
Approx. +5% to more than € 28bn
- **EBIT growth expectations**  
Slight improvement (underlying)
- **EBITDA margin target**  
Generate approx. 19% (underlying)

- **HealthCare**  
Growth at or above market  
10+% growth in underlying EBIT
- **CropScience**  
Growth above market  
Underlying EBIT above last year's level
- **MaterialScience**  
Continued growth  
Excellent underlying EBIT, though possibly below 2005 level

Sales growth portfolio- and currency-adjusted

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## ■ Bayer HealthCare

### HealthCare: Key Deliverables 2005



- Strong sales growth of +17.0 % to €9.4bn
- Underlying EBIT improved by 26.9 % to €1.3bn
- 2006 EBITDA margin target of 17 % already achieved
- Roche OTC business successfully integrated, ahead of schedule
- Pharma business refocus successfully managed
- Launch of Nexavar in the US; filing in EU
- Cooperation with J&J for factor Xa inhibitor
- Agreement for longer-acting Kogenate
- Buy-back of Levitra co-promotion rights ex-US from GSK



## HealthCare: Key Financials 2005



In € million	FY 2005	FY 2004	Δ
Sales	9,429	8,058	+ 17.0 %
EBITDA underlying	1,782	1,475	+ 20.8 %
EBIT underlying	1,319	1,039	+ 26.9 %
Net cash flow	1,351	1,053	+ 28.3 %
CapEx	330	301	+ 9.6 %
Operating free cash flow	1,021	752	+ 35.8 %
R&D	954	996	- 4.2 %
Capital invested	7,747	5,306	+ 46.0 %
CFRoI	14.9 %	17.3 %	- 2.4 pp

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## HealthCare: Strategic Priorities



- Maximise benefits from the acquisition of Schering
- Maintain strong growth momentum and grow at or above market
- Fully exploit strength of global brands
- Strengthen Pharmaceuticals and Consumer OTC
- Maximise value of pipeline projects
- Targeting to achieve underlying HealthCare EBITDA margin of 25 % by 2009

**We are accelerating our successful strategy**

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## HealthCare: Q1 2006 Very Strong Start Into the Year



In € million	Q1 2006	Q1 2005	Δ
Sales	2,581	2,135	+ 20.9 %
EBITDA underlying	535	421	+ 27.1 %
EBIT underlying	416	302	+ 37.7 %

### Outlook 2006 (excluding Schering)

- Growth at or above market in all segments
- 10+ % growth in underlying EBIT

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■ Bayer CropScience

## CropScience: Key Deliverables 2005



- Sales almost maintained at €5.9bn, down 1 %
- Underlying EBIT improved by + €163m or 31.2 %
- Further improvement in underlying EBITDA margin achieved (+ 70 basis points to 21.6 %)
- Strong net cash flow development (+16.2 %)
- Savings contributed ~ €100m to our EBIT
- Strong performance of our new active ingredients, with €885m (+26 %) ahead of target
- Successful launch of 2 new active ingredients (Spiromesifen & Ethiprole)
- Divestment of non-core, lower-margin products on track



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## CropScience: Key Financials 2005



In € million	FY 2005	FY 2004	Δ
Sales	5,896	5,946	- 0.8 %
EBITDA underlying	1,273	1,242	+ 2.5 %
EBIT underlying	685	522	+ 31.2 %
Net cash flow	904	778	+ 16.2 %
CapEx	201	209	- 3.8 %
Operating free cash flow	703	569	+ 23.6 %
R&D	664	679	- 2.2 %
Capital invested	8,849	8,386	+ 5.5 %
CFRoi	11.2 %	10.9 %	+ 0.3 pp

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## CropScience: Strategic Priorities



- Fully exploit commercial potential of leadership position in agrochemicals
- Focus is on product mix improvements and cost savings
- Deliver best-in-class agrochemicals pipeline and increase share of sales from new active ingredients
- Further develop biotechnology business
- Launch of new restructuring initiative
- Targeting to achieve underlying EBITDA margin of 25 %

**Committed to deliver against these objectives**

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## CropScience: Q1 2006 Solid Start Into the Year



In € million	Q1 2006	Q1 2005	Δ
Sales	1,771	1,744	+ 1.5 %
EBITDA underlying	551	566	- 2.7 %
EBIT underlying	408	423	- 3.5 %

### Outlook 2006

- Underlying EBIT above last year's level
- Growth above market

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## ■ Bayer MaterialScience

### MaterialScience: Key Deliverables 2005



- Strong sales growth of +24 % to €10.7bn
- Substantial improvement in underlying EBIT of +110% to €1.4bn
- Net cash flow advanced by +179 % to €1.4bn
- Cost of capital incl. asset reproduction well exceeded, posting a CFRol of 16.4 % (+6.1pp)
- 2006 EBITDA margin target of 18 % already achieved
- Capacity expansions in MDI (+100kt) and PCS (+40kt) installed as scheduled
- Technology and process leadership achieved in all product lines



All changes year-on-year

## MaterialScience: Key Financials 2005



In € million	FY 2005	FY 2004	Δ
Sales	10,695	8,597	+ 24.4 %
EBITDA underlying	1,949	1,243	+ 56.8 %
EBIT underlying	1,404	668	+ 110.2 %
Net cash flow	1,388	498	+ 178.7 %
CapEx	715	332	+ 115.4 %
Operating free cash flow	673	166	+ 305.4 %
R&D	251	236	+ 6.4 %
Capital invested	9,116	7,989	+ 14.1 %
CFRoI	16.4 %	10.3 %	+ 6.1 pp

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## MaterialScience: Strategic Priorities



- Maintain or expand market leadership positions
- Focus is on polycarbonates and polyurethane raw materials
- Maximise benefits from process and technology leadership positions of global production network
- Maintain strong growth momentum and exceed GDP growth in all segments
- Develop new growth opportunities through expansion into Asia and new applications for our materials
- Develop smart raw-material sourcing strategy
- Targeting to generate value throughout the cycle

**Bayer MaterialScience is executing a clear strategy to deliver against these objectives**

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## MaterialScience: Q1 2006 Strong Start Into the Year



In € million	Q1 2006	Q1 2005	Δ
Sales	2,811	2,544	+ 10.5 %
EBITDA underlying	585	533	+ 9.8 %
EBIT underlying	451	406	+ 11.1 %

### Outlook 2006

- Continued sales growth
- Excellent underlying EBIT, though possibly below 2005 level

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## Calendar of Events



Date	Event	Location	Publication
Thursday April 27, 2006	Investor Conference Call		First Quarter Results Stockholders' Newsletter
Friday April 28, 2006	Annual Stockholders' Meeting 2006	Cologne	
Wednesday/Thursday May 10/11, 2006	Meet Management in May	Leverkusen	
Tuesday August 1, 2006 *	Investor Conference Call		Second Quarter Results Stockholders' Newsletter
Tuesday October 31, 2006 *	Investor Conference Call		Third Quarter Results Stockholders' Newsletter

\* In the event of the successful acquisition of Schering AG, publication of the Q2 and Q3 2006 interim reports will be deferred to later dates, which will be posted on the Internet at [www.investor.bayer.com](http://www.investor.bayer.com)

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