Bayer

Investor News

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Investor Relations
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Spring Financial News Conference on March 6

Wenning: 2005 a very successful year for Bayer

- Strong growth: sales increase by 17.6 percent to EUR 27,383 million
- EBIT before special items climbs by 55.9 percent to EUR 3,300 million
- Strong cash flow performance – return on capital at record level
- Further improvement in the underlying operating result targeted for 2006
- 2006 off to a good start

Leverkusen / March 6, 2006 – The Bayer Group made significant gains in sales, earnings and cash flow last year. "2005 was one of the most successful years in our company's history," said Bayer AG Management Board Chairman Werner Wenning at the Spring Financial News Conference in Leverkusen on Monday. Sales of the Bayer Group rose by 17.6 percent year on year to EUR 27,383 million (2004: EUR 23,278 million), while the operating result (EBIT) before special items climbed by 55.9 percent to EUR 3,300 million (2004: EUR 2,117 million). "These numbers underscore the fact that our strategic realignment toward innovation and growth has brought a sustained improvement in the Bayer Group's earning power," declared Wenning. He said the company intends to build on this positive performance in 2006, achieve further growth in all areas and improve the underlying operating result once again. "The pleasing business trend in the first two months of 2006 justifies our optimism," Bayer's CEO added.

The expansion in sales in 2005 was partly due to the consumer health products acquired from Roche and to business with Lanxess. Adjusted for the effects of currency and portfolio changes, Group sales rose by 7.5 percent. Earnings before interest, taxes, depreciation and amortization (EBITDA) before special items moved ahead by 24.9 percent to EUR 5,082 million (2004: EUR 4,069 million), yielding an underlying EBITDA margin of 18.6 percent in 2005. “This already put us very close to our target return for 2006,” commented Wenning.

The strong performance for the full year was bolstered by the continuing upward trend in the fourth quarter. This was the strongest quarter of 2005 in terms of sales, which rose to EUR 7,095 million (Q4 2004: EUR 6,111 million). Underlying EBIT in the fourth quarter improved by 54.5 percent year on year to EUR 615 million (Q4 2004: EUR 398 million).

Positive earnings performance in all three subgroups

Earnings of all three subgroups improved significantly in 2005. Bayer HealthCare and Bayer MaterialScience also posted strong growth in sales.

Sales of Bayer HealthCare rose by 17.0 percent to EUR 9,429 million (2004: EUR 8,058 million), with the consumer health business acquired from Roche accounting for a substantial EUR 1,061 million. Due to strong growth in its core business, the Pharmaceuticals Division almost completely offset the decline in sales of its anti-infective Cipro® caused by the patent expiration in the United States, and the drop in reported sales revenues due to the marketing of its primary care products in the U.S. by Schering-Plough. The products Levitra® and Trasylol® performed particularly well in the market, both expanding by 35 percent. Bayer’s strongest-selling drug product, Kogenate®, improved by 18 percent.

EBIT of Bayer HealthCare before special items climbed by 26.9 percent to EUR 1,319 million (2004: EUR 1,039 million), with underlying earnings growth strongest in the Pharmaceuticals, Biological Products and Consumer Care divisions. The underlying EBITDA margin rose to 18.9 percent, which means HealthCare has already exceeded the margin of more than 17 percent targeted for 2006.

In a difficult market environment, sales of Bayer CropScience in 2005 were slightly lower at EUR 5,896 million (2004: EUR 5,946 million). This was due in particular to lower sales of insecticides and fungicides, which were held back by the exceptionally long droughts in Brazil, southern Europe and Australia.

Nonetheless, underlying EBIT of Bayer CropScience rose by 31.2 percent to EUR 685 million (2004: EUR 522 million), mainly because of the absence of goodwill amortization. Without this effect, underlying EBIT rose by 6 percent. The underlying

EBITDA margin rose to 21.6 percent. Against the background of adverse market development, especially in Brazil, Bayer CropScience will not yet be able to achieve its target EBITDA margin of 25 percent for 2006, Wenning said. Further restructuring will be carried out to improve the subgroup's profitability.

Bayer MaterialScience achieved by far the highest growth rates for both sales and earnings. Sales rose by 24.4 percent to EUR 10,695 million (2004: EUR 8,597 million), largely as a result of selling price increases that were necessary in light of the sharp rise in raw material costs. Due to this gratifying expansion in business, underlying EBIT at Bayer MaterialScience moved ahead by 110.2 percent to EUR 1,404 million (2004: EUR 668 million). The underlying EBITDA margin climbed to 18.2 percent. Thus Bayer MaterialScience met its 2006 target margin of 18 percent a year earlier than planned.

Highest growth rates registered in Europe

More than half of the increase in business was achieved in Europe, where sales rose by 22.0 percent to EUR 11,930 million. Sales in Germany grew even more strongly, advancing by 37.4 percent to EUR 4,176 million. Adjusted for the effects of portfolio changes – primarily sales to Lanxess and revenues from the acquired Roche OTC business – the increase in Germany was approximately 10 percent, compared to about 6 percent for Europe as a whole. Sales in the North America region advanced by 12.7 percent to EUR 7,340 million. In the Asia/Pacific region, China was the main growth driver with sales there advancing by 39 percent. Sales in the region as a whole climbed by 15.5 percent to EUR 4,578 million. In the Latin America/Africa/Middle East region, sales moved ahead by 16.7 percent to EUR 3,535 million.

Net income more than doubled to EUR 1.6 billion

There were, however, a number of special items which on aggregate diminished the gratifying earnings performance in 2005 by EUR 488 million. After these special items, EBIT improved by 50 percent to EUR 2,812 million (2004: EUR 1,875 million) and EBITDA by 21.2 percent to EUR 4,647 million (2004: EUR 3,834 million) million. Net income jumped by EUR 912 million to EUR 1,597 million.

The growth in earnings was also reflected in the gross cash flow, which advanced by 20.5 percent to EUR 3,477 million (2004: EUR 2,885 million). Net cash flow rose even more significantly, gaining 56.6 percent to EUR 3,542 million (2004: EUR 2,262 million). Of particular importance to the Bayer Chairman was the fact that the return on capital was at a record level, with a cash flow return on investment of 12.4 percent. “This means that we created considerable value for Bayer, and of course for our stockholders too.”

In this connection, Bayer CFO Klaus Kühn explained that the gross cash flow was 31 percent, or EUR 823 million, above the internal gross cash flow hurdle. He said that all subgroups had exceeded their targets for return on capital including asset reproduction. According to Kühn, Bayer’s strong operating performance enabled the company to hold net debt at approximately EUR 5.5 billion – more or less the previous year’s level – despite the cash outflow for the Roche OTC acquisition. He explained that overall, the portfolio management associated with Bayer’s strategic realignment had posed major operational and financial challenges. “Yet these challenges were overcome more quickly and even more successfully than planned,” said Kühn.

Strategic progress creates growth opportunities

In addition to its operational success, Bayer made considerable strategic progress as well in 2005, Wenning continued. He said Bayer had completed the most extensive restructuring in its history within an extremely short time, the final step in that process being the successful listing of Lanxess on the stock market. The strong uptrend in the price of both companies’ shares shows that the right action was taken, putting the Bayer Group on track for the future.

Wenning said there are particularly good growth opportunities for Bayer HealthCare which, with sales of EUR 9.4 billion, is Germany’s biggest health care company. The Pharmaceuticals Division has a new identity, with a restructured and optimized primary care business, and its development has been very encouraging. The specialty products, including in particular the biotechnologically manufactured hemophilia drug Kogenate®, still have considerable growth potential. That also applies to the new kidney cancer drug Nexavar®, which is now in phase III clinical testing in skin, liver and lung cancer as well. “This drug could have peak annual sales potential in excess of EUR 1 billion,” said Wenning, citing comparable business potential for the oral antithrombotic Factor Xa inhibitor. This product is in phase III clinical testing in the prevention of venous thromboembolism and phase II testing in two other indications.

Bayer has a total of eight pharmaceutical projects in phase III clinical development and three projects in phase II. In addition, twelve projects are in phase I trials and another eleven in preclinical development. "Our pharmaceutical pipeline is thus particularly well stocked compared to those of our similarly sized competitors," said Wenning, adding that Bayer also plans to further support the business with external growth, for example through inlicensing.

Wenning continues to see considerable potential at Bayer CropScience, too. This company is the world market leader in conventional crop protection and in the environmental science and seed treatment businesses. In a market characterized by only moderate expansion, he said, the main success factor is organic growth based on the company's own innovative capability. Including 16 new active ingredients introduced since 2000 along with another ten that are slated for launch through 2011, Bayer anticipates total sales potential of up to EUR 2 billion from its CropScience pipeline. Wenning also sees opportunities for faster-than-average growth in its seed treatment activities and in Environmental Science and BioScience.

"Regarding MaterialScience, we remain in confident mood following a record-breaking year in which we achieved dynamic sales growth and an outstanding performance," the Bayer CEO stressed. The development of the Asian markets presents a major opportunity, and Bayer therefore plans to invest about US$ 1.8 billion in world-scale polymer facilities in China alone through 2009. At MaterialScience, too, Bayer's strategy is to grow through innovation. Some 20 percent of this subgroup's total revenues already come from new products and applications introduced within the past five years.

To expedite growth and foster a high level of innovation in the Bayer Group in the future, management has earmarked EUR 1.5 billion for capital expenditures on property, plant and equipment this year and, as in 2005, Bayer plans to spend roughly EUR 1.9 billion on research and development. "This is by far the largest research budget of any chemical and pharmaceutical company in Germany," Wenning stressed.

Further savings of EUR 600 million planned

Wenning said Bayer aims to do everything possible to continue its successful performance in the future, which is why the company plans to achieve additional savings of roughly EUR 600 million through efficiency improvements over the next

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three years. This figure does not include the upcoming restructuring at Bayer CropScience.

Bayer expects to achieve currency- and portfolio-adjusted sales growth of about 5 percent in 2006, to more than EUR 28 billion. The company is also targeting a slight further improvement in underlying EBIT and underlying EBITDA, and an underlying EBITDA margin of approximately 19 percent. Said Wenning: “We thus intend to maintain the upward trend of recent years and plan to set a new earnings record for the Bayer Group in 2006.”

Wenning: German companies should not be placed at a competitive disadvantage

Wenning called for the new German government not to put German industry at a competitive disadvantage. While he was glad to see politicians acknowledging the importance of research and innovation, he cautioned that “In practice, too many bureaucratic and legal obstacles remain in place.” He said the genetic engineering legislation that remains in force continues to significantly hamper this area of research and industry in Germany with its unreasonable rules on liability.

With respect to health policy, Wenning criticized the new reference prices for patented drug products. Although the ruling coalition parties had agreed to increase the pharmaceutical industry’s scope for innovation, the new cost-containment law will achieve precisely the opposite, the Bayer CEO said. He pointed out that drug costs only account for 14.5 percent of all health care expenditures in Germany, a level significantly below that of most other European countries. “This unilateral discrimination not only weakens our industry, it also jeopardizes the long-term supply of modern medicines for patients,” Wenning said.

The Bayer Chairman added that German industry’s competitiveness continues to be severely hampered by energy policy. He explained that for years, energy prices in Germany have been among the highest in Europe, not least as a result of state-imposed burdens such as the eco-tax and the renewable energy law. Another negative effect comes from emissions trading: “It is becoming apparent that German companies – particularly those in the chemical industry – will have additional financial burdens to bear,” he said. By contrast, other E.U. countries are leaning in the opposite direction. In Wenning’s words, what makes the approach of the German government even more difficult to understand is the fact that German companies already play a leading role in climate protection worldwide. Bayer too is setting a good example in this respect, and has reduced its greenhouse gas emissions by more than 60 percent since 1990. In closing, the Bayer CEO appealed to the German government to quickly and systematically take the promised action to sustainably improve the competitive position of the country's industry.

Leverkusen, March 6, 2006

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Note:

The Annual Report 2005 is available on the Internet at ***www.investor.bayer.com***

We are also offering the following Internet services at ***www.live.bayer.com****:*
- *live webcast of the Spring Financial News Conference beginning at 10:00 a.m. CET*
- *live webcast of the Investor Conference Call beginning at 4:30 p.m. CET*

Bayer Key Data – Full Year and Fourth Quarter 2005

(certain 2004 figures restated)

Bayer Group € million	2004	**2005**	Change in %	Q4 2004	**Q4 2005**	Change in %
Sales	23,278	**27,383**	+ 17.6	6,111	**7,095**	+ 16.1
EBITDA	3,834	**4,647**	+ 21.2	841	**661**	- 21.4
EBITDA before special items	4,069	**5,082**	+ 24.9	891	**1,058**	+ 18.7
EBIT	1,875	**2,812**	+ 50.0	345	**192**	- 44.3
EBIT before special items	2,117	**3,300**	+ 55.9	398	**615**	+ 54.5
Net income	685	**1,597**	+ 133.1	68	**46**	- 32.4

Bayer HealthCare € million	2004	**2005**	Change in %	Q4 2004	**Q4 2005**	Change in %
Sales	8,058	**9,429**	+ 17.0	2,058	**2,551**	+ 24.0
EBITDA	1,392	**1,612**	+ 15.8	300	**355**	+ 18.3
EBITDA before special items	1,475	**1,782**	+ 20.8	343	**424**	+ 23.6
EBIT	956	**1,102**	+ 15.3	185	**234**	+ 26.5
EBIT before special items	1,039	**1,319**	+ 26.9	228	**323**	+ 41.7

Bayer CropScience € million	2004	**2005**	Change in %	Q4 2004	**Q4 2005**	Change in %
Sales	5,946	**5,896**	- 0.8	1,448	**1,377**	- 4.9
EBITDA	1,219	**1,284**	+ 5.3	241	**194**	- 19.5
EBITDA before special items	1,242	**1,273**	+ 2.5	239	**202**	- 15.5
EBIT	492	**690**	+ 40.2	50	**44**	- 12.0
EBIT before special items	522	**685**	+ 31.2	51	**58**	+ 13.7

Bayer MaterialScience € million	2004	**2005**	Change in %	Q4 2004	**Q4 2005**	Change in %
Sales	8,597	**10,695**	+ 24.4	2,401	**2,778**	+ 15.7
EBITDA	1,216	**1,914**	+ 57.4	307	**375**	+ 22.1
EBITDA before special items	1,243	**1,949**	+ 56.8	307	**440**	+ 43.3
EBIT	641	**1,369**	+ 113.6	172	**230**	+ 33.7
EBIT before special items	668	**1,404**	+ 110.2	172	**295**	+ 71.5

Forward-looking statements
This news release 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 annual and interim reports to the Frankfurt Stock Exchange and in our reports filed 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.