



Investor News

Press Forum: Bayer's Perspective on Innovation 2006

Wenning: "Research is the key to success"

- Three new patent applications every working day help safeguard Bayer's future
 - Technology of the future: plant-made pharmaceuticals
 - Group-wide innovation initiative "Triple-i" successfully launched
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Leverkusen / October 31, 2006 – The Bayer Group aims to further strengthen innovation as one of the most important objectives of its corporate strategy. "One of the principal keys to success is research. Here we must exploit our potential to the full and consistently translate the results of our research into new products," said Bayer AG Management Board Chairman Werner Wenning on Tuesday in Leverkusen at the press forum "Bayer's Perspective on Innovation 2006." This year the company is investing EUR 1.9 billion in research and development – not including Schering. "This is the biggest R&D budget of any chemical and pharmaceutical company in Germany," said Wenning. Bayer's research activities already result in an average of three new patent applications every working day. In 2005, recently launched products or applications accounted for more than EUR 4 billion of Group sales.

The acquisition of Schering AG strengthens Bayer's research activities particularly in the field of pharmaceuticals. "Never before has the research-intensive pharmaceuticals business accounted for such a large share of Bayer Group sales," Wenning explained before an audience of 140 journalists from 16 countries. With combined sales of EUR 9.1 billion and a research budget of EUR 1.6 billion (based on 2005 figures), the new Bayer Schering Pharma, headquartered in Berlin, will be one of Germany's biggest pharmaceutical companies. It plans to strengthen above all the areas of cardiovascular risk management and oncology.

Bayer's outstanding developments in pharmaceuticals include the kidney cancer drug Nexavar[®], which the company brought to market in the United States in record time at the end of 2005 – three years faster than the average for a drug product. Marketing authorization in the European Union was granted this year. The product's active ingredient is already at an advanced stage of clinical testing for the treatment of liver, skin and lung cancer. Further examples of progress in pharmaceutical research include the anti-thrombosis drug rivaroxaban and expanded registrations for the oral contraceptive YAZ[®] and the multiple sclerosis treatment Betaseron[®].

High speed of drug development

On top of its acknowledged research and development expertise, Bayer is also a leader when it comes to the speed of drug development. Over the past five years – according to the U.S.-based Tufts Center for the Study of Drug Development – Bayer has achieved some of the shortest development times for new, innovative products.

Increased research spending at Bayer CropScience

The future of the Bayer CropScience subgroup also depends heavily on its innovative capability. The company has achieved milestones in conventional crop protection in the past. Patent-protected products currently account for more than one third of this subgroup's sales, and the proportion is set to rise to well over half within the next ten years. Bayer CropScience plans to boost research spending from roughly EUR 630 million annually at present to about EUR 750 million by 2015. This includes substantial increases for the seed and bioscience businesses.

“Apart from the continued development of crops such as vegetables, cotton, canola and rice, plant biotechnology harbors major potential with respect to many unsolved problems,” Wenning said. “We must not throw away future opportunities in this growth area here in Europe and in Germany,” he went on. But Wenning also cautioned that in order to better exploit the potential of plants, the current genetic engineering law urgently needs to be amended as regards biotechnology.

Bayer MaterialScience: new products account for more than 20 percent of sales

The research activities of Bayer MaterialScience are focused on new applications, environmentally sustainable production methods and customized solutions. Last year the subgroup spent more than EUR 250 million on research and development, along

with nearly EUR 80 million on joint development projects with its customers. This too is one of the biggest R&D budgets in the industry, corresponding to 3 percent of this subgroup's sales. The investment is paying off, with new products and applications developed within the past five years currently accounting for more than 20 percent of Bayer MaterialScience's sales.

Bayer's materials researchers are focusing in part on nanotechnology, one of the key technologies of the future. Nanotechnology offers endless possibilities, ranging from surfaces that repel dirt through medical applications to coatings that repair themselves following minor damage.

Germany remains Bayer's number one research location

Following the acquisition of Schering AG, Bayer now has 12,700 employees in research and development. Nearly 30 percent of these people are based in the United States, while over 60 percent work in Europe. Germany remains Bayer AG's most important research base, with more than 6,100 employees.

All other employees are also called upon to submit ideas for possible new products. With the "Triple-i" initiative – which stands for **inspiration, ideas and innovation** – Bayer aims to tap into the creative potential of its 110,000 employees around the world, whose ideas will be evaluated by experts and ideally developed into innovative products. This year the company has set aside EUR 50 million for this initiative. More than 1,600 ideas have already been received since the initiative was launched in April 2006, and a good two dozen of these ideas appear very promising.

Wenning: Germany's innovative capability must be further strengthened

Wenning appealed to politicians and industry to further strengthen Germany's innovative capability and show more courage in marketing the results of research. He explained that in the long run, the country cannot maintain a strong position in research in the face of obstacles to the production and marketing of innovative technologies and products. "A lot of money and a great deal of patience go into setting up the necessary infrastructure and creating the kind of knowledge base that gives rise to cutting-edge technology," Wenning said. This foundation has served Germany and Europe well for a long time, he explained, but added that there is now an urgent need to reinforce it, otherwise the region risks falling behind other countries. "What we need is the courage to strive for progress," Wenning urged. At the same time, he

expressed concern about the availability of young, up-and-coming scientists. “Our education system fails to supply enough talented young people to support a dynamic and innovation-driven economy. The standard education has long since ceased to be sufficient for flexible, globalized research and production,” he warned.

The Bayer CEO also spoke about people’s general reluctance to embrace or accept technology, saying the challenge facing both politicians and industry is to educate citizens about these issues. “We will only be able to once again offer competitive, challenging and interesting jobs in leading-edge research if we have a conducive environment,” Wenning stressed. He said this will only come about if politics, science and industry join forces.

Praise for German government’s new research strategy

Wenning praised the German government’s new high-tech strategy to strengthen the country’s innovative capability, under which some EUR 15 billion is to be made available for leading-edge technologies through 2009. “I believe this program is a very important and groundbreaking step. The challenge now is to systematically implement it. We will be glad to support the German government in this endeavor,” Wenning promised.

Innovations for sustainability and environmental protection

Dr. Wolfgang Plischke, the Bayer Management Board member whose responsibilities include innovation, spoke in his presentation about the central importance of research in a country like Germany that has few raw material resources: “In light of the comparatively high wage levels in Europe, the only products or services that can be manufactured or performed here without subsidies in this age of globalization are research-intensive and sophisticated ones.” He said it is therefore important to go on strengthening the high-end and leading-edge technology sectors.

Plischke listed numerous innovations attributable to the inventor company Bayer, which he said do not just focus on improving the quality of life. The need for sustainability and environmental protection also plays a central role. He quoted examples including modern plastics supplied by the company that make cars lighter and better, and insulating materials from Bayer that help protect the environment by conserving energy.

Technology of the future: plant-made pharmaceuticals

Bayer Innovation GmbH (BIG) is responsible for developing innovative products and new fields of business outside of the subgroups' existing core activities. The current focus here is on new ways of treating wounds with specially coated bandages and the manufacture of active ingredients for drug products using biotechnology. "Every fourth new medicine today is a so-called biopharmaceutical whose active ingredient is produced in bioreactors," Plischke explained. For example, BIG subsidiary Icon Genetics uses tobacco plants to produce pharmaceuticals. Said Plischke: "Many new drug products – particularly those used to treat cancer – are what are known as monoclonal antibodies. These proteins can also be produced in plants, as can vaccines." According to Plischke, Bayer currently possesses the leading technology for plant-made pharmaceuticals. The advantages are much lower capital costs, more flexible manufacturing options and faster production of proteins.

***Information:** Presentations, video broadcast and further news releases regarding the conference will be available on the internet via www.investor.bayer.com.*

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