

BAYER AKTIENGESELLSCHAFT

Form 6-K

January 19, 2007

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 6-K**  
**REPORT OF FOREIGN PRIVATE ISSUER**  
**PURSUANT TO RULE 13a-16 OR 15d-16**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the month of January 2007**  
**Bayer Aktiengesellschaft**  
**Bayer Corporation\***  
(Translation of registrant's name into English)  
Bayerwerk, Gebaeude W11  
Kaiser-Wilhelm-Allee  
51368 Leverkusen  
Germany  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b)(1): N/A

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b)(7): N/A

Indicate by check mark whether, by furnishing the information contained in this form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

\* Bayer Corporation is also the name of a wholly-owned subsidiary of the registrant in the United States.

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**Stockholders Newsletter  
Interim Report as of September 30, 2006**

Schering acquisition provides additional boost to Bayer's business  
**Gratifying sales and earnings increases**

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**Table of Contents****Bayer Group Key Data**

|   | 3rd<br>Quarter | 3rd<br>Quarter |                | First<br>Nine<br>Months | First<br>Nine<br>Months |                | Full<br>Year  |
|---|----------------|----------------|----------------|-------------------------|-------------------------|----------------|---------------|
| million   | 2005           | 2006           | Change         | 2005                    | 2006                    | Change         | 2005          |
| <b>Net sales</b>  | <b>6,177</b>   | <b>7,783</b>   | <b>+ 26.0%</b> | <b>19,249</b>           | <b>21,971</b>           | <b>+ 14.1%</b> | <b>25,950</b> |
| <b>Change in sales</b>                                  |                |                |                |                         |                         |                |               |
| Volume  | + 1%           | + 6%           |                | + 1%                    | + 5%                    |                | 0%            |
| Price   | + 7%           | 0%             |                | + 9%                    | 0%                      |                | + 8%          |
| Currency  | + 2%           | 2%             |                | 0%                      | + 1%                    |                | + 1%          |
| Portfolio   | + 10%          | + 22%          |                | + 9%                    | + 8%                    |                | + 9%          |
| <b>EBITDA<sup>1</sup></b>                               | <b>1,257</b>   | <b>1,170</b>   | <b>6.9%</b>    | <b>3,740</b>            | <b>3,960</b>            | <b>+ 5.9%</b>  | <b>4,315</b>  |
| <i>Special items</i>                                    | 170            | (335)          |                | (74)                    | (497)                   |                | (472)         |
| <i>EBITDA before special items</i>                      | 1,087          | 1,505          | + 38.5%        | 3,814                   | 4,457                   | + 16.9%        | 4,787         |
| EBITDA margin before special items                      | 17.6%          | 19.3%          |                | 19.8%                   | 20.3%                   |                | 18.4%         |
| <b>EBIT<sup>2</sup></b>                                 | <b>796</b>     | <b>659</b>     | <b>17.2%</b>   | <b>2,489</b>            | <b>2,614</b>            | <b>+ 5.0%</b>  | <b>2,633</b>  |
| <i>Special items</i>                                    | 143            | (139)          |                | (101)                   | (317)                   |                | (525)         |
| <i>EBIT before special items</i>                        | 653            | 798            | + 22.2%        | 2,590                   | 2,931                   | + 13.2%        | 3,158         |
| EBIT margin before special items                        | 10.6%          | 10.3%          |                | 13.5%                   | 13.3%                   |                | 12.2%         |
| <b>Non-operating result</b>                             | <b>(182)</b>   | <b>(272)</b>   | <b>49.5%</b>   | <b>(442)</b>            | <b>(719)</b>            | <b>62.7%</b>   | <b>(615)</b>  |
| <b>Net income</b>                                       | <b>493</b>     | <b>320</b>     | <b>35.1%</b>   | <b>1,551</b>            | <b>1,372</b>            | <b>11.5%</b>   | <b>1,597</b>  |
| Earnings per share ( <sup>3</sup> )                     | 0.68           | 0.42           |                | 2.12                    | 1.82                    |                | 2.19          |
| Core earnings per share ( <sup>4</sup> )                | 0.64           | 0.79           |                | 2.46                    | 2.56                    |                | 2.93          |
| <b>Gross cash flow<sup>5</sup></b>                      | <b>863</b>     | <b>1,170</b>   | <b>+ 35.6%</b> | <b>2,790</b>            | <b>3,260</b>            | <b>+ 16.8%</b> | <b>3,262</b>  |
| <b>Net cash flow<sup>6</sup></b>                        | <b>1,374</b>   | <b>1,521</b>   | <b>+ 10.7%</b> | <b>2,083</b>            | <b>2,480</b>            | <b>+ 19.1%</b> | <b>3,278</b>  |
| <b>Capital expenditures (total)</b>                     | <b>346</b>     | <b>325</b>     | <b>6.1%</b>    | <b>798</b>              | <b>1,084</b>            | <b>+ 35.8%</b> | <b>1,389</b>  |
| <b>Research and development expenses</b>                | <b>418</b>     | <b>678</b>     | <b>+ 62.2%</b> | <b>1,264</b>            | <b>1,549</b>            | <b>+ 22.5%</b> | <b>1,766</b>  |
| <b>Depreciation and amortization</b>                    | <b>461</b>     | <b>511</b>     | <b>+ 10.8%</b> | <b>1,251</b>            | <b>1,346</b>            | <b>+ 7.6%</b>  | <b>1,682</b>  |
| <b>Number of employees at end of period<sup>7</sup></b> |                |                |                | <b>87,100</b>           | <b>110,800</b>          | <b>+ 27.2%</b> | <b>87,100</b> |
| Personnel expenses                                      | 1,251          | 1,883          | + 50.5%        | 4,155                   | 4,984                   | + 20.0%        | 5,576         |

2005 figures restated

- 1 ebitda= ebit plus amortization of intangible assets and depreciation of property, plant and equipment. ebitda, ebitda before special items and ebitda margin are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. The company considers underlying ebitda to be a more suitable indicator of operating performance since it is not affected by depreciation, amortization, write-downs/write-backs or special items. The company also believes that this indicator gives readers a clearer picture of the results of operations and ensures greater comparability of data over time. The underlying ebitda margin is calculated by dividing underlying ebitda by sales.
  - 2 ebit as shown in the income statement
  - 3 Earnings per share as defined in IAS 33 = net income divided by the average number of shares. For details see page 40.
  - 4 To calculate core earnings per share from continuing operations we eliminate from net income as per the income statement the amortization of intangible assets, asset write-downs (including any impairment losses), special items in ebitda and extraordinary factors affecting income from investments in affiliated companies (such as divestment gains or write-downs), including the related tax effects. We also deduct income from discontinued operations. Core earnings per share is not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. The company believes that this indicator gives readers a clearer picture of the results of operations and ensures greater comparability of data over time. For details see page 31.
  - 5 Gross cash flow = ebit plus depreciation, amortization and write-downs, minus write-backs, minus income taxes, minus gains/plus losses on retirements of non-current assets, plus/minus changes in pension provisions. The latter item includes the elimination of non-cash components of the operating result. It also contains benefit payments during the period. Non-cash charges resulting from the remeasurement of Schering inventories are added back. For details see pages 19f.
  - 6 Net cash flow = cash flow from operating activities according to IAS 7
  - 7 Number of employees in full-time equivalents
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**Interim Report as of September 30, 2006**

**Schering acquisition provides additional boost to Bayer's business**

**Gratifying sales and earnings increases**

**Third-quarter sales up 26 percent to 7.8 billion**

**EBITDA before special items up 39 percent to 1.5 billion**

**EBIT before special items up 22 percent to 0.8 billion**

**Schering integration well on track**

**HealthCare earnings forecast raised**

**Overview of Sales, Earnings and Financial Position**

The positive business trend at Bayer continued in the **third quarter of 2006**. Sales advanced by 26.0 percent to 7,783 million (Q3 2005: 6,177 million). Group sales included 1,410 million in revenues from the Schering business. Adjusted for currency and portfolio effects, sales of the Bayer Group rose by 6.4 percent. Sales of the Material-Science and Healthcare subgroups rose by 12.4 and 7.5 percent, respectively, while currency and portfolio-adjusted sales of CropScience were down by 5.9 percent from the prior-year quarter.

Including the Schering business, we improved ebitda before special items by 38.5 percent to 1,505 million (Q3 2005: 1,087 million). Earnings of the Bayer HealthCare subgroup climbed by 113.6 percent to 882 million (Q3 2005: 413 million) thanks to a 392 million contribution from the Schering business and strong performances by both Pharmaceuticals and Consumer Health. MaterialScience was unable to match the high earnings level of the prior-year quarter, the subgroup's underlying ebitda declining by 14.9 percent to 427 million, chiefly because of higher raw

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**Interim Report as of September 30, 2006**

material costs. Earnings of the CropScience subgroup declined by 17.8 percent to 143 million, largely because of difficult market conditions in the United States and South America.

ebit before special items climbed by 22.2 percent in the third quarter, to 798 million (Q3 2005: 653 million). The acquired Schering business contributed 80 million to this figure.

Net special charges in the third quarter amounted to 139 million. This figure included 106 million for Healthcare alone, most of which was related to the integration of Schering. Restructuring charges totaling 45 million were incurred in the CropScience and MaterialScience subgroups. The special charges were partially offset by special gains of 41 million from the sale of some small product lines and active ingredients in CropScience and Healthcare.

ebit of the Bayer Group declined by 17.2 percent in the third quarter of 2006, to 659 million (Q3 2005: 796 million). However, ebit for the corresponding period of 2005 was boosted by a onetime gain of 244 million in connection with changes to our pension systems.

After a non-operating result of minus 272 million, pre-tax income dropped by 37.0 percent to 387 million. The non-operating result included net interest expense of 214 million (Q3 2005: 116 million). This figure in turn contains about 160 million in interest expense for the financing of the Schering acquisition. After tax expense of 118 million, income after taxes from continuing operations came in at 269 million (Q3 2005: 457 million). Group net income including earnings from discontinued operations and after minority interests amounted to 320 million (Q3 2005: 493 million).

Benefiting from the positive business trend and the inclusion of Schering, gross cash flow improved by 35.6 percent to 1,170 million (Q3 2005: 863 million), while net cash flow rose by 10.7 percent to 1,521 million.

Net debt decreased by 0.9 billion in the third quarter, to 19.0 billion. The approximately 1.2 billion proceeds of a capital increase were nearly offset by outflows for the purchase of further Schering AG shares.

Provisions for pensions and other post-employment benefits rose by 0.8 billion compared with June 30, 2006, to 7.0 billion. This was mainly attributable to a decrease in capital market interest.

The Bayer Group's operating performance in the **first nine months** of 2006 also improved compared to the same period last year. Sales from continuing operations grew by 14.1 percent to 21,971 million, or by 5.1 percent when adjusted for currency effects and portfolio changes. ebitda before special items for the first three quarters increased by 16.9 percent to 4,457 million, against 3,814 million for the prior-year period. Nine-month ebit before special items advanced by 13.2 percent, to 2,931 million (9M 2005: 2,590 million), with



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ebit after special items increasing by 5.0 percent to 2,614 million.

The integration of Schering is progressing well. Important decisions have already been made with regard to the future of Bayer Schering Pharma. We have made the appointments to executive positions through the third management level, defined the structure of the global research and development organization and, in the fourth quarter, initiated site consolidation in the United States. In addition, the Bayer AG Board of Management has approved a consolidation plan involving some 70 sites of Bayer Schering Pharma.

Regarding synergies from the acquisition, we confirm our previously stated target of 700 million in annual savings which we plan to achieve by 2009.

**Outlook**

The outlook refers to continuing operations, including Schering. It does not reflect the Diagnostics business, which is to be divested and is reported under discontinued operations.

We expect Bayer Group sales to amount to about 30 billion for the full year 2006, including 3.0 billion in revenues from the Schering business.

Excluding the Diagnostics business now to be divested, we achieved underlying ebit of 3,158 million and underlying ebitda of 4,787 million in fiscal 2005. We aim to significantly improve on these numbers in 2006, and expect to achieve underlying ebitda of approximately 5.7 billion, including about 0.7 billion from the Schering business. As explained in the previous interim report, this figure is adjusted for non-cash charges arising from the acquisition-related step-up of Schering inventories, thus ensuring comparability with future periods. Further details of the calculation of ebit and ebitda before special items for Schering are given on page 29.

We expect to achieve underlying ebit of approximately 3.5 billion in 2006, with the Schering business contributing about 0.1 billion to this total. Following the entry of the domination and profit and loss transfer agreement with Schering in the commercial register on October 27, 2006, we have embarked on the integration of Schering. We expect to incur net special charges of 0.6 billion in the fourth quarter, including 0.4 billion related to Schering. The 0.6 billion figure includes 0.3 billion in non-cash charges comprising writedowns and effects of the purchase price allocation.

With the integration of Schering proceeding on schedule, we are now planning an underlying ebitda margin in HealthCare of approximately 22 percent for the full year 2006. This guidance already reflects expected increases in marketing and r & d costs in the fourth quarter.

Bayer CropScience continues to anticipate a negative market environment in the fourth quarter, particularly in Brazil. We therefore uphold our forecast of a drop in sales and a year-on-year decline in the underlying ebitda margin for 2006 as a whole.

We maintain a positive view of the market environment for our MaterialScience business. For the full year 2006, we continue to aim for underlying ebit and ebitda on a par with the previous year. Some

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risks are inherent in the effects of raw material cost increases and the production shortfalls that have occurred. We are targeting an ebitda margin (before special items) for the Bayer Group of about 19 percent.

**Changes in Corporate Structure**

Since June 23, 2006 we have held a majority of the shares of Schering AG and therefore included Schering in our consolidated financial statements. As of September 30, 2006, our interest in Schering's voting capital amounted to 96.1 percent. This exceeds the proportion required to effect a squeeze-out of the minority stockholders in return for cash compensation pursuant to Sections 327a through 327f of the German Stock Corporation Act.

In the second quarter we concluded an agreement with Siemens AG concerning the sale of the Diagnostics Division. Since the second quarter, the Diagnostics business has been reported as a discontinued operation. The antitrust authorities in Europe and the United States have since approved this transaction.

To ensure comparability between reporting periods, the following table provides a reconciliation of Bayer's sales and earnings data in the previous corporate structure to those in the new structure.

**Bayer Key Data for the Previous and Current Corporate Structures**

| million<br>Third Quarter           | Bayer excl.<br>Schering, incl.<br>Diagnostics |             | Schering    |             | Diagnostics |             | Continuing<br>Operations incl.<br>Schering, excl.<br>Diagnostics |             |
|------------------------------------|---|-------------|-------------|-------------|-------------|-------------|--|-------------|
|                                    | 2005  | 2006        | 2005        | 2006        | 2005        | 2006        | 2005   | 2006        |
| Sales                              | 6,531   | 6,737       | 0           | 1,410       | 354         | 364         | 6,177  | 7,783       |
| EBITDA*                            | 1,370   | 1,159       | 0           | 91          | 113         | 80          | 1,257  | 1,170       |
| EBITDA before special items        | 1,164   | 1,182       | 0           | 392         | 77          | 69          | 1,087  | 1,505       |
| EBITDA margin before special items | 17.8%   | 17.5%       |             | 27.8%       | 21.8%       | 19.0%       | 17.6%  | 19.3%       |
| EBIT*                              | 870   | 730**       | 0           | 9           | 74          | 80**        | 796  | 659         |
| EBIT before special items          | 691   | 787**       | 0           | 80          | 38          | 69**        | 653  | 798         |
| <b>First Nine Months</b>           | <b>2005</b>                                   | <b>2006</b> | <b>2005</b> | <b>2006</b> | <b>2005</b> | <b>2006</b> | <b>2005</b>  | <b>2006</b> |
| Sales                              | 20,288  | 21,536      | 0           | 1,554       | 1,039       | 1,119       | 19,249   | 21,971      |
| EBITDA*                            | 3,986   | 4,045       | 0           | 111         | 246         | 196         | 3,740  | 3,960       |
| EBITDA before special items        | 4,024   | 4,245       | 0           | 422         | 210         | 210         | 3,814  | 4,457       |
| EBITDA margin before special items | 19.8%   | 19.7%       |             | 27.2%       | 20.2%       | 18.8%       | 19.8%  | 20.3%       |
| EBIT*                              | 2,620   | 2,731**     | 0           | 3           | 131         | 120**       | 2,489  | 2,614       |
| EBIT before special items          | 2,685   | 2,981**     | 0           | 84          | 95          | 134**       | 2,590  | 2,931       |

\* for definition see Bayer Group Key Data on page 2

\*\* For a year-on-year comparison of EBIT data, it should be borne in mind that the 2005 figures also reflect 41 million in depreciation and amortization for the Diagnostics Division. According to IFRS, depreciation and amortization must cease from the date on which operations are classified as discontinued.

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Our business activities are grouped together in the HealthCare, CropScience and MaterialScience subgroups.

The Diagnostics Division is reported in the financial statements of the Bayer Group as a discontinued operation. The commentaries in this report relate exclusively to continuing operations, except where specific reference is made to discontinued operations. The 2005 data are restated accordingly.

| <b>Sales by Subgroup and Segment</b><br>million | <b>First<br/>Nine<br/>Months<br/>2005</b> | <b>Proportion<br/>of<br/>Group<br/>Sales<br/>%</b> | <b>First<br/>Nine<br/>Months<br/>2006</b> | <b>Proportion<br/>of<br/>Group<br/>Sales<br/>%</b> |
|---|---|--|---|--|
| <b>Healthcare</b>                               | <b>5,839</b>                              | <b>30</b>  | <b>7,942</b>                              | <b>36</b>  |
| Pharmaceuticals                                 | 2,969                                     | 15   | 4,780                                     | 22   |
| Consumer Health                                 | 2,870                                     | 15   | 3,162                                     | 14   |
| <b>CropScience</b>                              | <b>4,519</b>                              | <b>23</b>  | <b>4,398</b>                              | <b>20</b>  |
| Crop Protection                                 | 3,714                                     | 19   | 3,554                                     | 16   |
| Environmental Science, BioScience               | 805                                       | 4  | 844                                       | 4  |
| <b>MaterialScience</b>                          | <b>7,917</b>                              | <b>42</b>  | <b>8,614</b>                              | <b>39</b>  |
| Materials                                       | 2,998                                     | 16   | 3,161                                     | 14   |
| Systems   | 4,919                                     | 26   | 5,453                                     | 25   |
| <b>Reconciliation</b>                           | <b>974</b>                                | <b>5</b>   | <b>1,017</b>                              | <b>5</b>   |
| <b>Bayer Group (continuing operations)</b>      | <b>19,249</b>                             | <b>100</b>   | <b>21,971</b>                             | <b>100</b>   |

2005 figures restated

Table of Contents**Interim Report as of September 30, 2006****Bayer HealthCare**

**Sales** of the **Bayer HealthCare** subgroup rose by 72.5 percent, or 1,463 million, in the third quarter of 2006, to 3,482 million. Schering contributed 1,410 million to this figure. Currency- and portfolio-adjusted sales increased by 7.5 percent, due largely to the positive business trend in the Consumer Health segment. In the Pharmaceuticals segment, the effects of terminating the plasma marketing agreement with Talecris and of lower Trasylol® sales were offset by growth in other businesses, particularly Oncology.

**ebitda** before special items of the Bayer HealthCare subgroup advanced by 113.6 percent, or 469 million, to 882 million. Before the 392 million contribution from Schering, the increase was 18.6 percent. **ebit** before special items moved ahead by 57.1 percent to 498 million, of which Schering accounted for 80 million. The special charges of 106 million in the third quarter of 2006 resulted mainly from the integration of Schering ( 67 million) and a write-down relating to our cancer drug Viadur® ( 25 million). **ebit** after special items rose by 11.0 percent to 392 million.

**Pharmaceuticals**

**Sales** of our **Pharmaceuticals** segment climbed by 137.5 percent in the third quarter to 2,444 million, mainly because of the inclusion of the Schering business. Currency- and portfolio-adjusted sales grew by 7.4 percent.

The Primary Care business unit saw sales expand by 3.7 percent to 709 million. Strong growth in our top products Avelox® and Levitra®, particularly in the United States, more than offset the drop in sales of Cipro® and Adalat®.

Sales in the Hematology/Cardiology business unit shrank as expected, declining by 19.1 percent to 271 million. This was due mainly to the termination of the plasma marketing agreement with Talecris and to lower sales of Trasylol®, while Kogenate® posted sales gains of 6.4 percent. We are currently working closely with drug regulators to resolve the issues relating to the safe and effective use of Trasylol®.

**Bayer HealthCare**

| million                              | 3rd<br>Quarter<br>2005 | 3rd<br>Quarter<br>2006 | Change<br>%   | First Nine<br>Months<br>2005 | First<br>Nine<br>Months<br>2006 | Change<br>%   |
|--------------------------------------|------------------------|------------------------|---------------|------------------------------|---------------------------------|---------------|
| <b>Net sales</b>                     | <b>2,019</b>           | <b>3,482</b>           | <b>+ 72.5</b> | <b>5,839</b>                 | <b>7,942</b>                    | <b>+ 36.0</b> |
| <b>EBITDA*</b>                       | <b>476</b>             | <b>565</b>             | <b>+ 18.7</b> | <b>1,011</b>                 | <b>1,478</b>                    | <b>+ 46.2</b> |
| <i>Special items</i>                 | 63                     | (317)                  |               | (137)                        | (339)                           |               |
| <i>EBITDA before special items**</i> | 413                    | 882                    | + 113.6       | 1,148                        | 1,817                           | + 58.3        |
| EBITDA margin before special items   | 20.5%                  | 25.3%                  |               | 19.7%                        | 22.9%                           |               |
| <b>EBIT*</b>                         | <b>353</b>             | <b>392</b>             | <b>+ 11.0</b> | <b>737</b>                   | <b>1,126</b>                    | <b>+ 52.8</b> |
| <i>Special items</i>                 | 36                     | (106)                  |               | (164)                        | (128)                           |               |
| <i>EBIT before special items**</i>   | 317                    | 498                    | + 57.1        | 901                          | 1,254                           | + 39.2        |
| <b>Gross cash flow*</b>              | <b>313</b>             | <b>606</b>             | <b>+ 93.6</b> | <b>691</b>                   | <b>1,234</b>                    | <b>+ 78.6</b> |
| <b>Net cash flow*</b>                | <b>474</b>             | <b>570</b>             | <b>+ 20.3</b> | <b>682</b>                   | <b>980</b>                      | <b>+ 43.7</b> |

2005 figures restated

\* for definition  
see Bayer Group  
Key Data on  
page 2

\*\* for definition  
see also page 29

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| <b>Pharmaceuticals</b>               | <b>3rd<br/>Quarter</b> | <b>3rd<br/>Quarter</b> | <b>Change</b>  | <b>First Nine<br/>Months</b> | <b>First<br/>Nine<br/>Months</b> | <b>Change</b>  |
|--------------------------------------|------------------------|------------------------|----------------|------------------------------|----------------------------------|----------------|
| million                              | <b>2005</b>            | <b>2006</b>            | <b>%</b>       | <b>2005</b>                  | <b>2006</b>                      | <b>%</b>       |
| <b>Net sales</b>                     | <b>1,029</b>           | <b>2,444</b>           | <b>+ 137.5</b> | <b>2,969</b>                 | <b>4,780</b>                     | <b>+ 61.0</b>  |
| Primary Care                         | 684                    | 709                    | + 3.7          | 2,084                        | 2,247                            | + 7.8          |
| Hematology/Cardiology                | 335                    | 271                    | 19.1           | 864                          | 850                              | 1.6            |
| Oncology                             | 10                     | 54                     |                | 21                           | 129                              |                |
| Schering                             |                        | 1,410                  |                |                              | 1,554                            |                |
| <b>EBITDA*</b>                       | <b>256</b>             | <b>337</b>             | <b>+ 31.6</b>  | <b>528</b>                   | <b>801</b>                       | <b>+ 51.7</b>  |
| <i>Special items</i>                 | 42                     | (303)                  |                | (76)                         | (322)                            |                |
| <i>EBITDA before special items**</i> | 214                    | 640                    | + 199.1        | 604                          | 1,123                            | + 85.9         |
| EBITDA margin before special items   | 20.8%                  | 26.2%                  |                | 20.3%                        | 23.5%                            |                |
| <b>EBIT*</b>                         | <b>188</b>             | <b>199</b>             | <b>+ 5.9</b>   | <b>383</b>                   | <b>560</b>                       | <b>+ 46.2</b>  |
| <i>Special items</i>                 | 30                     | (92)                   |                | (88)                         | (111)                            |                |
| <i>EBIT before special items**</i>   | 158                    | 291                    | + 84.2         | 471                          | 671                              | + 42.5         |
| <b>Gross cash flow*</b>              | <b>155</b>             | <b>456</b>             | <b>+ 194.2</b> | <b>335</b>                   | <b>775</b>                       | <b>+ 131.3</b> |
| <b>Net cash flow*</b>                | <b>253</b>             | <b>444</b>             | <b>+ 75.5</b>  | <b>304</b>                   | <b>717</b>                       | <b>+ 135.9</b> |

2005 figures restated

\* for definition see Bayer Group Key Data on page 2

\*\* for definition see also page 29

**Best-Selling Pharmaceutical Products**

million

|  |            |              |               |              |              |               |
|--|------------|--------------|---------------|--------------|--------------|---------------|
| Betaferon <sup>®</sup> /Betaseron <sup>®</sup> * |            | 246          |               |              | 271          |               |
| Yasmin <sup>®</sup> *                            |            |              |               |              | 223          |               |
| Kogenate <sup>®</sup>                            | 187        | 199          | + 6.4         | 486          | 582          | + 19.8        |
| Adalat <sup>®</sup>                              | 165        | 155          | 6.1           | 485          | 483          | 0.4           |
| Ciprobay <sup>®</sup> /Cipro <sup>®</sup>        | 135        | 117          | 13.3          | 407          | 376          | 7.6           |
| Avalox <sup>®</sup> /Avelox <sup>®</sup>         | 64         | 79           | + 23.4        | 245          | 297          | + 21.2        |
| Magnevist <sup>®</sup> *                         |            | 79           |               |              | 88           |               |
| Levitra <sup>®</sup>                             | 67         | 77           | + 14.9        | 190          | 228          | + 20.0        |
| Glucobay <sup>®</sup>                            | 76         | 75           | 1.3           | 222          | 228          | + 2.7         |
| Mirena <sup>®</sup> *                            |            | 74           |               |              | 82           |               |
| <b>Total</b>                                     | <b>694</b> | <b>1,307</b> | <b>+ 88.3</b> | <b>2,035</b> | <b>2,858</b> | <b>+ 40.4</b> |
| Proportion of Pharmaceuticals sales              | 67%        | 53%          |               | 69%          | 60%          |               |

Products are ranked by third-quarter sales.

\* acquired Schering product (sales included for the period June 23 September 30, 2006)

**Best-Selling Schering Products**

**(pro forma)**

million

|                       |     |     |        |     |     |        |
|-----------------------|-----|-----|--------|-----|-----|--------|
| Betaferon®/Betaseron® | 223 | 246 | + 10.3 | 627 | 727 | + 15.9 |
| Yasmin®               | 165 | 206 | + 24.8 | 421 | 566 | + 34.4 |
| Magnevist®            | 80  | 79  | 1.3    | 241 | 240 | 0.4    |
| Mirena®               | 59  | 74  | + 25.4 | 170 | 217 | + 27.6 |

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Following the introduction of our new cancer drug Nexavar® in additional markets, third-quarter sales of the Oncology business unit rose by 44 million to 54 million, of which Nexavar® accounted for 37 million.

Sales of the acquired Schering business in the third quarter came to 1,410 million. The percentage changes in sales of the acquired products given in the table on page 10 and in the commentary below are pro-forma data based on the figures reported by Schering for the prior-year period.

Sales in the Gynecology/Andrology business unit rose by 13.0 percent in the third quarter, to 583 million. The strongest growth driver was Yasmin®, the world's most successful oral contraceptive, sales of which (including Yaz® and Yasminelle®) climbed by 24.8 percent. The FDA has expanded the registration for Yaz®, making it the first and only birth control pill that is also approved to treat the emotional and physical symptoms of premenstrual dysphoria.

In the Diagnostic Imaging unit, business shrank by 11.4 percent in the third quarter to 310 million. This was chiefly attributable to the voluntary recall in July 2006 of the Ultravist® 370 mg/ml formulation due to the potential that particulate matter in conjunction with crystallization may be present in the product. We are taking all the necessary steps to get this formulation back onto the market as soon as possible.

Sales of Specialized Therapeutics advanced by 3.7 percent to 311 million. The key growth driver here was the multiple sclerosis (MS) treatment Betaferon®, which posted a 10.3 percent sales gain. The FDA has expanded marketing authorization for Betaseron® (Interferon beta-1b, trade name of Betaferon® in the United States), which means the product can now also be used to treat patients who have experienced a first clinical episode and have diagnostic features consistent with MS.

In the Oncology business of Schering, third-quarter sales dipped by 1.8 percent to 110 million. Sales of Bonelo® for the treatment of tumor-induced hypercalcemia and osteolysis advanced by 16.6 percent, while sales of Campath® to treat chronic lymphocytic leukemia slipped by 2.3 percent.

**EBITDA** before special items of the Pharmaceuticals segment improved in the third quarter by 426 million, or 199.1 percent, to 640 million, due primarily to the portfolio enlargement. Before the 392 million contribution from Schering, underlying **EBITDA** rose by 15.9 percent, mainly as a result of lower costs. **EBIT** before special items climbed by 84.2 percent to 291 million, of which Schering accounted for 80 million. **EBIT** after special items increased by 5.9 percent to 199 million.

**Consumer Health**

Third-quarter **sales** of the **Consumer Health** segment moved ahead by 4.8 percent, or 48 million, to 1,038 million. Adjusted for currency effects, the increase amounted to 7.7 percent. The Consumer Care and Animal Health divisions contributed to the growth in business, while sales of the Diabetes Care Division were at the previous year's level.

Consumer Care expanded sales by 6.6 percent to 629 million, recording good growth in its top products in the principal regions. Notably, sales of our Aleve® analgesic advanced by 21.6 percent from the same period of last year. Animal Health posted third-quarter sales growth of 11 million, or 5.2 percent, to 223 million, with particularly strong gains by Profender®, the dewormer launched in Europe at the end of 2005, and the Advantage® product line in North America.



**Table of Contents****Interim Report as of September 30, 2006**

| <b>Consumer Health</b>                | <b>3rd<br/>Quarter</b> | <b>3rd<br/>Quarter</b> | <b>Change</b> | <b>First Nine<br/>Months</b> | <b>First<br/>Nine<br/>Months</b> | <b>Change</b> |
|---------------------------------------|------------------------|------------------------|---------------|------------------------------|----------------------------------|---------------|
| million                               | <b>2005</b>            | <b>2006</b>            | <b>%</b>      | <b>2005</b>                  | <b>2006</b>                      | <b>%</b>      |
| <b>Net sales</b>                      | <b>990</b>             | <b>1,038</b>           | <b>+ 4.8</b>  | <b>2,870</b>                 | <b>3,162</b>                     | <b>+ 10.2</b> |
| Consumer Care                         | 590                    | 629                    | + 6.6         | 1,705                        | 1,875                            | + 10.0        |
| Diabetes Care                         | 188                    | 186                    | 1.1           | 525                          | 592                              | + 12.8        |
| Animal Health                         | 212                    | 223                    | + 5.2         | 640                          | 695                              | + 8.6         |
| <b>EBITDA*</b>                        | <b>220</b>             | <b>228</b>             | <b>+ 3.6</b>  | <b>483</b>                   | <b>677</b>                       | <b>+ 40.2</b> |
| <i>Special items</i>                  | <i>21</i>              | <i>(14)</i>            |               | <i>(61)</i>                  | <i>(17)</i>                      |               |
| <i>EBITDA before special items</i>    | <i>199</i>             | <i>242</i>             | <i>+ 21.6</i> | <i>544</i>                   | <i>694</i>                       | <i>+ 27.6</i> |
| EBITDA margin before<br>special items | 20.1%                  | 23.3%                  |               | 19.0%                        | 21.9%                            |               |
| <b>EBIT*</b>                          | <b>165</b>             | <b>193</b>             | <b>+ 17.0</b> | <b>354</b>                   | <b>566</b>                       | <b>+ 59.9</b> |
| <i>Special items</i>                  | <i>6</i>               | <i>(14)</i>            |               | <i>(76)</i>                  | <i>(17)</i>                      |               |
| <i>EBIT before special items</i>      | <i>159</i>             | <i>207</i>             | <i>+ 30.2</i> | <i>430</i>                   | <i>583</i>                       | <i>+ 35.6</i> |
| <b>Gross cash flow*</b>               | <b>158</b>             | <b>150</b>             | <b>5.1</b>    | <b>356</b>                   | <b>459</b>                       | <b>+ 28.9</b> |
| <b>Net cash flow*</b>                 | <b>221</b>             | <b>126</b>             | <b>43.0</b>   | <b>378</b>                   | <b>263</b>                       | <b>30.4</b>   |

2005 figures restated

\* for definition see Bayer Key data on page 2

**Best-Selling Consumer Health Products**

million

|  |            |            |              |              |              |               |
|--|------------|------------|--------------|--------------|--------------|---------------|
| Ascensia® product line (Diabetes Care) | 177        | 178        | + 0.6        | 508          | 576          | + 13.4        |
| Aspirin® (Consumer Care)               | 113        | 116        | + 2.7        | 324          | 347          | + 7.1         |
| Advantage®/Advantix® (Animal Health)   | 64         | 70         | + 9.4        | 195          | 220          | + 12.8        |
| Aleve®/naproxen (Consumer Care)        | 51         | 62         | + 21.6       | 124          | 171          | + 37.9        |
| Canesten® (Consumer Care)              | 40         | 41         | + 2.5        | 110          | 122          | + 10.9        |
| Baytril® (Animal Health)               | 40         | 41         | + 2.5        | 113          | 116          | + 2.7         |
| Bepanthen®/Bepanthol® (Consumer Care)  | 26         | 32         | + 23.1       | 86           | 101          | + 17.4        |
| Supradyn® (Consumer Care)              | 28         | 33         | + 17.9       | 92           | 99           | + 7.6         |
| One-A-Day® (Consumer Care)             | 33         | 29         | 12.1         | 87           | 89           | + 2.3         |
| Alka-Seltzer® (Consumer Care)          | 25         | 25         | 0.0          | 69           | 75           | + 8.7         |
| <b>Total</b>                           | <b>597</b> | <b>627</b> | <b>+ 5.0</b> | <b>1,708</b> | <b>1,916</b> | <b>+ 12.2</b> |
| Proportion of Consumer Health sales    | 60%        | 60%        |              | 60%          | 61%          |               |

Buoyed by the positive sales trend, **EBITDA** before special items of the Consumer Health segment advanced by 21.6 percent 242 million, thanks to strong sales of our high-margin products and a decrease in production costs. **EBIT** before special items climbed by 30.2 percent 207 million. **EBIT** after special items rose by 17.0 percent year on year, 193 million.



Table of Contents**Interim Report as of September 30, 2006****Bayer CropScience**

**Sales** of our **Bayer CropScience** subgroup declined in the third quarter, coming in 10.4 percent below the prior-year Period at 1,049 million. Adjusted for currency and portfolio effects, the decrease amounted to 5.9 percent.

**EBITDA** before special items, at 143 million, was down by 31 million, or 17.8 percent, from the third quarter of 2005. Cost savings partially compensated for the squeeze on margins caused by a combination of lower volumes and price erosion, particularly in North and Latin America. **EBIT** before special items was down by 14 million, from 17 million in the prior-year period to 3 million in the third quarter of 2006. Third-quarter earnings were held back by special charges in connection with the restructuring project NEW. However, these charges were partially offset by a one-time gain on the divestment of a product line. EBIT in the third quarter of 2006 came in at minus 12 million, down from plus 70 million in the same period of last year.

**Crop Protection**

**Sales** of **Crop Protection** dropped by 10.9 percent in the third quarter, to 872 million. Currency- and portfolio-adjusted sales fell by 6.6 percent.

In addition to unfavorable currency parities, price and volume effects depressed sales in a continuing difficult market environment. The crop protection market suffered particularly in the third quarter from adverse weather conditions in North America, Australia and southern Europe. In Brazil, the weakness of the farming economy was exacerbated by an unfavorable exchange rate for the U.S. dollar, leading to a significant decline in acreages.

| <b>Bayer CropScience</b>              | <b>3rd<br/>Quarter</b> | <b>3rd<br/>Quarter</b> | <b>Change</b> | <b>First Nine<br/>Months</b> | <b>First<br/>Nine<br/>Months</b> | <b>Change</b> |
|---------------------------------------|------------------------|------------------------|---------------|------------------------------|----------------------------------|---------------|
| million                               | <b>2005</b>            | <b>2006</b>            | <b>%</b>      | <b>2005</b>                  | <b>2006</b>                      | <b>%</b>      |
| <b>Net sales</b>                      | <b>1,171</b>           | <b>1,049</b>           | <b>10.4</b>   | <b>4,519</b>                 | <b>4,398</b>                     | <b>2.7</b>    |
| <b>EBITDA*</b>                        | <b>227</b>             | <b>140</b>             | <b>38.3</b>   | <b>1,090</b>                 | <b>1,059</b>                     | <b>2.8</b>    |
| <i>Special items</i>                  | 53                     | (3)                    |               | 19                           | (3)                              |               |
| <i>EBITDA before special items</i>    | 174                    | 143                    | 17.8          | 1,071                        | 1,062                            | 0.8           |
| EBITDA margin before<br>special items | 14.9%                  | 13.6%                  |               | 23.7%                        | 24.1%                            |               |
| <b>EBIT*</b>                          | <b>70</b>              | <b>(12)</b>            |               | <b>646</b>                   | <b>626</b>                       | <b>3.1</b>    |
| <i>Special items</i>                  | 53                     | (15)                   |               | 19                           | (15)                             |               |
| <i>EBIT before special items</i>      | 17                     | 3                      | 82.4          | 627                          | 641                              | + 2.2         |
| <b>Gross cash flow*</b>               | <b>155</b>             | <b>101</b>             | <b>34.8</b>   | <b>773</b>                   | <b>777</b>                       | <b>+ 0.5</b>  |
| <b>Net cash flow*</b>                 | <b>301</b>             | <b>306</b>             | <b>+ 1.7</b>  | <b>535</b>                   | <b>490</b>                       | <b>8.4</b>    |

\* for definition see Bayer Group Key Data on Page 2

**Table of Contents****Interim Report as of September 30, 2006****Best-Selling Bayer CropScience**

| <b>Products*</b>  | <b>3rd<br/>Quarter</b> | <b>3rd<br/>Quarter</b> | <b>Change</b> | <b>First Nine<br/>Months</b> | <b>First<br/>Nine<br/>Months</b> | <b>Change</b> |
|---|------------------------|------------------------|---------------|------------------------------|----------------------------------|---------------|
| million   | <b>2005</b>            | <b>2006</b>            | <b>%</b>      | <b>2005</b>                  | <b>2006</b>                      | <b>%</b>      |
| Confidor®/Gaucho®/Admire®/Merit®<br>(Insecticides/Seed Treatment/<br>Environmental Science) | 140                    | 136                    | -2.9          | 465                          | 448                              | -3.7          |
| Folicur®/Raxil® (Fungicides/Seed<br>Treatment)  | 82                     | 50                     | -39.0         | 265                          | 216                              | -18.5         |
| Basta®/Liberty® (Herbicides)  | 32                     | 30                     | -6.3          | 170                          | 183                              | + 7.6         |
| Puma® (Herbicides)  | 25                     | 21                     | -16.0         | 165                          | 164                              | -0.6          |
| Decis®/K-Othrine® (Insecticides/<br>Environmental Science)                                  | 39                     | 40                     | + 2.6         | 124                          | 140                              | + 12.9        |
| Proline® (Fungicides)   | 3                      | 3                      | 0.0           | 89                           | 116                              | + 30.3        |
| Flint®/Stratego®/Sphere®<br>(Fungicides)  | 42                     | 25                     | -40.5         | 129                          | 113                              | -12.4         |
| Betanal® (Herbicides)   | 10                     | 7                      | -30.0         | 114                          | 109                              | -4.4          |
| Atlantis® (Herbicides)  | 19                     | 26                     | + 36.8        | 78                           | 96                               | + 23.1        |
| Fenikan® (Herbicides)   | 53                     | 51                     | -3.8          | 94                           | 82                               | -12.8         |
| <b>Total</b>  | <b>445</b>             | <b>389</b>             | <b>-12.6</b>  | <b>1,693</b>                 | <b>1,667</b>                     | <b>-1.5</b>   |
| Proportion of Bayer CropScience<br>sales  | 38%                    | 37%                    |               | 37%                          | 38%                              |               |

\* Figures are based on active ingredient class. For the sake of clarity, only the principal brands and business units are listed.

**Crop Protection**

| million                               |            |            |              |              |              |             |
|---------------------------------------|------------|------------|--------------|--------------|--------------|-------------|
| <b>Net sales</b>                      | <b>979</b> | <b>872</b> | <b>-10.9</b> | <b>3,714</b> | <b>3,554</b> | <b>-4.3</b> |
| Insecticides                          | 289        | 267        | -7.6         | 997          | 932          | -6.5        |
| Fungicides                            | 222        | 152        | -31.5        | 938          | 882          | -6.0        |
| Herbicides                            | 335        | 310        | -7.5         | 1,414        | 1,379        | -2.5        |
| Seed Treatment                        | 133        | 143        | + 7.5        | 365          | 361          | -1.1        |
| <b>EBITDA*</b>                        | <b>175</b> | <b>130</b> | <b>-25.7</b> | <b>853</b>   | <b>813</b>   | <b>-4.7</b> |
| <i>Special items</i>                  | 44         | (3)        |              | 14           | (3)          |             |
| <i>EBITDA before special items</i>    | 131        | 133        | + 1.5        | 839          | 816          | -2.7        |
| EBITDA margin before special<br>items | 13.4%      | 15.3%      |              | 22.6%        | 23.0%        |             |
| <b>EBIT*</b>                          | <b>53</b>  | <b>(7)</b> |              | <b>485</b>   | <b>437</b>   | <b>-9.9</b> |
| <i>Special items</i>                  | 44         | (15)       |              | 14           | (15)         |             |
| <i>EBIT before special items</i>      | 9          | 8          | -11.1        | 471          | 452          | -4.0        |

|                         |            |            |              |            |            |             |
|-------------------------|------------|------------|--------------|------------|------------|-------------|
| <b>Gross cash flow*</b> | <b>114</b> | <b>86</b>  | <b>-24.6</b> | <b>603</b> | <b>598</b> | <b>-0.8</b> |
|                         |            |            | <b>+</b>     |            |            | <b>+</b>    |
| <b>Net cash flow*</b>   | <b>118</b> | <b>206</b> | <b>74.6</b>  | <b>288</b> | <b>351</b> | <b>21.9</b> |

\* for definition see Bayer Group Key Data on page 2

Our market environment as a whole is characterized by increasing pressure on prices from generic products and the trend toward genetically modified crops. However, these effects were mitigated by the successful performance of innovative products introduced over the past few years.

Sales of the Insecticides business unit shrank in the third quarter by 22 million, or 7.6 percent, to 267 million. This was chiefly attributable to adverse shifts in exchange rates, the absence of sales of some older active ingredients that have since been divested to streamline the portfolio, and the

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## Interim Report as of September 30, 2006

| Environmental Science, BioScience  | 3rd<br>Quarter | 3rd<br>Quarter | Change      | First<br>Nine<br>Months | First<br>Nine<br>Months | Change        |
|------------------------------------|----------------|----------------|-------------|-------------------------|-------------------------|---------------|
| million                            | 2005           | 2006           | %           | 2005                    | 2006                    | %             |
| <b>Net sales</b>                   | <b>192</b>     | <b>177</b>     | <b>7.8</b>  | <b>805</b>              | <b>844</b>              | <b>+ 4.8</b>  |
| Environmental Science              | 145            | 137            | 5.5         | 535                     | 555                     | + 3.7         |
| BioScience                         | 47             | 40             | 14.9        | 270                     | 289                     | + 7.0         |
| <b>EBITDA*</b>                     | <b>52</b>      | <b>10</b>      | <b>80.8</b> | <b>237</b>              | <b>246</b>              | <b>+ 3.8</b>  |
| <i>Special items</i>               | 9              | 0              |             | 5                       | 0                       |               |
| <i>EBITDA before special items</i> | 43             | 10             | 76.7        | 232                     | 246                     | + 6.0         |
| EBITDA margin before special items | 22.4%          | 5.6%           |             | 28.8%                   | 29.1%                   |               |
| <b>EBIT*</b>                       | <b>17</b>      | <b>(5)</b>     |             | <b>161</b>              | <b>189</b>              | <b>+ 17.4</b> |
| <i>Special items</i>               | 9              | 0              |             | 5                       | 0                       |               |
| <i>EBIT before special items</i>   | 8              | (5)            |             | 156                     | 189                     | + 21.2        |
| <b>Gross cash flow*</b>            | <b>41</b>      | <b>15</b>      | <b>63.4</b> | <b>170</b>              | <b>179</b>              | <b>+ 5.3</b>  |
| <b>Net cash flow*</b>              | <b>183</b>     | <b>100</b>     | <b>45.4</b> | <b>247</b>              | <b>139</b>              | <b>43.7</b>   |

\* for definition see Bayer Group Key Data on Page 2

drought in the United States. By contrast, global sales of the innovative insecticides Oberon® and Envidor® expanded. Insecticide sales in China also increased. Our Fungicides business unit saw a substantial sales decline, with revenues down by 31.5 percent to 152 million (Q3 2005: 222 million). This was mainly the result of unfavorable weather conditions in North America, parts of Europe and Australia, and the difficult market environment in Brazil, particularly for soybeans. Despite a good start to the fall cereal season in Europe, sales of our herbicides were down by 7.5 percent year on year to 310 million. On the other hand, sales of the Seed Treatment business unit rose by 7.5 percent to 143 million, due especially to the gratifying performance by Poncho® and our new cereal seed treatment brands Bariton®, Scenic® and EfA®.

Underlying **EBITDA** of the Crop Protection segment remained virtually steady year on year, edging up 1.5 percent in the third quarter to 133 million. Declining margins caused by the drop in sales were offset by savings achieved through our coststructure and efficiency-enhancement programs.

Third-quarter **EBIT** before special items came in at 8 million. EBIT after special items was minus 7 million (Q3 2005: plus 53 million).

#### **Environmental Science, BioScience**

Third-quarter **sales** of the **Environmental Science, BioScience** segment fell by 7.8 percent to 177 million. When adjusted for currency effects, sales dipped by 2.0 percent from the prior-year quarter.

**EBITDA** before special items of the Environmental Science, BioScience segment fell by 33 million to 10 million. Contributing to the decline were lower sales, the absence of the one-time gains from minor divestitures recorded in the third quarter of 2005, and higher marketing expenses in the U.S. consumer brands business of Environmental Science. Underlying **EBIT** for the third quarter was down from 8 million to minus 5 million.

We do not regard the low third-quarter earnings as indicative of the way this business will develop going forward.



Table of Contents**Interim Report as of September 30, 2006****Bayer MaterialScience**

The positive business trend in the **Bayer MaterialScience** subgroup continued in the third quarter of 2006, with **sales** advancing by 10.6 percent to 2,920 million. Adjusted for currency and portfolio effects, sales rose by 12.4 percent. Business growth was driven mainly by volume increases, particularly in the Polyurethanes; Coatings, Adhesives, Sealants; and Polycarbonates business units.

**EBITDA** before special items came in at 427 million, down from the high level of 502 million achieved in the same period of 2005. The decline was mainly due to the substantial rise in petrochemical feedstock costs, which was only partly offset by volume and selling-price increases. Underlying **EBIT** fell by 73 million, or 19.9 percent, to 293 million. Earnings were diminished by special charges of 32 million, whereas the prior-year quarter saw a net special gain of 40 million. **EBIT** after special items in the third quarter of 2006 fell by 145 million, or 35.7 percent, to 261 million.

**Materials**

**Sales** of the **Materials** segment advanced by 3.6 percent in the third quarter to 1,067 million, buoyed by growth in the Polycarbonates and H.C. Starck business units. After adjusting for currency translations, the increase came to 5.8 percent.

**EBITDA** before special items declined by 97 million, or 44.1 percent, to 123 million. This was attributable to selling price erosion coupled with higher raw material costs. **EBIT** before special items was down 59.4 percent to 67 million. **EBIT** after special items dropped by 125 million to 67 million.

**Systems**

Third-quarter **sales** of our **Systems** segment climbed by 15.2 percent year on year, to 1,853 million. After adjusting for currency and portfolio changes, the increase was 16.7 percent. This pleasing sales performance was largely attributable to price and volume increases in our Polyurethanes business unit and the Coatings, Adhesives, Sealants unit.

The damage caused to our TDI plant in Baytown, Texas, by an explosion on September 26, 2006, did not significantly affect third-quarter earnings. Rapid progress is being made toward recommissioning this facility, and we currently expect production to resume in January 2007.

**EBITDA** before special items of the Systems segment moved ahead in the third quarter by 22 million, or 7.8 percent, to 304 million. We more than offset the rise in raw material costs through price and volume increases. **EBIT** before special items advanced by 25 million, or 12.4 percent, to 226 million. Special charges were taken primarily in connection with pending antitrust proceedings and the closure of our MDI facility in New Martinsville, West Virginia, United States. **EBIT** after special items was down by 20 million, or 9.3 percent, to 194 million.



**Table of Contents****Interim Report as of September 30, 2006**

| Bayer MaterialScience              | 3rd<br>Quarter | 3rd<br>Quarter | Change       | First Nine<br>Months | First<br>Nine<br>Months | Change       |
|------------------------------------|----------------|----------------|--------------|----------------------|-------------------------|--------------|
| million                            | 2005           | 2006           | %            | 2005                 | 2006                    | %            |
|                                    |                |                | +            |                      |                         |              |
| <b>Net sales</b>                   | <b>2,639</b>   | <b>2,920</b>   | <b>10.6</b>  | <b>7,917</b>         | <b>8,614</b>            | <b>+ 8.8</b> |
| <b>EBITDA*</b>                     | <b>542</b>     | <b>398</b>     | <b>26.6</b>  | <b>1,539</b>         | <b>1,342</b>            | <b>12.8</b>  |
| <i>Special items</i>               | 40             | (29)           |              | 30                   | (159)                   |              |
| <i>EBITDA before special items</i> | 502            | 427            | 14.9         | 1,509                | 1,501                   | 0.5          |
| EBITDA margin before special items | 19.0%          | 14.6%          |              | 19.1%                | 17.4%                   |              |
| <b>EBIT*</b>                       | <b>406</b>     | <b>261</b>     | <b>35.7</b>  | <b>1,139</b>         | <b>919</b>              | <b>19.3</b>  |
| <i>Special items</i>               | 40             | (32)           |              | 30                   | (178)                   |              |
| <i>EBIT before special items</i>   | 366            | 293            | 19.9         | 1,109                | 1,097                   | 1.1          |
| <b>Gross cash flow*</b>            | <b>408</b>     | <b>274</b>     | <b>32.8</b>  | <b>1,097</b>         | <b>991</b>              | <b>9.7</b>   |
| <b>Net cash flow*</b>              | <b>494</b>     | <b>262</b>     | <b>47.0</b>  | <b>763</b>           | <b>825</b>              | <b>+ 8.1</b> |
| <b>Materials</b>                   |                |                |              |                      |                         |              |
| <b>Net sales</b>                   | <b>1,030</b>   | <b>1,067</b>   | <b>+ 3.6</b> | <b>2,998</b>         | <b>3,161</b>            | <b>+ 5.4</b> |
| Polycarbonates                     | 668            | 695            | + 4.0        | 1,935                | 2,021                   | + 4.4        |
| Thermoplastic Polyurethanes        | 49             | 48             | 2.0          | 144                  | 155                     | + 7.6        |
| Wolff Walsrode                     | 86             | 85             | 1.2          | 246                  | 252                     | + 2.4        |
| H.C. Starck                        | 227            | 239            | + 5.3        | 673                  | 733                     | + 8.9        |
| <b>EBITDA*</b>                     | <b>247</b>     | <b>123</b>     | <b>50.2</b>  | <b>674</b>           | <b>517</b>              | <b>23.3</b>  |
| <i>Special items</i>               | 27             | 0              |              | 27                   | 0                       |              |
| <i>EBITDA before special items</i> | 220            | 123            | 44.1         | 647                  | 517                     | 20.1         |
| EBITDA margin before special items | 21.4%          | 11.5%          |              | 21.6%                | 16.4%                   |              |
| <b>EBIT*</b>                       | <b>192</b>     | <b>67</b>      | <b>65.1</b>  | <b>513</b>           | <b>329</b>              | <b>35.9</b>  |
| <i>Special items</i>               | 27             | 0              |              | 27                   | (16)                    |              |
| <i>EBIT before special items</i>   | 165            | 67             | 59.4         | 486                  | 345                     | 29.0         |
| <b>Gross cash flow*</b>            | <b>194</b>     | <b>97</b>      | <b>50.0</b>  | <b>486</b>           | <b>401</b>              | <b>17.5</b>  |

|                                    |              |              |              |              |              |             |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|-------------|
| <b>Net cash flow*</b>              | <b>149</b>   | <b>51</b>    | <b>65.8</b>  | <b>293</b>   | <b>213</b>   | <b>27.3</b> |
| <b>Systems</b>                     |              |              |              |              |              |             |
| <b>Net sales</b>                   | <b>1,609</b> | <b>1,853</b> | <b>15.2</b>  | <b>4,919</b> | <b>5,453</b> | <b>10.9</b> |
| Polyurethanes                      | 1,153        | 1,328        | 15.2         | 3,564        | 3,898        | + 9.4       |
| Coatings, Adhesives, Sealants      | 332          | 385          | 16.0         | 994          | 1,134        | 14.1        |
| Inorganic Basic Chemicals          | 96           | 101          | + 5.2        | 285          | 307          | + 7.7       |
| Others                             | 28           | 39           | 39.3         | 76           | 114          | 50.0        |
| <b>EBITDA*</b>                     | <b>295</b>   | <b>275</b>   | <b>6.8</b>   | <b>865</b>   | <b>825</b>   | <b>4.6</b>  |
| <i>Special items</i>               | <i>13</i>    | <i>(29)</i>  |              | <i>3</i>     | <i>(159)</i> |             |
| <i>EBITDA before special items</i> | <i>282</i>   | <i>304</i>   | <i>+ 7.8</i> | <i>862</i>   | <i>984</i>   | <i>14.2</i> |
| EBITDA margin before special items | 17.5%        | 16.4%        |              | 17.5%        | 18.0%        |             |
| <b>EBIT*</b>                       | <b>214</b>   | <b>194</b>   | <b>9.3</b>   | <b>626</b>   | <b>590</b>   | <b>5.8</b>  |
| <i>Special items</i>               | <i>13</i>    | <i>(32)</i>  |              | <i>3</i>     | <i>(162)</i> |             |
| <i>EBIT before special items</i>   | <i>201</i>   | <i>226</i>   | <i>12.4</i>  | <i>623</i>   | <i>752</i>   | <i>20.7</i> |
| <b>Gross cash flow*</b>            | <b>214</b>   | <b>177</b>   | <b>17.3</b>  | <b>611</b>   | <b>590</b>   | <b>3.4</b>  |
| <b>Net cash flow*</b>              | <b>345</b>   | <b>211</b>   | <b>38.8</b>  | <b>470</b>   | <b>612</b>   | <b>30.2</b> |

\* for definition see Bayer Group Key Data on Page 2

**Table of Contents****Interim Report as of September 30, 2006****Performance by Region**

The sales gains in the regions in the third quarter of 2006 were primarily attributable to the inclusion of Schering. Sales of the Bayer Group worldwide including the Schering business rose by 26.0 percent, or 1,606 or million, 7,783 million. On a currency-adjusted basis, sales advanced by 28.6 percent. The largest increases were in **Europe**, where business expanded by 29.5 percent, or 764 million, of which the acquired Schering business accounted for 584 million. Without Schering, the increase in Europe would have been 6.9 percent. Sales in Germany climbed by 22.1 percent to 1,254 million, or by 7.6 percent if the Schering business is disregarded. In the **North America** region, we improved third-quarter sales by 25.3 percent to 2,039 million. Here, business excluding Schering declined by 2.4 percent, Pharmaceuticals sales being held back by the discussion surrounding Trasylol®. Currency-adjusted sales of our Crop Protection business dropped by 21.2 percent as a result of the ongoing drought and the increasing cultivation of genetically modified crops. In the **Asia/Pacific** and **Latin America/Africa/Middle East** regions, sales rose by 20.2 and 24.2 percent, respectively, or by 3.7 and 1.7 percent without Schering. Sales of the Bayer CropScience subgroup receded, mainly due to the difficult market conditions in Brazil. In both regions, the MaterialScience subgroup posted significant growth due to strong sales of Polyurethanes.

| Sales by Region and Segment<br>(by Market)<br>million | Europe       |              |               |               | North America |              |               |               |
|---|--------------|--------------|---------------|---------------|---------------|--------------|---------------|---------------|
|   | 2005         | 2006         | % yoy         | adj. %<br>yoy | 2005          | 2006         | % yoy         | adj. %<br>yoy |
| <b>Third Quarter</b>                                  |              |              |               |               |               |              |               |               |
| Pharmaceuticals                                       | 380          | 1,009        | + 165.5       | + 165.7       | 303           | 723          | + 138.6       | + 139.1       |
| Consumer Health                                       | 379          | 401          | + 5.8         | + 6.4         | 361           | 368          | + 1.9         | + 5.3         |
| Crop Protection                                       | 323          | 331          | + 2.5         | + 2.8         | 182           | 125          | 31.3          | 21.2          |
| Environmental Science, BioScience                     | 46           | 44           | 4.3           | 2.7           | 94            | 83           | 11.7          | 4.4           |
| Materials   | 421          | 425          | + 1.0         | + 0.6         | 224           | 226          | + 0.9         | + 5.5         |
| Systems   | 724          | 836          | + 15.5        | + 15.5        | 461           | 515          | + 11.7        | + 16.1        |
| <b>Continuing operations (incl. reconciliation)</b>   | <b>2,591</b> | <b>3,355</b> | <b>+ 29.5</b> | <b>+ 29.7</b> | <b>1,627</b>  | <b>2,039</b> | <b>+ 25.3</b> | <b>+ 29.6</b> |

| Sales by Region and Segment<br>(by Market)<br>million | Asia/Pacific |              |               |               | Latin America/Africa/Middle East |              |               |               |
|---|--------------|--------------|---------------|---------------|----------------------------------|--------------|---------------|---------------|
|   | 2005         | 2006         | % yoy         | adj. %<br>yoy | 2005                             | 2006         | % yoy         | adj. %<br>yoy |
| <b>Third Quarter</b>                                  |              |              |               |               |                                  |              |               |               |
| Pharmaceuticals                                       | 234          | 401          | + 71.4        | + 78.4        | 112                              | 311          | + 177.7       | + 180.1       |
| Consumer Health                                       | 75           | 87           | + 16.0        | + 17.2        | 175                              | 182          | + 4.0         | + 11.5        |
| Crop Protection                                       | 202          | 186          | 7.9           | 3.0           | 272                              | 230          | 15.4          | 15.2          |
| Environmental Science, BioScience                     | 25           | 25           | 0.0           | + 7.8         | 27                               | 25           | 7.4           | 1.5           |
| Materials   | 302          | 328          | + 8.6         | + 12.6        | 83                               | 88           | + 6.0         | + 8.7         |
| Systems   | 245          | 282          | + 15.1        | + 18.5        | 179                              | 220          | + 22.9        | + 25.6        |
| <b>Continuing operations (incl. reconciliation)</b>   | <b>1,098</b> | <b>1,320</b> | <b>+ 20.2</b> | <b>+ 24.9</b> | <b>861</b>                       | <b>1,069</b> | <b>+ 24.2</b> | <b>+ 26.9</b> |

Sales by Region and Segment

Continuing Operations

| <b>(by Market)</b><br>million                       | <b>2005</b>  | <b>2006</b>  | <b>% yoy</b>  | <b>adj. % yoy</b> |
|---|--------------|--------------|---------------|-------------------|
| <b>Third Quarter</b>                                |              |              |               |                   |
| Pharmaceuticals                                     | 1,029        | 2,444        | + 137.5       | + 140.6           |
| Consumer Health                                     | 990          | 1,038        | + 4.8         | + 7.7             |
| Crop Protection                                     | 979          | 872          | 10.9          | 7.8               |
| Environmental Science, BioScience                   | 192          | 177          | 7.8           | 2.0               |
| Materials   | 1,030        | 1,067        | + 3.6         | + 5.8             |
| Systems   | 1,609        | 1,853        | + 15.2        | + 17.3            |
| <b>Continuing operations (incl. reconciliation)</b> | <b>6,177</b> | <b>7,783</b> | <b>+ 26.0</b> | <b>+ 28.6</b>     |

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**Table of Contents****Interim Report as of September 30, 2006**

| <b>Sales by Region and Segment</b><br><b>(by Market)</b><br>million | <b>Europe</b> |              |                  |                       | <b>North America</b> |              |                  |                       |
|---|---------------|--------------|------------------|-----------------------|----------------------|--------------|------------------|-----------------------|
|   | <b>2005</b>   | <b>2006</b>  | <b>%<br/>yoy</b> | <b>adj. %<br/>yoy</b> | <b>2005</b>          | <b>2006</b>  | <b>%<br/>yoy</b> | <b>adj. %<br/>yoy</b> |
| <b>First Nine Months</b>  |               |              |                  |                       |                      |              |                  |                       |
| Pharmaceuticals   | 1,189         | 1,937        | 62.9             | + 62.8                | 802                  | 1,392        | 73.6             | + 69.0                |
| Consumer Health   | 1,176         | 1,258        | + 7.0            | + 7.3                 | 957                  | 1,083        | 13.2             | + 10.7                |
| Crop Protection   | 1,524         | 1,519        | 0.3              | 0.7                   | 891                  | 842          | 5.5              | 8.7                   |
| Environmental Science,<br>BioScience                                | 291           | 292          | + 0.3            | + 0.3                 | 353                  | 365          | + 3.4            | + 1.0                 |
| Materials   | 1,260         | 1,294        | + 2.7            | + 2.6                 | 657                  | 699          | + 6.4            | + 4.6                 |
| Systems   | 2,296         | 2,461        | + 7.2            | + 7.2                 | 1,389                | 1,581        | 13.8             | + 11.6                |
| <b>Continuing operations (incl.<br/>reconciliation)</b>             | <b>8,621</b>  | <b>9,697</b> | <b>12.5</b>      | <b>+ 12.4</b>         | <b>5,060</b>         | <b>5,969</b> | <b>18.0</b>      | <b>+ 15.1</b>         |

| <b>Sales by Region and Segment</b><br><b>(by Market)</b><br>million | <b>Asia/Pacific</b> |              |                  |                       | <b>Latin America/Africa/Middle East</b> |              |                  |                       |
|---|---------------------|--------------|------------------|-----------------------|---|--------------|------------------|-----------------------|
|   | <b>2005</b>         | <b>2006</b>  | <b>%<br/>yoy</b> | <b>adj. %<br/>yoy</b> | <b>2005</b>                             | <b>2006</b>  | <b>%<br/>yoy</b> | <b>adj. %<br/>yoy</b> |
| <b>First Nine Months</b>  |                     |              |                  |                       |   |              |                  |                       |
| Pharmaceuticals   | 665                 | 880          | 32.3             | + 34.7                | 313                                     | 571          | 82.4             | + 79.6                |
| Consumer Health   | 216                 | 251          | 16.2             | + 14.4                | 521                                     | 570          | + 9.4            | + 8.0                 |
| Crop Protection   | 600                 | 578          | 3.7              | 3.5                   | 699                                     | 615          | 12.0             | 16.1                  |
| Environmental Science,<br>BioScience                                | 91                  | 106          | 16.5             | + 18.1                | 70                                      | 81           | 15.7             | + 13.4                |
| Materials   | 846                 | 905          | + 7.0            | + 6.6                 | 235                                     | 263          | 11.9             | + 10.9                |
| Systems   | 717                 | 772          | + 7.7            | + 7.1                 | 517                                     | 639          | 23.6             | + 19.8                |
| <b>Continuing operations (incl.<br/>reconciliation)</b>             | <b>3,175</b>        | <b>3,528</b> | <b>11.1</b>      | <b>+ 11.4</b>         | <b>2,393</b>                            | <b>2,777</b> | <b>16.0</b>      | <b>+ 13.2</b>         |

| <b>Sales by Region and Segment</b><br><b>(by Market)</b><br>million | <b>Continuing Operations</b> |             |              | <b>adj. %<br/>yoy</b> |
|---|------------------------------|-------------|--------------|-----------------------|
|   | <b>2005</b>                  | <b>2006</b> | <b>% yoy</b> | <b>yoy</b>            |

**First Nine Months**

|   |               |               |             |               |
|---|---------------|---------------|-------------|---------------|
| Pharmaceuticals                                     | 2,969         | 4,780         | 61.0        | + 60.4        |
|   |               |               | +           |               |
| Consumer Health                                     | 2,870         | 3,162         | 10.2        | + 9.1         |
| Crop Protection                                     | 3,714         | 3,554         | 4.3         | 6.0           |
| Environmental Science, BioScience                   | 805           | 844           | + 4.8       | + 3.7         |
| Materials   | 2,998         | 3,161         | + 5.4       | + 4.8         |
|   |               |               | +           |               |
| Systems   | 4,919         | 5,453         | 10.9        | + 9.7         |
|   |               |               | +           |               |
| <b>Continuing operations (incl. reconciliation)</b> | <b>19,249</b> | <b>21,971</b> | <b>14.1</b> | <b>+ 13.1</b> |

2005 figures  
restated; adj. =  
currency-  
adjusted

### **Liquidity and Capital Resources**

#### **Operating cash flow**

Gross cash flow advanced in the third quarter of 2006 by 35.6 percent to 1,170 million (Q3 2005: 863 million), largely as a result of the positive business trend and the inclusion of Schering. This increase was achieved in spite of higher income tax payments, which arose from the fact that income for the prior-year quarter included a 244 million tax-free gain from changes to our pension systems, whereas the charges to earnings in the third quarter of 2006 related to the purchase price allocation were not tax-deductible.

Net cash flow third from continuing operations rose by 10.7 percent to 1,521 million (Q3 2005: 1,374 million). This figure contains and outflow of approximately 100 million for the existing stock option plans of Schering employees. A corresponding inflow from the sale of hedging options was recorded in the second quarter, so the effects on the two quarters' cash flows were more or less mutually offsetting.

**Table of Contents****Interim Report as of September 30, 2006**

| <b>Cash Flow Key Data</b>   | <b>3rd<br/>Quarter</b> | <b>3rd<br/>Quarter</b> | <b>First Nine<br/>Months</b> | <b>First Nine<br/>Months</b> |
|---|------------------------|------------------------|------------------------------|------------------------------|
| million   | <b>2005</b>            | <b>2006</b>            | <b>2005</b>                  | <b>2006</b>                  |
| <b>Gross cash flow*</b>   | <b>863</b>             | <b>1.170</b>           | <b>2.790</b>                 | <b>3.260</b>                 |
| Changes in working capital  | 511                    | 351                    | (707)                        | (780)                        |
| <b>Net cash provided by (used in) operating activities (net cash flow), continuing operations</b> | <b>1.374</b>           | <b>1.521</b>           | <b>2.083</b>                 | <b>2.480</b>                 |
| Net cash provided by (used in) operating activities (net cash flow), discontinued operations      | 52                     | (26)                   | 110                          | 145                          |
| <b>Net cash provided by (used in) operating activities (net cash flow), total</b>                 | <b>1.426</b>           | <b>1.495</b>           | <b>2.193</b>                 | <b>2.625</b>                 |
| <b>Net cash provided by (used in) investing activities (total)</b>                                | <b>(392)</b>           | <b>(1.313)</b>         | <b>(1.092)</b>               | <b>(15.341)</b>              |
| <b>Net cash provided by (used in) financing activities (total)</b>                                | <b>154</b>             | <b>235</b>             | <b>(1.623)</b>               | <b>12.368</b>                |
| <b>Change in cash and cash equivalents due to business activities (total)</b>                     | <b>1.188</b>           | <b>417</b>             | <b>(522)</b>                 | <b>(348)</b>                 |

2005 figures  
restated

\* for definition  
see Bayer  
Group Key Data  
on page 2

**Investing cash flow**

There was a net cash outflow of 1,313 million for investing activities (Q3 2005: 392 million). Disbursements for acquisitions amounted to 1,164 million, including 1.1 billion to purchase additional shares of Schering AG. We also acquired the u.s. company Metrika, which manufactures and markets the A1CNow+<sup>®</sup> device for monitoring the long-term blood glucose value HbA1c, thus expanding the product range of our Diabetes Care Division.

Cash outflows for additions to property, plant and equipment ( 282 million) and intangible assets ( 43 million) declined by a total of 21 million to 325 million. Depreciation of property, plant and equipment came to 317 million. The outflows included the capital expenditures for our Caojing site near Shanghai, China. In September 2006 we inaugurated at that site a worldscale polycarbonate production facility with an initial capacity of 100,000 tons per year, a plant for the manufacture of the polyurethane raw materials monomeric and polymeric mdi (diphenylmethane diisocyanate) with an annual capacity of 80,000 tons, and a production unit for hexamethylene diisocyanate with a planned initial capacity of 30,000 tons.

We received 56 million from the sale of marketable securities, against disbursements of 34 million in the prior-year quarter.

**Financing cash flow**

Financing activities resulted in a net cash inflow of 235 million (Q3 2005: 154 million). The proceeds from the placement of 34 million new shares amounted to 1,177 million. Net loan repayments resulted in an outflow of 671 million, while interest payments rose to 265 million (Q3 2005: 190 million) primarily as a result of borrowings made to finance the Schering acquisition.





**Table of Contents****Interim Report as of September 30, 2006****Net Debt**

| million  | <b>Dec. 31,<br/>2005</b> | <b>June 30,<br/>2006</b> | <b>Sept. 30,<br/>2006</b> |
|--|--------------------------|--------------------------|---------------------------|
| Noncurrent financial liabilities as per balance sheets (including derivatives) | 7,185                    | 10,373                   | 14,447                    |
| of which mandatory convertible bond  |                          | 2,271                    | 2,273                     |
| of which hybrid bond   | 1,268                    | 1,242                    | 1,255                     |
| Current financial liabilities as per balance sheets (including derivatives)    | 1,767                    | 12,053                   | 7,361                     |
| Derivative receivables   | 188                      | 212                      | 161                       |
| <b>Financial liabilities</b>   | <b>8,764</b>             | <b>22,214</b>            | <b>21,647</b>             |
| Liquid assets as per balance sheets less amount not freely available *         | 3,270                    | 2,269                    | 2,626                     |
| <b>Net debt</b>  | <b>5,494</b>             | <b>19,945</b>            | <b>19,021</b>             |

\* In view of the restriction on its use, the 310 million liquidity in the escrow accounts was not deducted when calculating net debt.

September 30, 2006:

2,626 million =  
2,936 million  
310 million.

**Liquid assets and net debt**

Including marketable securities and other instruments, the Bayer Group had liquid assets of 2,936 million as of September 30, 2006. Of this amount, 310 million was held in escrow accounts to be used exclusively for payments relating to civil law settlements in antitrust proceedings.

Net debt, which increased in the second quarter due to the Schering acquisition, was already down by 0.9 billion to

19.0 billion at the end of the third quarter. The net debt should be viewed in light of the fact that the noncurrent financial liabilities include in their entirety both the 100-year hybrid bond issued in 2005 and the mandatory convertible bond. In computing debt indicators, rating agencies assign hybrid bonds partly, and mandatory convertible bonds wholly, to stockholders' equity. These bonds thus support the Group's rating-specific debt indicators.

In July 2006, Standard & Poor's altered Bayer AG's long-term issuer rating from A with stable outlook to BBB+ with positive outlook, citing the debt increase associated with the Schering acquisition. Also in July 2006, Moody's confirmed its current A3 rating for Bayer AG, changing the outlook from stable to negative.

**Table of Contents****Interim Report as of September 30, 2006****Asset and Capital Structure**

Except where explicitly stated otherwise, the following commentary compares the Bayer Group's balance sheets as of September 30, 2006 and December 31, 2005. Explanations concerning the consolidation of Schering are provided on page 41f. in the notes to the financial statements. The data relating to the Schering purchase price allocation are preliminary.

As of the second quarter of 2006, the Diagnostics business is recognized under Assets held for sale and discontinued operations and the corresponding liability item. In September 2006 we announced the sale of our interest in GE Bayer Silicones to General Electric, the majority partner in that joint venture. As of the third quarter, therefore, this interest is also recognized under Assets held for sale and discontinued operations.

Total assets increased by 20.1 billion to 56.8 billion, mainly as a result of the Schering acquisition. The growth in noncurrent assets to 36.2 billion was primarily the result of recognizing the intangible assets of Schering primarily production-related rights and know-how at their fair value of 10.7 billion. In addition, goodwill of 6.2 billion was capitalized. The higher goodwill compared to June 30, 2006 results mainly from the increase in our interest in Schering by 6.4 percentage points to 96.1 percent as of September 30, 2006.

Current assets of continuing operations rose by 2.3 billion to 18.9 billion, largely because of the trade accounts receivable, inventories and liquid assets acquired from Schering.

| million  | Dec. 31,<br>2005 | June 30,<br>2006 | Sept. 30,<br>2006 | Change vs.<br>Dec. 31,<br>2005<br>% |
|--|------------------|------------------|-------------------|-------------------------------------|
| <b>Noncurrent assets</b>   | <b>20,130</b>    | <b>36,406</b>    | <b>36,167</b>     | <b>+ 79.7</b>                       |
| <b>Current assets</b>  | <b>16,592</b>    | <b>18,388</b>    | <b>18,937</b>     | <b>+ 14.1</b>                       |
| Assets held for sale and discontinued operations                                 |                  | 1,396            | 1,654             |                                     |
| <b>Total current assets</b>  | <b>16,592</b>    | <b>19,784</b>    | <b>20,591</b>     | <b>+ 24.1</b>                       |
| <b>Assets</b>  | <b>36,722</b>    | <b>56,190</b>    | <b>56,758</b>     | <b>+ 54.6</b>                       |
| <b>Stockholders equity</b>   | <b>11,157</b>    | <b>12,827</b>    | <b>13,164</b>     | <b>+ 18.0</b>                       |
| <b>Noncurrent liabilities</b>  | <b>16,495</b>    | <b>23,138</b>    | <b>27,550</b>     | <b>+ 67.0</b>                       |
| <b>Current liabilities</b>   | <b>9,070</b>     | <b>19,789</b>    | <b>15,675</b>     | <b>+ 72.8</b>                       |
| Liabilities directly related to assets held for sale and discontinued operations |                  | 436              | 369               |                                     |
| <b>Total current liabilities</b>   | <b>9,070</b>     | <b>20,225</b>    | <b>16,044</b>     | <b>+ 76.9</b>                       |
| <b>Liabilities</b>   | <b>25,565</b>    | <b>43,363</b>    | <b>43,594</b>     | <b>+ 70.5</b>                       |
| <b>Stockholders equity and liabilities</b>                                       | <b>36,722</b>    | <b>56,190</b>    | <b>56,758</b>     | <b>+ 54.6</b>                       |

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**Interim Report as of September 30, 2006**

Stockholders' equity expanded by 2.0 billion to 13.2 billion. While Group net income amounted to 1.4 billion and other comprehensive income increased by 0.2 billion, stockholders' equity was diminished by the dividend payment ( 0.7 billion) and negative currency effects ( 0.4 billion). In addition, minority interest in equity rose by 0.4 billion because of the remaining minority stockholders of Schering AG. The proceeds of the capital increase effected in the third quarter of 2006 amounted to 1.2 billion. The capital stock of Bayer AG thus grew to 2.0 billion. Equity coverage of total assets as of September 30, 2006 was 23.2 percent (December 31, 2005: 30.4 percent). We expect the equity ratio to be at about the 2005 level once the planned portfolio measures have been implemented.

Liabilities grew by 18.0 billion to 43.6 billion. Current and noncurrent financial liabilities rose by 12.9 billion, mainly due to the financing of the Schering acquisition. Despite the inclusion of Schering's pension commitments, provisions for pensions were down by 131 million in light of actuarial changes not recognized in income.

**Employees**

Since the second quarter of 2006, the number of employees has been converted to full-time equivalents, which means part-time employees are included in proportion to their contractual working hours. We believe this presentation improves the comparability of personnel expenses and employee numbers. The previous year's data have been restated accordingly.

On September 30, 2006 the Bayer Group had 110,800 employees, 0.5 percent more than on June 30, 2006. Headcount thus remained nearly steady compared to the previous quarter. Personnel expenses in the third quarter amounted to

1,883 million, up 50.5 percent compared to the same period of 2005. This significant year-on-year increase is primarily attributable to the first-time inclusion of Schering's personnel expenses. The increase is also partly due to the fact that personnel expenses in the third quarter of the previous year showed a one-time decline as a result of changes to our pension systems in the United States.

On a regional basis, too, headcount remained nearly level with the previous quarter. There was a significant rise year on year, however, largely through the addition of Schering employees. In North America we currently employ 18,100 people, while we have 17,500 employees in the Asia/Pacific region and 13,800 in Latin America/Africa/ Middle East. The change in the Asia/Pacific and Latin America/Africa/Middle East regions compared to prior periods is chiefly due to the regional reassignment of Pakistan. The Bayer Group employs 61,400 people in Europe, including 44,200 in Germany. Our employees in Germany make up 39.9 percent of the Group total.

**Table of Contents****Interim Report as of September 30, 2006****Legal Risks**

As a global company with a diverse business portfolio, the Bayer Group is exposed to various legal risks. Legal proceedings currently considered to involve material risks are outlined below. The litigation referred to does not necessarily represent an exhaustive list.

**Lipobay/Baycol:** As of November 17, 2006, the number of Lipobay/Baycol cases pending against Bayer worldwide was approximately 2,340 (approximately 2,270 of them in the United States, including several class actions). At the same date, Bayer had settled 3,142 Lipobay/Baycol cases worldwide without acknowledging any liability and resulting in settlement payments of approximately us\$ 1,157 million. In the United States five cases have been tried to date, all of which were found in Bayer's favor.

After more than five years of litigation we are currently aware of fewer than 30 pending cases in the United States that in our opinion hold a potential for settlement, although we cannot rule out the possibility that additional cases involving serious side effects from Lipobay/Baycol may come to our attention. In addition, there could be further settlements of cases outside of the United States.

In addition to accounting measures taken in previous years, Bayer recorded charges of 4.7 million to the operating result in the first quarter of 2006 in respect of settlements expected to be concluded. In the third quarter of 2006 Bayer additionally recognized a provision in the amount of 13 million in respect of settlements expected to be concluded and anticipated defense costs. Bayer will defend itself vigorously in all Lipobay/Baycol cases in which in our view no potential for settlement exists or where an appropriate settlement cannot be achieved.

However, since the existing insurance coverage with respect to the Lipobay/Baycol cases is exhausted, it is possible depending on the future progress of the litigation that Bayer could face further payments that are not covered by the accounting measures already taken. We will regularly review the possibility of further accounting measures depending on the progress of the litigation.

**ppa:** Given the number and nature of the remaining outstanding cases, management believes the ppa product liability cases no longer involve a material risk to Bayer and, absent a significant adverse development, will not continue to report on the status of these cases.

**Ciprofloxacin:** 39 putative class action lawsuits and one individual lawsuit against Bayer involving the medication Cipro® have been pending since July 2000 in the United States. The plaintiffs are suing Bayer and other companies also named as defendants, alleging that a settlement reached in 1997 to end litigation between Bayer and Barr Laboratories, Inc. concerning the validity of a Cipro® patent violated antitrust regulations. The plaintiffs claim the alleged violation prevented the marketing of generic ciprofloxacin. Plaintiffs also are seeking triple damages under u.s. law. After the settlement with Barr, the Cipro® patent was the subject of a successful re-examination by the u.s. Patent and Trademark Office and of successful defenses in u.s. federal courts. The patent has since expired.

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In March 2005, a federal district court in New York granted summary judgment in favor of Bayer in all actions pending in federal court. The plaintiffs are appealing this decision. Further cases are pending before various state courts. Bayer believes that it has meritorious defenses and intends to defend these cases vigorously.

**Medrad:** In November 1998, Medrad, Inc., a u.s. subsidiary of Schering AG, was sued by Liebel-Flarsheim Company, which alleged patent infringement, antitrust violations and tortious interference with contractual relations. In October 2001 and February 2002, the u.s. District Court for the Southern District of Ohio, on summary judgment motions, decided in favor of Medrad regarding Liebel-Flarsheim's patent infringement claims. Liebel-Flarsheim appealed the decision of the u.s. District Court, and the Federal Circuit Court of Appeals reversed the District Court's decision and remanded it back to the u.s. District Court in February 2004. In October 2005, the u.s. District Court once again decided in favor of Medrad on a summary judgment motion, ruling that the patents of Liebel-Flarsheim are invalid. At the same time the court ruled that Medrad had infringed those patents. These rulings are being appealed by both Liebel-Flarsheim and Medrad. All claims other than the patent claims were withdrawn by Liebel-Flarsheim in connection with a settlement reached in October 2002.

In September 2004, Liebel-Flarsheim Company and its parent, Mallinckrodt, Inc., filed a new patent infringement action in the same court against Medrad in relation to an additional injector product. This action relates to the same family of patents as did the first lawsuit.

Bayer believes it has meritorious defenses and intends to defend these cases vigorously.

**LLRICE601:** Since August 2006 several lawsuits, including putative class actions, have been filed by American rice farmers against Bayer Crop-Science LP in the United States. The plaintiffs are suing the company, alleging that they have suffered economic losses after traces of the genetically modified rice event LLRICE601 were identified in samples of conventional long-grain rice grown in the u.s. This is alleged to have led to a decline in the commodity price for long-grain rice due to import restrictions imposed by the European Commission and certain other countries. After development, LLRICE601 was further tested in cooperation with third parties, including a breeding institute in the u.s. However, it was never selected for commercialization. The usda and the fda have stated that LLRICE601 does not constitute a health risk and is safe for use in food and feed and for the environment. Bayer CropScience filed an application with the usda for deregulation of LLRICE601 in August 2006.

Bayer believes it has meritorious defenses and intends to defend these cases vigorously.

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**Interim Report as of September 30, 2006**

**Rubber, polyester polyols, urethane: Proceedings involving the former rubber-related lines of business**

Investigations and proceedings by the respective authorities in the e.u. and Canada for alleged anticompetitive conduct involving certain products in the rubber field are pending. As previously reported, in the United States the investigations of the u.s. Department of Justice into Bayer's conduct have been concluded.

Numerous civil claims for damages including class actions are pending in the United States and Canada against Bayer AG and certain of its subsidiaries as well as other companies. The lawsuits involve rubber chemicals, epdm, nbr and polychloroprene rubber (cr). As previously reported, Bayer has settled the actions which management believes to be material.

**Proceedings involving polyester polyols, urethanes and urethane chemicals**

As previously reported, Bayer has resolved the u.s. Department of Justice investigation previously pending in the United States. In Canada an investigation is pending against Bayer for alleged anticompetitive conduct relating to adipic-based polyester polyols.

A number of civil claims for damages, including class actions, have been filed against Bayer in the United States involving allegations of unlawful collusion on prices for certain polyester polyols, urethanes and urethane chemicals product lines. Similar actions are pending in Canada with respect to polyester polyols. Bayer has settled several actions pending in the United States. These settlements do not resolve all of the pending civil litigation nor do they preclude the bringing of additional claims.

**Proceedings involving polyether polyols and other precursors for urethane end-use products**

Bayer has been named as a defendant in multiple putative class action lawsuits in the United States and Canada involving allegations of price fixing for, inter alia, polyether polyols and certain other precursors for urethane end-use products. In the United States, Bayer has settled with a class of direct purchasers of polyether polyols, mdi and tdi (and related systems) representing approximately 75 percent of the purchases, which settlement has been approved by the court. The remaining direct purchasers opted out of the settlement and have the right to bring their own actions. To date no such actions have been brought. In Canada, the class action lawsuit on behalf of direct and indirect purchasers of polyether polyols, mdi and tdi (and related systems) continues. In February 2006 Bayer was served with a subpoena from the u.s. Department of Justice seeking information relating to the manufacture and sale of these products.

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**Interim Report as of September 30, 2006**

**Impact of antitrust proceedings on Bayer**

Excluding the portion allocated to Lanxess, expenses in the amount of 336 million were accrued in the course of 2005 which led to the establishment of a provision for the previously described civil proceedings in the amount of 285 million as of December 31, 2005. In the meantime this provision has been adjusted and stood at 236 million as of September 30, 2006. The provisions established for the remaining rubber proceedings pending with the e.u. Commission amounts to 10 million, although a reliable estimate as to the actual amount of any future fines can currently not be made.

These provisions may not be sufficient to cover the ultimate outcome of the above-described matters. The amount of provisions established for civil proceedings is based on the expected payments under the settlement agreements described above. To the extent provisions have been established, they do not take into account actions that are still pending and have not been settled.

Bayer will continue to pursue settlements that in its view are warranted. In cases where settlement is not achievable, Bayer will continue to defend itself vigorously.

The financial risk associated with the proceedings described above beyond the amounts already paid and the financial provisions already established is currently not quantifiable due to the considerable uncertainty associated with these proceedings. Consequently, no provisions other than those described above have been established. The Company expects that, in the course of the regulatory proceedings and civil damages suits, additional charges will become necessary.

**Arbitration proceeding concerning propylene oxide**

As previously reported, an arbitration panel in May 2006 issued a final award in favor of Lyondell Chemical Co. in respect of a dispute with Bayer over interpretation of their joint venture agreements for the manufacture of propylene oxide. Bayer is seeking to vacate the final award, while Lyondell is seeking to confirm the award as well as obtain pre-award interest. Bayer has established appropriate provisions in this regard.

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**Subsequent Events**

Pending the approval of the antitrust authorities, Bayer HealthCare will acquire the over-the-counter (OTC) cough and cold portfolio of the Chinese-based Topsun group and integrate these activities into the Consumer Care Division. The purchase price is equivalent to 103 million plus contingent payments equivalent to a total of 19 million subject to fulfillment of certain performance criteria. This acquisition strengthens Bayer HealthCare's presence in China, one of the fastest growing otc markets. The agreement, which was signed in October 2006, includes the transfer of the Gaitianli manufacturing facility in Qidong City and a national sales force and distribution network. The portfolio to be acquired from Topsun delivered 32 million in sales in 2005 and notably includes the White & Black brand.

In October 2006 Bayer HealthCare signed an agreement with Regeneron Pharmaceuticals, a biopharmaceutical company based in Tarrytown, New York, concerning the development and commercialization of a new therapy for serious eye diseases. Known as the vegf Trap-Eye, the development candidate is currently in Phase I and II clinical trials.

In October the European and u.s. antitrust authorities approved the acquisition of Bayer Diagnostics by Siemens.

On October 27, 2006, the domination and profit and loss transfer agreement between Bayer Schering GmbH (formerly Dritte BV GmbH) and Schering AG was entered in the commercial register.

Also in October 2006, Bayer MaterialScience agreed to acquire Taiwan's Ure-Tech Group, the largest thermoplastic polyurethane (tpu) producer in the Asia-Pacific region. With this acquisition, we are expanding our position as a supplier and solutions provider for tpu resins. The deal is subject to approval by the antitrust authorities and is expected to be closed in the first quarter of 2007.

On November 23, 2006 we announced the sale of H.C. Starck to a consortium formed by financial investors Advent International and The Carlyle Group for approximately 1.2 billion. Closing is planned to take place at the beginning of 2007, subject to the approval of the antitrust authorities. The transaction value comprises a cash component of more than 700 million and the assumption of financial liabilities and personnel-related commitments totaling some 450 million. The divestment reduces Bayer's net debt by about 1 billion.

On October 11, 2006, Reiner Hoffmann was named to the Supervisory Board of Bayer AG as an employee representative. He succeeds Dieter Schulte, who retired from the Bayer AG Supervisory Board on September 18, 2006.



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**Interim Report as of September 30, 2006**

**Calculation of ebit(da) Before Special Items for the Schering Business**

The first-time consolidation of the Schering business involves allocating the purchase price among the acquired assets and assumed liabilities in accordance with the International Financial Reporting Standards (ifrs) (see also page 41f.). One of the effects of the purchase price allocation, which has not yet been completed, is an upward revaluation or step-up of the acquired inventories and noncurrent assets. The greater part of the noncurrent asset step-up relates to assets used for production. Depreciation of the step-up amount results in a long-term increase in the cost of production of goods manufactured after the acquisition date. The work-down of the inventory step-up as the acquired inventories are sold off results in charges to earnings in the short term.

To ensure comparability with future earnings data, the expected long-term effects of the step-up are reflected in ebit and ebitda before special items, whereas temporary, non-cash effects of the purchase price allocation are eliminated. In the third quarter of 2006, special items in ebit and ebitda include 37 million and 267 million, respectively, in charges resulting from the purchase price allocation.

**Table of Contents****Interim Report as of September 30, 2006****Bayer Stock**

Bayer stock performed very well in the third quarter of 2006. The price of the company's shares rose by 13.9 percent between the beginning of the year and the end of September. The closing price of 40.20 on September 30, 2006 not only represented the high for the year, it was also the highest level Bayer stock had reached in the past five years. Including the dividend of 0.95 per share for 2005, Bayer stock achieved a performance of 16.9 percent in the first nine months of 2006. Over the same period, the DAX rose by 11.0 percent to 6,004.

|  | <b>3rd<br/>Quarter<br/>2005</b> | <b>3rd<br/>Quarter<br/>2006</b> | <b>First Nine<br/>Months<br/>2005</b> | <b>First<br/>Nine<br/>Months<br/>2006</b> |   |
|--|---------------------------------|---------------------------------|---------------------------------------|---|---|
| <b>Bayer Stock Key Data</b>                                      |                                 |                                 |                                       |   |   |
| High for the period (€)  | 30.84                           | 40.20                           | 30.84                                 | 40.20                                     |   |
| Low for the period (€)   | 26.78                           | 35.32                           | 22.02                                 | 30.56                                     |   |
| Average daily share turnover on German stock exchanges (million) | 3.9                             | 5.1                             | 4.3                                   | 6.0                                       |   |
|  |                                 |                                 |                                       |   | <b>Change<br/>Sept. 30,<br/>2006/<br/>Dec. 31,<br/>2005</b> |
|  | <b>Sept. 30,<br/>2005</b>       | <b>Sept. 30,<br/>2006</b>       | <b>Dec. 31,<br/>2005</b>              |   | <b>%</b>  |
| Share price (€)  | 30.49                           | 40.20                           | 35.29                                 |   | 13.9  |
| Market capitalization (€ million)                                | 22,268                          | 30,727                          | 25,774                                |   | 19.2  |
| Stockholders' equity (€ million)                                 | 11,088                          | 13,164                          | 11,157                                |   | 18.0  |
| Number of shares entitled to the dividend (million)              | 730.34                          | 764.34                          | 730.34                                |   | 4.7   |
| DAX  | 5,044                           | 6,004                           | 5,408                                 |   | 11.0  |
| 2005 figures restated  |                                 |                                 |                                       |   |   |
| XETRA closing prices; source: Bloomberg                          |                                 |                                 |                                       |   |   |
| XETRA closing prices; source: Bloomberg                          |                                 |                                 |                                       |   |   |

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The Capital Group Companies, Inc., U.S.A., has notified us pursuant to Section 21, Paragraph 1 of the German Securities Trading Act (WpHG) that the proportion of voting rights it holds in our company exceeded the 10 percent threshold on September 19, 2006, that since that date it has held 10.0179 percent of the voting rights and that all of these voting rights are attributable to it pursuant to Section 22, Paragraph 1, Sentence 1, No. 6 in conjunction with Section 22, Paragraph 1, Sentence 2 and Sentence 3 of the German Securities Trading Act. The Capital Research and Management Company, U.S.A., which according to our information is a subsidiary of The Capital Group Companies, Inc., also has notified us that the proportion of voting rights it holds in our company exceeded the 10 percent threshold on November 8, 2006, that since that date it has held 10.0852 percent of the voting rights and that all of these voting rights are attributable to it pursuant to Section 22, Paragraph 1, Sentence 1, No. 6 of the German Securities Trading Act.

Earnings per share according to IFRS are affected by the purchase price allocation (see page 41f.) and other special factors. To enhance comparability over time, we also determine core earnings per share (from continuing operations), from which these factors are excluded. We do this by eliminating from net income as per the income statement the amortization of intangible assets, asset write-downs (including any impairment losses), special items in ebitda and extraordinary factors affecting income from investments in affiliated companies (such as divestment gains or write-downs), including the related tax effects. We also deduct income from discontinued operations.

|   | 3rd<br>Quarter | 3rd<br>Quarter | First Nine<br>Months | First<br>Nine<br>Months |
|---|----------------|----------------|----------------------|-------------------------|
|   | 2005           | 2006           | 2005                 | 2006                    |
| <b>Calculation of Core Earnings per Share*</b>  |                |                |                      |                         |
| million   |                |                |                      |                         |
| <b>Net income</b>   | <b>493</b>     | <b>320</b>     | <b>1,551</b>         | <b>1,372</b>            |
| + Amortization and write-downs of intangible assets                                   | 153            | 190            | 418                  | 470                     |
| + Write-downs of property, plant and equipment  | 41             | 23             | 50                   | 48                      |
| +/- Special items (other than write-downs)  | (170)          | 335            | 74                   | 497                     |
| +/- Extraordinary income/loss from investments in affiliated companies                |                |                |                      |                         |
| +/- Tax adjustment  | (9)            | (193)          | (190)                | (355)                   |
| +/- Income/loss from discontinued operations  | (39)           | (51)           | (105)                | (78)                    |
| <b>Core net income from continuing operations</b>                                     | <b>469</b>     | <b>624</b>     | <b>1,798</b>         | <b>1,954</b>            |
| + Financing expenses for the mandatory convertible bond, net of tax effects           |                | 25             |                      | 48                      |
| <b>Adjusted core net income</b>   | <b>469</b>     | <b>649</b>     | <b>1,798</b>         | <b>2,002</b>            |
| Million shares  |                |                |                      |                         |
| <b>Weighted average number of issued ordinary shares**</b>                            | <b>730.34</b>  | <b>760.28</b>  | <b>730.34</b>        | <b>740.43</b>           |
| Potential shares to be issued upon conversion of the mandatory convertible bond       |                | 60.12          |                      | 41.30                   |
| <b>Adjusted weighted average total number of issued and potential ordinary shares</b> | <b>730.34</b>  | <b>820.40</b>  | <b>730.34</b>        | <b>781.73</b>           |
| <b>Core earnings per share from continuing operations ( )</b>                         | <b>0.64</b>    | <b>0.79</b>    | <b>2.46</b>          | <b>2.56</b>             |

\* Adjusted core net income and

core earnings  
per share are not  
defined in the  
International  
Financial  
Reporting  
Standards.

These indicators  
are therefore to  
be regarded  
only as  
supplementary  
information.  
The company  
believes that  
they give  
readers a clearer  
picture of the  
results of  
operations and  
ensure greater  
comparability of  
data over time.

\*\* including newly  
issued shares  
from the capital  
increase *pro*  
*rata temporis*

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Interim Report as of September 30, 2006

**Bayer Group****Consolidated Statements of Income**

| million  | 3rd<br>Quarter<br><br>2005 | 3rd<br>Quarter<br><br>2006 | First Nine<br>Months<br><br>2005 | First Nine<br>Months<br><br>2006 |
|--|----------------------------|----------------------------|----------------------------------|----------------------------------|
| <b>Net sales</b>   | <b>6,177</b>               | <b>7,783</b>               | <b>19,249</b>                    | <b>21,971</b>                    |
| Cost of goods sold   | (3,481)                    | (4,226)                    | (10,531)                         | (11,757)                         |
| <b>Gross profit</b>  | <b>2,696</b>               | <b>3,557</b>               | <b>8,718</b>                     | <b>10,214</b>                    |
| Selling expenses   | (1,311)                    | (1,739)                    | (3,856)                          | (4,594)                          |
| Research and development expenses                                  | (418)                      | (678)                      | (1,264)                          | (1,549)                          |
| General administration expenses                                    | (331)                      | (420)                      | (992)                            | (1,173)                          |
| Other operating income   | 633                        | 65                         | 1,422                            | 440                              |
| Other operating expenses   | (473)                      | (126)                      | (1,539)                          | (724)                            |
| <b>EBIT</b>  | <b>796</b>                 | <b>659</b>                 | <b>2,489</b>                     | <b>2,614</b>                     |
| Equity-method income (loss)  | (6)                        | (3)                        | (2)                              | (14)                             |
| Non-operating income   | 412                        | 196                        | 698                              | 500                              |
| Non-operating expenses   | (588)                      | (465)                      | (1,138)                          | (1,205)                          |
| <b>Non-operating result</b>  | <b>(182)</b>               | <b>(272)</b>               | <b>(442)</b>                     | <b>(719)</b>                     |
| <b>Income before income taxes</b>                                  | <b>614</b>                 | <b>387</b>                 | <b>2,047</b>                     | <b>1,895</b>                     |
| Income taxes   | (157)                      | (118)                      | (599)                            | (601)                            |
| <b>Income from continuing operations after taxes</b>               | <b>457</b>                 | <b>269</b>                 | <b>1,448</b>                     | <b>1,294</b>                     |
| <b>Income from discontinued operations after taxes</b>             | <b>39</b>                  | <b>51</b>                  | <b>105</b>                       | <b>78</b>                        |
| <b>Income after taxes</b>  | <b>496</b>                 | <b>320</b>                 | <b>1,553</b>                     | <b>1,372</b>                     |
| <i>of which attributable to minority interest</i>                  | <i>3</i>                   | <i>0</i>                   | <i>2</i>                         | <i>0</i>                         |
| <i>of which attributable to Bayer AG stockholders (net income)</i> | <i>493</i>                 | <i>320</i>                 | <i>1,551</i>                     | <i>1,372</i>                     |
| <b>Earnings per share ( )</b>                                      |                            |                            |                                  |                                  |
| <b>From continuing operations</b>                                  |                            |                            |                                  |                                  |
| Basic*   | 0.62                       | 0.36                       | 1.98                             | 1.72                             |
| Diluted*   | 0.62                       | 0.36                       | 1.98                             | 1.72                             |
| <b>From continuing and discontinued operations</b>                 |                            |                            |                                  |                                  |
| Basic*   | 0.68                       | 0.42                       | 2.12                             | 1.82                             |
| Diluted*   | 0.68                       | 0.42                       | 2.12                             | 1.82                             |

2005 figures  
restitated

- \* The ordinary shares to be issued upon conversion of the mandatory convertible bond are treated as already issued shares.

**Table of Contents****Interim Report as of September 30, 2006****Bayer Group****Consolidated Balance Sheets**

| million  | <b>Sept. 30,<br/>2005</b> | <b>Sept.<br/>30,<br/>2006</b> | <b>Dec. 31,<br/>2005</b> |
|--|---------------------------|-------------------------------|--------------------------|
| <b>Noncurrent assets</b>                                   |                           |                               |                          |
| Goodwill   | 2,597                     | 8,796                         | 2,623                    |
| Other intangible assets                                    | 5,143                     | 14,801                        | 5,065                    |
| Property, plant and equipment                              | 8,018                     | 9,357                         | 8,321                    |
| Investments in associates                                  | 786                       | 655                           | 795                      |
| Other financial assets                                     | 1,169                     | 1,084                         | 1,429                    |
| Other receivables  | 206                       | 191                           | 199                      |
| Deferred taxes   | 1,952                     | 1,283                         | 1,698                    |
|  | <b>19,871</b>             | <b>36,167</b>                 | <b>20,130</b>            |
| <b>Current assets</b>                                      |                           |                               |                          |
| Inventories  | 5,668                     | 7,123                         | 5,504                    |
| Trade accounts receivable                                  | 5,414                     | 6,512                         | 5,204                    |
| Other financial assets                                     | 612                       | 648                           | 214                      |
| Other receivables  | 996                       | 1,171                         | 1,421                    |
| Claims for tax refunds                                     | 803                       | 547                           | 726                      |
| Liquid assets  |                           |                               |                          |
| Marketable securities and other instruments                | 153                       | 29                            | 233                      |
| Cash and cash equivalents                                  | 2,887                     | 2,907                         | 3,290                    |
|  | <b>16,533</b>             | <b>18,937</b>                 | <b>16,592</b>            |
| Assets held for sale and discontinued operations           |                           | 1,654                         |                          |
| <b>Total current assets</b>                                | <b>16,533</b>             | <b>20,591</b>                 | <b>16,592</b>            |
| <b>Assets</b>  | <b>36,404</b>             | <b>56,758</b>                 | <b>36,722</b>            |
| <b>Equity attributable to Bayer AG stockholders</b>        |                           |                               |                          |
| Capital stock of Bayer AG                                  | 1,870                     | 1,957                         | 1,870                    |
| Capital reserves of Bayer AG                               | 2,942                     | 4,028                         | 2,942                    |
| Other reserves   | 6,194                     | 6,697                         | 6,265                    |
|  | <b>11,006</b>             | <b>12,682</b>                 | <b>11,077</b>            |
| Equity attributable to minority interest                   | 82                        | 482                           | 80                       |
| <b>Stockholders equity</b>                                 | <b>11,088</b>             | <b>13,164</b>                 | <b>11,157</b>            |
| <b>Noncurrent liabilities</b>                              |                           |                               |                          |
| Provisions for pensions and other post-employment benefits | 7,063                     | 7,043                         | 7,174                    |
| Other provisions   | 1,621                     | 1,514                         | 1,340                    |
| Financial liabilities                                      | 7,086                     | 14,447                        | 7,185                    |
| Miscellaneous liabilities                                  | 453                       | 558                           | 516                      |
| Deferred taxes   | 587                       | 3,988                         | 280                      |
|  | <b>16,810</b>             | <b>27,550</b>                 | <b>16,495</b>            |

**Current liabilities**

|                           |              |               |              |
|---------------------------|--------------|---------------|--------------|
| Other provisions          | 2,742        | 4,280         | 3,009        |
| Financial liabilities     | 2,199        | 7,361         | 1,767        |
| Trade accounts payable    | 1,571        | 1,992         | 1,974        |
| Tax liabilities           | 327          | 442           | 304          |
| Miscellaneous liabilities | 1,667        | 1,600         | 2,016        |
|                           | <b>8,506</b> | <b>15,675</b> | <b>9,070</b> |

Liabilities directly related to assets held for sale and discontinued operations

|   |               |               |               |
|---|---------------|---------------|---------------|
|   |               | 369           |               |
| <b>Total current liabilities</b>            | <b>8,506</b>  | <b>16,044</b> | <b>9,070</b>  |
| <b>Liabilities</b>                          | <b>25,316</b> | <b>43,594</b> | <b>25,565</b> |
| <b>Stockholders' equity and liabilities</b> | <b>36,404</b> | <b>56,758</b> | <b>36,722</b> |

2005 figures restated



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Interim Report as of September 30, 2006

**Bayer Group****Consolidated Statements of Cash Flows**

|   | 3rd<br>Quarter | 3rd<br>Quarter | First Nine<br>Months | First Nine<br>Months |
|---|----------------|----------------|----------------------|----------------------|
| million   | 2005           | 2006           | 2005                 | 2006                 |
| <b>EBIT*</b>  | <b>796</b>     | <b>659</b>     | <b>2,489</b>         | <b>2,614</b>         |
| Income taxes  | (59)           | (243)          | (460)                | (753)                |
| Depreciation and amortization   | 461            | 511            | 1,251                | 1,346                |
| Change in pension provisions  | (325)          | (4)            | (460)                | (186)                |
| (Gains) losses on retirements of noncurrent assets  | (10)           | (28)           | (30)                 | (36)                 |
| Non-cash effects of the remeasurement of acquired inventories (work-down)   |                | 275            |                      | 275                  |
| <b>Gross cash flow</b>  | <b>863</b>     | <b>1,170</b>   | <b>2,790</b>         | <b>3,260</b>         |
| Decrease (increase) in inventories  | (38)           | (216)          | (369)                | (348)                |
| Decrease (increase) in trade accounts receivable  | 440            | 167            | (96)                 | (706)                |
| Increase (decrease) in trade accounts payable   | (124)          | (16)           | (469)                | (286)                |
| Changes in other working capital, other non-cash items  | 233            | 416            | 227                  | 560                  |
| <b>Net cash provided by (used in) operating activities (net cash flow), continuing operations</b>                   | <b>1,374</b>   | <b>1,521</b>   | <b>2,083</b>         | <b>2,480</b>         |
| Net cash provided by (used in) operating activities (net cash flow), discontinued operations                        | 52             | (26)           | 110                  | 145                  |
| <b>Net cash flow provided by (used in) operating activities (net cash flow), total</b>                              | <b>1,426</b>   | <b>1,495</b>   | <b>2,193</b>         | <b>2,625</b>         |
| Cash outflows for additions to property, plant, equipment and intangible assets                                     | (346)          | (325)          | (798)                | (1,084)              |
| Cash inflows from sales of property, plant, equipment and other assets  | 48             | 46             | 320                  | 129                  |
| Cash inflows from sales of investments  | (1)            | (6)            | 1,266                | 63                   |
| Cash outflows for acquisitions less acquired cash   | (121)          | (1,164)        | (2,179)              | (15,294)             |
| Interest and dividends received   | 62             | 80             | 424                  | 562                  |
| Cash inflows/outflows from marketable securities  | (34)           | 56             | (125)                | 283                  |
| <b>Net cash provided by (used in) investing activities (total)</b>  | <b>(392)</b>   | <b>(1,313)</b> | <b>(1,092)</b>       | <b>(15,341)</b>      |
| Capital contributions   | 0              | 1,177          | 0                    | 1,177                |
| Bayer AG dividend, dividend payments to minority stockholders, reimbursements of advance capital gains tax payments | (16)           | (6)            | (478)                | (533)                |
| Issuances of debt   | 1,412          | 69             | 1,853                | 13,831               |
| Retirements of debt   | (1,052)        | (740)          | (2,262)              | (1,153)              |
| Interest paid   | (190)          | (265)          | (736)                | (954)                |
| <b>Net cash provided by (used in) financing activities (total)</b>  | <b>154</b>     | <b>235</b>     | <b>(1,623)</b>       | <b>12,368</b>        |
| <b>Change in cash and cash equivalents due to business activities (total)</b>                                       | <b>1,188</b>   | <b>417</b>     | <b>(522)</b>         | <b>(348)</b>         |

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| <b>Cash and cash equivalents at beginning of period</b>                      | <b>1,698</b> | <b>2,491</b> | <b>3,570</b> | <b>3,290</b> |
| Change in cash and cash equivalents due to changes in scope of consolidation | 0            | 0            | (196)        | (2)          |
| Changes in cash and cash equivalents due to exchange rate movements          | 1            | (1)          | 35           | (33)         |
| <b>Cash and cash equivalents at end of period</b>                            | <b>2,887</b> | <b>2,907</b> | <b>2,887</b> | <b>2,907</b> |
| Marketable securities and other instruments                                  | 153          | 29           | 153          | 29           |
| <b>Liquid assets as per balance sheets</b>                                   | <b>3,040</b> | <b>2,936</b> | <b>3,040</b> | <b>2,936</b> |

2005 figures  
restated

\* for definition  
see Bayer  
Group Key Data  
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Interim Report as of September 30, 2006

**Bayer Group Consolidated Statements of Recognized Income and Expense**

| million   | <b>3rd<br/>Quarter<br/>2005</b> | <b>3rd<br/>Quarter<br/>2006</b> | <b>First Nine<br/>Months<br/>2005</b> | <b>First<br/>Nine<br/>Months<br/>2006</b> |
|---|---------------------------------|---------------------------------|---------------------------------------|---|
| Changes in fair values of hedging instruments and available-for-sale securities, recognized in stockholders' equity | 40                              | (39)                            | 32                                    | (51)                                      |
| Actuarial gains/losses on defined benefit obligations for pensions and other post-employment benefits               | 34                              | (852)                           | (1,100)                               | 335                                       |
| Exchange differences on translation of operations outside the euro zone   | 7                               | 47                              | 686                                   | (428)                                     |
| Deferred taxes on valuation adjustments, recognized directly in stockholders' equity                                | (17)                            | 353                             | 430                                   | (108)                                     |
| <b>Valuation adjustments recognized directly in stockholders' equity</b>  | <b>64</b>                       | <b>(491)</b>                    | <b>48</b>                             | <b>(252)</b>                              |
| <b>Income after taxes</b>   | <b>496</b>                      | <b>320</b>                      | <b>1,553</b>                          | <b>1,372</b>                              |
| <b>Total income and expense recognized in the financial statements</b>  | <b>560</b>                      | <b>(171)</b>                    | <b>1,601</b>                          | <b>1,120</b>                              |
| <i>of which attributable to minority interest</i>   | <i>2</i>                        | <i>(3)</i>                      | <i>(6)</i>                            | <i>(6)</i>                                |
| <i>of which attributable to Bayer AG stockholders</i>   | <i>558</i>                      | <i>(168)</i>                    | <i>1,607</i>                          | <i>1,126</i>                              |

2005 figures restated

**Table of Contents****Interim Report as of September 30, 2006****Key Data by Segment**

| million  | HealthCare      |             |                 |             |
|--|-----------------|-------------|-----------------|-------------|
|  | Pharmaceuticals |             | Consumer Health |             |
|  | 2005            | 2006        | 2005            | 2006        |
| <b>Third Quarter</b>                                   |                 |             |                 |             |
| Net sales (external)                                   | 1,029           | 2,444       | 990             | 1,038       |
| Change   | +12.3%          | +137.5%     | +36.9%          | +4.8%       |
| Change in local currencies                             | +10.9%          | +140.6%     | +35.6%          | +7.7%       |
| Intersegment sales                                     | 19              | 9           | 4               | 2           |
| EBITDA**   | 256             | 337         | 220             | 228         |
| <i>Special items</i>                                   | 42              | (303)       | 21              | (14)        |
| <i>EBITDA before special items</i>                     | 214             | 640         | 199             | 242         |
| EBITDA margin before special items                     | 20.8%           | 26.2%       | 20.1%           | 23.3%       |
| EBIT*  | 188             | 199         | 165             | 193         |
| <i>Special items</i>                                   | 30              | (92)        | 6               | (14)        |
| <i>EBIT before special items</i>                       | 158             | 291         | 159             | 207         |
| EBIT margin before special items                       | 15.4%           | 11.9%       | 16.1%           | 19.9%       |
| Gross cash flow*                                       | 155             | 456         | 158             | 150         |
| Net cash flow*   | 253             | 444         | 221             | 126         |
| Depreciation, amortization and write-downs/write-backs | 68              | 138         | 55              | 35          |
| <b>First Nine Months</b>                               | <b>2005</b>     | <b>2006</b> | <b>2005</b>     | <b>2006</b> |
| Net sales (external)                                   | 2,969           | 4,780       | 2,870           | 3,162       |
| Change   | +1.0%           | +61.0%      | +37.1%          | +10.2%      |
| Change in local currencies                             | +1.2%           | +60.4%      | +37.5%          | +9.1%       |
| Intersegment sales                                     | 38              | 34          | 16              | 5           |
| EBITDA**   | 528             | 801         | 483             | 677         |
| <i>Special items</i>                                   | (76)            | (322)       | (61)            | (17)        |
| <i>EBITDA before special items</i>                     | 604             | 1,123       | 544             | 694         |
| EBITDA margin before special items                     | 20.3%           | 23.5%       | 19.0%           | 21.9%       |
| EBIT*  | 383             | 560         | 354             | 566         |
| <i>Special items</i>                                   | (88)            | (111)       | (76)            | (17)        |
| <i>EBIT before special items</i>                       | 471             | 671         | 430             | 583         |
| EBIT margin before special items                       | 15.9%           | 14.0%       | 15.0%           | 18.4%       |
| Gross cash flow*                                       | 335             | 775         | 356             | 459         |
| Net cash flow*   | 304             | 717         | 378             | 263         |
| Depreciation, amortization and write-downs/write-backs | 145             | 241         | 129             | 111         |
| Number of employees at end of period*                  | 16,700          | 39,800      | 11,400          | 11,800      |

2005 figures restated

\* for definition see Bayer Group Key Data on page

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\*\* ebitda = ebit plus amortization of intangible assets and depreciation of property, plant and equipment. ebitda, ebitda before special items and ebitda margin are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. The company considers underlying ebitda to be a more suitable indicator of operating performance since it is not affected by depreciation, amortization, write-downs/write-backs or special items. The company also believes that this indicator gives readers a clearer picture of the results of operations and ensures greater comparability of data over time. The underlying ebitda margin is calculated dividing underlying ebitda by sales.

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| Quarter        | CropScience     |             |                                   |             | MaterialScience |             |             |             | Reconciliation |             | Continuing  |
|----------------|-----------------|-------------|-----------------------------------|-------------|-----------------|-------------|-------------|-------------|----------------|-------------|-------------|
|                | Crop Protection |             | Environmental Science, BioScience |             | Materials       |             | Systems     |             | 2005           | 2006        | Operational |
|                | 2005            | 2006        | 2005                              | 2006        | 2005            | 2006        | 2005        | 2006        | 2005           | 2006        | 2005        |
| External)      | 979             | 872         | 192                               | 177         | 1,030           | 1,067       | 1,609       | 1,853       | 348            | 332         | 6,177       |
|                | +2.4%           | 10.9%       | +14.3%                            | 7.8%        | +22.8%          | +3.6%       | +15.8%      | +15.2%      |                |             | +19.6%      |
| In local       |                 |             |                                   |             |                 |             |             |             |                |             |             |
|                | 1.7%            | 7.8%        | +11.7%                            | 2.0%        | +22.3%          | +5.8%       | +14.6%      | +17.3%      |                |             | +18.0%      |
| Net sales      | 15              | 10          | 3                                 | 1           | 3               | 6           | 35          | 43          | (79)           | (71)        |             |
| *              | 175             | 130         | 52                                | 10          | 247             | 123         | 295         | 275         | 12             | 67          | 1,257       |
| ms             | 44              | (3)         | 9                                 | 0           | 27              | 0           | 13          | (29)        | 14             | 14          | 170         |
| before special |                 |             |                                   |             |                 |             |             |             |                |             |             |
|                | 131             | 133         | 43                                | 10          | 220             | 123         | 282         | 304         | (2)            | 53          | 1,087       |
| margin before  |                 |             |                                   |             |                 |             |             |             |                |             |             |
| ms             | 13.4%           | 15.3%       | 22.4%                             | 5.6%        | 21.4%           | 11.5%       | 17.5%       | 16.4%       |                |             | 17.6%       |
|                | 53              | (7)         | 17                                | (5)         | 192             | 67          | 214         | 194         | (33)           | 18          | 796         |
| ms             | 44              | (15)        | 9                                 | 0           | 27              | 0           | 13          | (32)        | 14             | 14          | 143         |
| re special     |                 |             |                                   |             |                 |             |             |             |                |             |             |
|                | 9               | 8           | 8                                 | (5)         | 165             | 67          | 201         | 226         | (47)           | 4           | 653         |
| margin before  |                 |             |                                   |             |                 |             |             |             |                |             |             |
| ms             | 0.9%            | 0.9%        | 4.2%                              | (2.8)%      | 16.0%           | 6.3%        | 12.5%       | 12.2%       |                |             | 10.6%       |
| flow*          | 114             | 86          | 41                                | 15          | 194             | 97          | 214         | 177         | (13)           | 189         | 863         |
| ow*            | 118             | 206         | 183                               | 100         | 149             | 51          | 345         | 211         | 105            | 383         | 1,374       |
| on,            |                 |             |                                   |             |                 |             |             |             |                |             |             |
| on and         |                 |             |                                   |             |                 |             |             |             |                |             |             |
| ms/write-backs | 122             | 137         | 35                                | 15          | 55              | 56          | 81          | 81          | 45             | 49          | 461         |
|                |                 |             |                                   |             |                 |             |             |             |                |             |             |
| <b>Months</b>  | <b>2005</b>     | <b>2006</b> | <b>2005</b>                       | <b>2006</b> | <b>2005</b>     | <b>2006</b> | <b>2005</b> | <b>2006</b> | <b>2005</b>    | <b>2006</b> | <b>2005</b> |
| External)      | 3,714           | 3,554       | 805                               | 844         | 2,998           | 3,161       | 4,919       | 5,453       | 974            | 1,017       | 19,249      |
|                | 0.3%            | 4.3%        | +4.0%                             | +4.8%       | +28.2%          | +5.4%       | +27.5%      | +10.9%      |                |             | +18.8%      |
| In local       |                 |             |                                   |             |                 |             |             |             |                |             |             |
|                | 1.4%            | 6.0%        | +4.5%                             | +3.7%       | +29.6%          | +4.8%       | +28.3%      | +9.7%       |                |             | +19.1%      |
| Net sales      | 43              | 45          | 11                                | 4           | 10              | 19          | 109         | 125         | (227)          | (232)       |             |
| *              | 853             | 813         | 237                               | 246         | 674             | 517         | 865         | 825         | 100            | 81          | 3,740       |
| ms             | 14              | (3)         | 5                                 | 0           | 27              | 0           | 3           | (159)       | 14             | 4           | (74)        |
| before special |                 |             |                                   |             |                 |             |             |             |                |             |             |
|                | 839             | 816         | 232                               | 246         | 647             | 517         | 862         | 984         | 86             | 77          | 3,814       |
| margin before  |                 |             |                                   |             |                 |             |             |             |                |             |             |
| ms             | 22.6%           | 23.0%       | 28.8%                             | 29.1%       | 21.6%           | 16.4%       | 17.5%       | 18.0%       |                |             | 19.8%       |
|                | 485             | 437         | 161                               | 189         | 513             | 329         | 626         | 590         | (33)           | (57)        | 2,489       |
| ms             | 14              | (15)        | 5                                 | 0           | 27              | (16)        | 3           | (162)       | 14             | 4           | (101)       |
| re special     |                 |             |                                   |             |                 |             |             |             |                |             |             |
|                | 471             | 452         | 156                               | 189         | 486             | 345         | 623         | 752         | (47)           | (61)        | 2,590       |

|                     |        |        |       |       |       |       |       |       |        |        |        |
|---------------------|--------|--------|-------|-------|-------|-------|-------|-------|--------|--------|--------|
| margin before       |        |        |       |       |       |       |       |       |        |        |        |
| EBITDA              | 12.7%  | 12.7%  | 19.4% | 22.4% | 16.2% | 10.9% | 12.7% | 13.8% |        |        | 13.5%  |
| EBITDA flow*        | 603    | 598    | 170   | 179   | 486   | 401   | 611   | 590   | 229    | 258    | 2,790  |
| EBITDA flow**       | 288    | 351    | 247   | 139   | 293   | 213   | 470   | 612   | 103    | 185    | 2,083  |
| EBITDA on, on and   |        |        |       |       |       |       |       |       |        |        |        |
| EBITDA write-backs  | 368    | 376    | 76    | 57    | 161   | 188   | 239   | 235   | 133    | 138    | 1,251  |
| EBITDA employees at |        |        |       |       |       |       |       |       |        |        |        |
| EBITDA head*        | 16,000 | 15,200 | 2,700 | 2,800 | 9,300 | 9,900 | 9,200 | 9,500 | 21,800 | 21,800 | 87,100 |

2005 figures restated

\* for definition see Bayer Group Key Data on page 2

\*\* ebitda = ebit plus amortization of intangible assets and depreciation of property, plant and equipment. ebitda, ebitda before special items and ebitda margin are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. The company considers underlying ebitda to be a more suitable indicator of operating performance since it is not affected by depreciation, amortization, write-downs/write-backs or special items. The company also believes that this indicator gives readers a clearer picture of the results of operations and ensures greater comparability of data over time. The underlying ebitda margin is calculated dividing underlying ebitda by sales.





**Table of Contents****Interim Report as of September 30, 2006****Key Data by Region**

| Mio                                     | Europe      |             | North America |             |
|---|-------------|-------------|---------------|-------------|
| Third Quarter                           | 2005        | 2006        | 2005          | 2006        |
| Net sales (external) by market          | 2,591       | 3,355       | 1,627         | 2,039       |
| Change                                  | +22.9%      | +29.5%      | +21.0%        | +25.3%      |
| Change in local currencies              | +23.0%      | +29.7%      | +19.6%        | +29.6%      |
| Net sales (external) by point of origin | 2,831       | 3,640       | 1,644         | 2,053       |
| Change                                  | +22.9%      | +28.6%      | +20.4%        | +24.9%      |
| Change in local currencies              | +22.9%      | +28.6%      | +19.2%        | +29.2%      |
| Interregional sales                     | 912         | 1,294       | 214           | 492         |
| EBIT*                                   | 290         | 428         | 350           | 157         |
| Gross cash flow*                        | 461         | 924         | 244           | 188         |
| <b>First Nine Months</b>                | <b>2005</b> | <b>2006</b> | <b>2005</b>   | <b>2006</b> |
| Net sales (external) by market          | 8,621       | 9,697       | 5,060         | 5,969       |
| Change                                  | +26.8%      | +12.5%      | +9.4%         | +18.0%      |
| Change in local currencies              | +26.7%      | +12.4%      | +11.5%        | +15.1%      |
| Net sales (external) by point of origin | 9,300       | 10,478      | 5,104         | 6,017       |
| Change                                  | +25.9%      | +12.7%      | +9.2%         | +17.9%      |
| Change in local currencies              | +25.8%      | +12.6%      | +11.5%        | +15.0%      |
| Interregional sales                     | 2,850       | 3,389       | 1,185         | 1,444       |
| EBIT*                                   | 1,289       | 1,640       | 717           | 663         |
| Gross cash flow*                        | 1,598       | 2,228       | 714           | 708         |
| Number of employees at end of period*   | 49,300      | 61,400      | 13,900        | 18,100      |

2005 figures  
restated

\* for definition  
see Bayer  
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| Mio   | Asia/<br>Pacific |        | Latin America/<br>Africa/Middle East |        | Reconciliation |         | Continuing<br>Operations |         |
|---|------------------|--------|--------------------------------------|--------|----------------|---------|--------------------------|---------|
|   | 2005             | 2006   | 2005                                 | 2006   | 2005           | 2006    | 2005                     | 2006    |
| <b>Third Quarter</b>                        |                  |        |                                      |        |                |         |                          |         |
| Net sales (external)                        |                  |        |                                      |        |                |         |                          |         |
| by market                                   | 1,098            | 1,320  | 861                                  | 1,069  |                |         | 6,177                    | 7,783   |
| Change                                      | +14.9%           | +20.2% | +14.2%                               | +24.2% |                |         | +19.6%                   | +26.0%  |
| Change in local<br>currencies               | +13.2%           | +24.9% | +6.4%                                | +26.9% |                |         | +18.0%                   | +28.6%  |
| Net sales (external)                        |                  |        |                                      |        |                |         |                          |         |
| by point of origin                          | 1,035            | 1,259  | 667                                  | 831    |                |         | 6,177                    | 7,783   |
| Change                                      | +15.8%           | +21.6% | +11.0%                               | +24.6% |                |         | +19.6%                   | +26.0%  |
| Change in local<br>currencies               | +14.0%           | +26.6% | +1.2%                                | +28.1% |                |         | +18.0%                   | +28.6%  |
| Interregional sales                         | 51               | 58     | 50                                   | 70     | (1,227)        | (1,914) |                          |         |
| EBIT*                                       | 101              | 47     | 88                                   | 56     | (33)           | (29)    | 796                      | 659     |
| Gross cash flow*                            | 97               | 54     | 90                                   | 37     | (29)           | (33)    | 863                      | 1,170   |
| <b>First Nine Months</b>                    |                  |        |                                      |        |                |         |                          |         |
| Net sales (external)                        |                  |        |                                      |        |                |         |                          |         |
| by market                                   | 3,175            | 3,528  | 2,393                                | 2,777  |                |         | 19,249                   | 21,971  |
| Change                                      | +16.4%           | +11.1% | +16.8%                               | +16.0% |                |         | +18.8%                   | +14.1%  |
| Change in local<br>currencies               | +17.3%           | +11.4% | +13.5%                               | +13.2% |                |         | +19.1%                   | +13.1%  |
| Net sales (external)                        |                  |        |                                      |        |                |         |                          |         |
| by point of origin                          | 3,027            | 3,363  | 1,818                                | 2,113  |                |         | 19,249                   | 21,971  |
| Change                                      | +18.8%           | +11.1% | +14.0%                               | +16.2% |                |         | +18.8%                   | +14.1%  |
| Change in local<br>currencies               | +19.7%           | +11.4% | +9.6%                                | +12.5% |                |         | +19.1%                   | +13.1%  |
| Interregional sales                         | 147              | 177    | 127                                  | 152    | (4,309)        | (5,162) |                          |         |
| EBIT*                                       | 380              | 263    | 221                                  | 161    | (118)          | (113)   | 2,489                    | 2,614   |
| Gross cash flow*                            | 373              | 288    | 187                                  | 130    | (82)           | (94)    | 2,790                    | 3,260   |
| Number of<br>employees at end of<br>period* | 13,300           | 17,500 | 10,600                               | 13,800 |                |         | 87,100                   | 110,800 |

2005 figures  
restitated

\* for definition  
see Bayer  
Group Key Data  
on Page 2



**Table of Contents****Interim Report as of September 30, 2006/Notes****Notes to the Interim Report as of September 30, 2006****Accounting policies**

The unaudited, consolidated interim financial statements as of September 30, 2006 have been prepared according to the rules of IAS 34. The statements comply with the International Financial Reporting Standards (IFRS) approved and published by the International Accounting Standards Board (IASB) and in effect at the closing date, and with their interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Reference should be made as appropriate to the notes to the 2005 financial statements, particularly with regard to recognition and valuation principles.

**Information on earnings per share**

The ordinary shares to be issued upon conversion of the mandatory convertible bond are treated as already issued shares. Diluted earnings per share are therefore equal to basic earnings per share.

**Calculation of Earnings per Share**

|   | <b>3rd<br/>Quarter<br/>2005</b> | <b>3rd<br/>Quarter<br/>2006</b> | <b>First<br/>Nine<br/>Months<br/>2005</b> | <b>First<br/>Nine<br/>Months<br/>2006</b> |
|---|---------------------------------|---------------------------------|---|---|
| <b>From continuing operations</b>   |                                 |                                 |   |   |
| <b>Income from continuing operations after taxes ( million)*</b>                                    | <b>454</b>                      | <b>269</b>                      | <b>1,446</b>                              | <b>1,294</b>                              |
| + financing expenses for the mandatory convertible bond, net of tax effects<br>( million)           |                                 | 25                              |   | 48  |
| <b>Adjusted income from continuing operations after taxes( million)</b>                             | <b>454</b>                      | <b>294</b>                      | <b>1,446</b>                              | <b>1,342</b>                              |
| <b>Weighted average number of issued ordinary shares (million)**</b>                                | <b>730.34</b>                   | <b>760.28</b>                   | <b>730.34</b>                             | <b>740.43</b>                             |
| Potential shares to be issued upon conversion of the mandatory convertible bond<br>(million)        |                                 | 60.12                           |   | 41.30                                     |
| <b>Adjusted weighted average total number of issued and potential ordinary<br/>shares (million)</b> | <b>730.34</b>                   | <b>820.40</b>                   | <b>730.34</b>                             | <b>781.73</b>                             |
| <b>Basic earnings per share from continuing operations ( )</b>                                      | <b>0.62</b>                     | <b>0.36</b>                     | <b>1.98</b>                               | <b>1.72</b>                               |
| <b>Diluted earnings per share from continuing operations ( )</b>                                    | <b>0.62</b>                     | <b>0.36</b>                     | <b>1.98</b>                               | <b>1.72</b>                               |
| <b>From continuing and discontinued operations</b>  |                                 |                                 |   |   |
| <b>Net income ( million)</b>  | <b>493</b>                      | <b>320</b>                      | <b>1,551</b>                              | <b>1,372</b>                              |
| + financing expenses for the mandatory convertible bond, net of tax effects<br>( million)           |                                 | 25                              |   | 48  |
| <b>Adjusted net income ( million)</b>   | <b>493</b>                      | <b>345</b>                      | <b>1,551</b>                              | <b>1,420</b>                              |
| <b>Weighted average number of issued ordinary shares (million)**</b>                                | <b>730.34</b>                   | <b>760.28</b>                   | <b>730.34</b>                             | <b>740.43</b>                             |
| Potential shares to be issued upon conversion of the mandatory convertible bond<br>(million)        |                                 | 60.12                           |   | 41.30                                     |
| <b>Adjusted weighted average total number of issued and potential ordinary<br/>shares (million)</b> | <b>730.34</b>                   | <b>820.40</b>                   | <b>730.34</b>                             | <b>781.73</b>                             |
| <b>Basic earnings per share from continuing and discontinued operations ( )</b>                     | <b>0.68</b>                     | <b>0.42</b>                     | <b>2.12</b>                               | <b>1.82</b>                               |

**Diluted earnings per share from continuing and discontinued operations ( )      0.68      0.42      2.12      1.82**

2005 figures  
restated

\* excluding  
minority interest

\*\* including newly  
issued shares  
from the capital  
increase *pro*  
*rata temporis*

**Table of Contents****Interim Report as of September 30, 2006/Notes****Changes in the Bayer Group*****Scope of consolidation***

As of September 30, 2006, the Bayer Group comprised 430 fully or proportionately consolidated companies, compared with 283 companies as of December 31, 2005. The increase of 147 is largely due to the first-time inclusion of the Schering group companies in the second quarter of 2006.

***Consolidation of Schering***

With effect from June 23, 2006, Bayer acquired a majority of the shares of Schering AG, which is fully consolidated in the Bayer Group financial statements as of that date. As of September 30, 2006, Bayer held 96.1 percent of the outstanding shares of Schering AG. In addition to the purchase price of 16,237 million for these shares, ancillary acquisition costs of 61 million were incurred up to that date. The acquisition was paid for in cash.

The assets, liabilities and contingent liabilities acquired from Schering were reflected in the balance sheet at the following fair values:

**Schering Acquisition**

| million                              | Net carrying<br>amount prior to<br>the<br>acquisition | Adjustment<br>for the<br>first-time<br>consolidation* | Net<br>carrying<br>amount<br>after the<br>acquisition |
|--------------------------------------|---|---|---|
| Goodwill                             | 364   | 5,861   | 6,225   |
| Other intangible assets              | 297   | 10,411  | 10,708  |
| Property, plant and equipment        | 1,124   | 498   | 1,622   |
| Inventories                          | 840   | 945   | 1,785   |
| Financial liabilities                | (241)   |   | (241)   |
| Liquid assets                        | 1,025   |   | 1,025   |
| Other assets and liabilities         | (292)   | (100)   | (392)   |
| Deferred taxes                       | 292   | (4,381)   | (4,089)   |
| Net assets                           | 3,409   | 13,234  | 16,643  |
| Minority interests                   |   |   | (406)   |
| Acquisition price                    |   |   | 16,237  |
| of which ancillary acquisition costs |   |   | 61  |

\* The adjustment for the first-time consolidation reflects the differences between the previous net carrying amounts in the balance sheet of Schering and the respective fair values in the acquirer's balance sheet at

the date of  
acquisition.

The average expected useful life of the acquired intangible assets is approximately 13 years.

The purchase price allocation has not yet been completed, therefore changes may yet be made in the allocation of the purchase price to the individual assets.

The goodwill remaining after the purchase price allocation is attributable to a number of factors. Apart from general synergies in administration processes and infrastructures, such factors also include significant cost savings in the areas of marketing, sales, procurement and production, most of which can now be initiated following the entry into force of the domination and profit and loss transfer agreement with Schering AG on October 27, 2006. In addition, the acquisition strengthens the Bayer Group's global market position in the pharmaceuticals business. Details of the legal form of the merger are still in the planning stage.

**Table of Contents****Interim Report as of September 30, 2006/Notes**

The income and expenses for the Schering business, including pro-rata effects from the purchase price allocation, were recognized as follows from the date of the first-time consolidation (June 23, 2006):

**Schering Key Data**

| million                     | <b>June 23<br/>September 30,<br/>2006</b> |
|-----------------------------|---|
| Sales                       | 1,554                                     |
| EBITDA*                     | 111                                       |
| EBITDA before special items | 422                                       |
| EBIT*                       | 3   |
| EBIT before special items   | 84  |
| Income after taxes          | (4)                                       |

\* for definition  
see Bayer  
Group Key Date  
on page 2

**Discontinued operations**

Bayer has entered into an agreement with Siemens AG concerning the divestiture of the Diagnostics Division. The Diagnostics business is thus reported as a discontinued operation. The prior-year data in the income and cash flow statements have been restated accordingly.

In the prior year, the spin-off of Lanxess from Bayer AG was entered into the commercial register on January 28, 2005 and thus became legally effective. The Plasma business of the Bayer HealthCare subgroup in the United States was divested in March 2005. Both these businesses are reported for 2005 as discontinued operations.

This information, which is provided from the stand point of the Bayer Group, is to be regarded as part of the reporting for the entire Bayer Group by analogy with our segment reporting and is not intended to portray either the discontinued operations or the remaining operations of Bayer as separate entities. The presentation is thus in line with the principles for reporting discontinued operations.

**Discontinued Operations**

| million                  | <b>Diagnostics</b> |             | <b>Lanxess</b> |             | <b>Plasma</b> |             | <b>Total</b> |             |
|--------------------------|--------------------|-------------|----------------|-------------|---------------|-------------|--------------|-------------|
| <b>Third Quarter</b>     | <b>2005</b>        | <b>2006</b> | <b>2005</b>    | <b>2006</b> | <b>2005</b>   | <b>2006</b> | <b>2005</b>  | <b>2006</b> |
| Net sales                | 354                | 364         | 0              | 0           | 0             | 0           | 354          | 364         |
| EBIT*                    | 74                 | 80          | 0              | 0           | (14)          | 0           | 60           | 80          |
| Income after taxes       | 48                 | 51          | 0              | 0           | (9)           | 0           | 39           | 51          |
| Gross cash flow*         | 57                 | 29          | 0              | 0           | 0             | 0           | 57           | 29          |
| Net cash flow*           | 64                 | (26)        | 0              | 0           | (12)          | 0           | 52           | (26)        |
| Net investing cash flow  | (21)               | (26)        | 0              | 0           | (46)          | 0           | (67)         | (26)        |
| Net financing cash flow  | (43)               | 52          | 0              | 0           | 58            | 0           | 15           | 52          |
| <b>First Nine Months</b> | <b>2005</b>        | <b>2006</b> | <b>2005**</b>  | <b>2006</b> | <b>2005</b>   | <b>2006</b> | <b>2005</b>  | <b>2006</b> |
| Net sales                | 1,039              | 1,119       | 503            | 0           | 124           | 0           | 1,666        | 1,119       |
| EBIT*                    | 131                | 120         | 62             | 0           | (28)          | 0           | 165          | 120         |



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|                         |      |      |      |   |       |   |       |      |
|-------------------------|------|------|------|---|-------|---|-------|------|
| Income after taxes      | 85   | 78   | 38   | 0 | (18)  | 0 | 105   | 78   |
| Gross cash flow*        | 139  | 143  | 51   | 0 | 4     | 0 | 194   | 143  |
| Net cash flow*          | 144  | 145  | (80) | 0 | 46    | 0 | 110   | 145  |
| Net investing cash flow | (69) | (72) | (19) | 0 | 180   | 0 | 92    | (72) |
| Net financing cash flow | (75) | (73) | 99   | 0 | (226) | 0 | (202) | (73) |

\* for definition  
see Bayer  
Group Key Data  
on page 2

\*\* figures for  
January only

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**Interim Report as of September 30, 2006/Notes**

**Notes to the statements of cash flows**

A new line Non-cash effects of the remeasurement of acquired inventories (work-down) has been inserted in the cash flow statement in order to eliminate these effects of the Schering purchase price allocation from the gross cash flow. For the third quarter of 2006, an amount 275 million is transferred from Decrease/increase in inventories to this new line. These non-cash effects do not impact net cash flow.

**Segment reporting**

Our segment reporting is unchanged compared to the second quarter of 2006, when we adapted it to reflect the changes in our Corporate structure that occurred during that reporting period. The acquired Schering business is included in the Pharmaceuticals segment together with that of the existing Pharmaceuticals Division.

The businesses of the Diabetes Care and Diagnostics divisions were previously combined for reporting purposes, while the Consumer Care and Animal Health divisions were reported as separate segments. Due to the agreed divestiture of the Bayer HealthCare subgroup's Diagnostics Division, the segment reporting has been adjusted. As a discontinued operation, the Diagnostics Division is no longer part of the segment reporting. The remaining Diabetes Care Division is combined with the Consumer Care and Animal Health divisions to form the new Consumer Health segment in light of the similarities in their long-term financial performance and their focus on products that can be promoted directly to consumers. The previous year's figures are restated accordingly.

Leverkusen, November 21, 2006

Bayer Aktiengesellschaft

The Board of Management

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**Forward-Looking Statements**

This Stockholders Newsletter contains forward-looking statements. These statements use words like believes, assumes, expects or similar formulations. 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 our company and those either expressed or implied by these statements.

These factors include, among other things:

Downturns in the business cycle of the industries in which we compete;

new regulations, or changes to existing regulations, that increase our operating costs or otherwise reduce our profitability;

increases in the price of our raw materials, especially if we are unable to pass these costs along to customers;

loss or reduction of patent protection for our products;

liabilities, especially those incurred as a result of environmental laws or product liability litigation;

fluctuation in international currency exchange rates as well as changes in the general economic climate; and

other factors identified in this Stockholders Newsletter.

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 Form 20-F). In view of these uncertainties, we caution readers not to place undue reliance on these forward-looking statements. We assume no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BAYER AKTIENGESELLSCHAFT  
(Registrant)

By: /s/ DR. ROLAND HARTWIG

Name: Dr. Roland Hartwig

Title: General Counsel

By: /s/ DR. ALEXANDER ROSAR

Name: Dr. Alexander Rosar

Title: Head of Investor Relations

Date: January 19, 2007