

Q4 2005 Analyst and Investor Briefing

March 6, 2006

- **Sales** increased by 16.1% to €7,095m (Q4'04: €6,111m); Volume -1%, price +3%, currency +5%, portfolio +9%.
- **Underlying EBIT** up 54.5% to €615m (Q4'04: €398m), which was mainly attributable to the favorable performance of Pharma/BP and MaterialScience.
- **Net Special Items** of -€423m include:
HealthCare: Total: -€89m: -€31m Restructuring/Write-offs; -€26m Baycol/PPA litigation; -€20m Roche OTC integration; -€12m buy-back Levitra marketing rights from GSK
CropScience: Total -€14m, mainly restructuring
MaterialScience: Total -€65m, largely antitrust proceedings polymers
Reconciliation: Total -€255m, chiefly antitrust proceedings polymers
- **Reported EBIT** down by 44.3% to €192m (Q4'04: €345m).
- **Underlying EBITDA** at €1,058m up 18.7% (Q4'04: €891m)
- **Reported EBITDA** at €661m down by 21.4% (Q4'04: €841m)
- **Non-operating result** down by 5.6% to -€171m (Q4'04: -€162m).
- **Net income** (including discontinued operations) down by 32.4% to €46m (Q4'04: €68m); EPS accordingly at €0.06 (Q4'04: €0.09).
- **Gross cash flow** down by 19.3% to €548m (Q4'04: €679m). Cash-in from reduction of **Working Capital** €767m. **Net cash flow (cont.)** at €1,315m (Q4'04: €867m). **CapEx** up by 9.4% to €591m. **Operating free cash flow** at €718 million (Q4'04: €409m).
- **Net debt** down by €484m to €5,494m when compared to September 30, 2005 and up by 72m on a year-on-year comparison (€5,422m as of December 31, 2004).
- **Dividend** of €0.95 per share proposed (+72.7%); dividend payout at €694m equivalent to 43% of Group net income for fiscal 2005.

€ million	Q4 2004						Q4 2005					
	Sales	EBIT rep.	Special Items	EBIT Clean	EBITDA rep.	EBITDA clean	Sales	EBIT rep.	Special Items	EBIT Clean	EBITDA rep.	EBITDA clean
HealthCare	2,058	185	(43)	228	300	343	2,551	234	(89)	323	355	424
PH/BP	1,022	73	(25)	98	123	148	1,098	92	(52)	144	135	167
CC	330	27	(18)	45	44	62	650	55	(34)	89	86	117
DC/DS	518	63	0	63	105	105	587	61	(3)	64	100	106
AH	188	22	0	22	28	28	216	26	0	26	34	34
CropScience	1,448	50	(1)	51	241	239	1,377	44	(14)	58	194	202
CP	1,233	69	(1)	70	230	228	1,160	47	(7)	54	173	175
ES/BS	215	(19)	0	(19)	11	11	217	(3)	(7)	4	21	27
MaterialSc.	2,401	172	0	172	307	307	2,778	230	(65)	295	375	440
Materials	909	107	0	107	179	179	1,088	120	0	120	184	184
Systems	1,492	65	0	65	128	128	1,690	110	(65)	175	191	256
Reconc.	204	(62)	(9)	(53)	(7)	2	389	(316)	(255)	(61)	(263)	(8)
Group	6,111	345	(53)	398	841	891	7,095	192	(423)	615	661	1,058



Outlook 2006 Summary

Planning assumptions

- Supportive business environment;
- World economy will grow at 3% annually
- Exchange rate US\$ 1.30 Euro
- Risks: raw material and energy prices

Group sales and earnings performance

In 2006 we aim to grow at least with the market in all areas and again improve our overall operating performance. We expect **Group sales in 2006 to exceed €28 billion**, which would mean an increase of about 5 percent on a currency- and portfolio-adjusted basis. The high earnings level of 2005 will be the yardstick for our performance in 2006. We plan to achieve a **slight further improvement in EBIT before special items and in underlying EBITDA**. Earnings growth is likely to come mainly from the HealthCare and CropScience subgroups, while profitability in MaterialScience could fall short of the excellent 2005 level.

In 2006 we are targeting an **underlying EBITDA margin of approximately 19 percent**, to continue the upward trend of recent years.

We are budgeting for **special charges** of less than €100 million, without potential litigation-related expenses or charges for possible further restructuring in the CropScience subgroup.

To safeguard growth, we are planning **capital expenditures** of €1.7 billion, including €1.5 billion for property, plant and equipment. We anticipate that **depreciation and amortization** will total roughly €1.7 billion, with property, plant and equipment accounting for €1.1 billion of this amount. We plan to spend €1.9 billion on **research and development**.

In 2007 – based on currently available information and the aforementioned planning assumptions – we expect to record a **positive business performance and a further increase in earning power**.

Subgroups' sales and earnings forecasts

Bayer HealthCare

We expect the market environment for our Healthcare activities to remain favorable. All divisions should be able to expand at least with the market, given the high growth potential of our portfolio and the new products it includes. We believe this subgroup can **improve EBIT before special items by more than 10 percent**. Crucial to this significant planned increase will be higher product sales combined with enhanced efficiencies in Consumer Care and Pharmaceuticals. Overall we aim to further improve on the current underlying EBITDA margin of 19 percent.

Bayer CropScience

Following the decline in the crop protection market in 2005, we predict a modest overall expansion in 2006. For our business, we predict above-market growth and an **increase in EBIT before special items**, particularly in light of recent product launches. The underlying EBITDA margin should continue to improve.

Against a background of adverse market developments, particularly in Brazil, we will not yet meet our original target of a 25 percent EBITDA margin in 2006. Further restructuring will be carried out to enhance profitability.

Bayer MaterialScience

Following a very successful 2005, we believe the general market environment for the MaterialScience business will remain positive and that we can continue to grow in 2006. Our planning assumes an increase in global production capacities and higher energy costs, with raw material costs remaining steady at a high level. In view of these conditions, we again expect to post **excellent EBIT before special items**, though possibly below the 2005 level. In 2005 we already achieved the EBITDA margin of 18 percent targeted for 2006. This figure is now likely to decline slightly in 2006.



Q4'05 HealthCare

Pharma/Biologicals sales up 7.4% to €1,098m due to growth of main products. Q4'04 Cipro sales included contribution (€74m) from government deal with France. Avelox (€119m; +25.3%) profited from a strong flu season. Levitra up 66.7% (€70m) driven by market share gains in EU and US. Adalat slightly up to €174m (+4.2%) due to good performance in Japan. Trasyolol up 32.0% to €66m. Rx Aspirin Cardio up 17.5% (€47m). Kogenate (€177m; +7.3%). Underlying EBIT up 46.9% to €144m driven by favorable growth and savings.

Consumer Care sales up by 97.0% to €650m (Q4'04 €330m) due to inclusion of Roche OTC business (€289m). Aleve (€54m; -19.4%) ongoing recovery from safety discussions regarding NSAIDs. Aspirin OTC sales increased by 8.5% to €128m. Underlying EBIT up by 97.8% to €89m (Q4'04: €45m).

Diabetes Care/Diagnostics sales up 13.3% to €587m. Diabetes Care (€193m) grew by 18.4% due to strong business in Europe and the US. Diagnostics (€394m; +11.0%) with all regions contributing. Laboratory Testing as main driver. Underlying EBIT slightly up to €64m (+1.6%).

Animal Health sales increased by 14.9% to €216m. Sales in Europe mainly driven by strong performance of Advantage. Launch of Profender (de-wormer for cats) in Q4. Underlying EBIT up by 18.2% to €26m (Q4'04: €22m). Seasonal change in product mix towards lower-margin Food Animal Products.

Q4'05 CropScience

Crop Protection sales down by 5.9% to €1,160m. Sales of **Insecticides** increased by 1.6% to €314m. **Fungicides** sales dropped by 15.3% to €310m, due to the difficult farming conditions in Brazil (appreciation of Real). Sales in the **Herbicides** division decreased by 5.1% to €426m. **Seed Treatment** (€110m; +0.9%) improved due to the good performance of Poncho. Underlying EBIT in Crop Protection came in at €54m (Q4'04: €70m). Contributions from smaller product disposals amounted to approx. €20m.

Environmental Science/BioScience up by 0.9% to €217m. Environmental Science (€159m; +5.3%) profited from new products in the professional segment. BioScience decreased by 9.4% to €58m. Underlying EBIT significantly improved by €23m to €4m (Q4'04: -€19m).

Q4'05 MaterialScience

Strong improvement yoy. Q-o-q working capital was optimized at the expense of earnings by sales from stock. Net cash flow up 26.5% q-o-q. In Q4 commodity hedges led to a loss of €5m. Raw material costs remained steady at Q4'04 level.

Materials segment sales improved by 19.7% to €1,088m. Polycarbonates up 18.3% to €710m, driven by higher prices in all regions. Volumes maintained on high Q4'04 level. Mainly price driven growth of HCST (+34.6%).

Underlying EBIT up 12.1% to €120m (Q4'04: €107m) mainly due to price increases.

Systems segment sales were up 13.3% to €1,690m, with Polyurethanes up 9.7% to €1,228m and Inorganic Basic Chemicals up 43.9% to €95m, both profiting from price increases.

MDI (+23%) prices on high level. Volumes marginally up y-o-y and q-o-q. TDI flat with prices increasing due to tight supply in all regions. Polyether sales (+4.2%) with strong underlying growth driven by higher prices, while styrene sales reduced by almost 50% y-o-y to €90m.

Underlying EBIT significantly up by €110m to €175m, resulting chiefly from price increases.

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Forward-looking statements

This news release contains forward-looking statements based on current assumptions and forecasts made by Bayer Group/down 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 20F). The company assumes no liability whatsoever to up/downdate these forward-looking statements or to conform them to future events or developments.