

## Bayer Group Consolidated Statements of Income

Bayer  
Stockholders'  
Newsletter 2007

**Consolidated  
Financial Statements  
as of March 31, 2007**

|  | 1st Quarter<br>2006 | 1st Quarter<br>2007 |
|--|---------------------|---------------------|
| € million  |                     |                     |
| <b>Net sales</b>   | <b>6,791</b>        | <b>8,335</b>        |
| Cost of goods sold   | (3,438)             | (4,134)             |
| <b>Gross profit</b>  | <b>3,353</b>        | <b>4,201</b>        |
| Selling expenses   | (1,365)             | (1,807)             |
| Research and development expenses                                  | (414)               | (625)               |
| General administration expenses                                    | (353)               | (436)               |
| Other operating income   | 208                 | 143                 |
| Other operating expenses   | (380)               | (301)               |
| <b>Operating result (EBIT)</b>                                     | <b>1,049</b>        | <b>1,175</b>        |
| Equity-method loss   | (8)                 | (14)                |
| Non-operating income   | 350                 | 242                 |
| Non-operating expenses   | (552)               | (446)               |
| <b>Non-operating result</b>  | <b>(210)</b>        | <b>(218)</b>        |
| <b>Income before income taxes</b>                                  | <b>839</b>          | <b>957</b>          |
| Income taxes   | (277)               | (301)               |
| <b>Income from continuing operations after taxes</b>               | <b>562</b>          | <b>656</b>          |
| <b>Income from discontinued operations after taxes</b>             | <b>35</b>           | <b>2,154</b>        |
| <b>Income after taxes</b>  | <b>597</b>          | <b>2,810</b>        |
| of which attributable to minority interest                         | (3)                 | 1                   |
| <b>of which attributable to Bayer AG stockholders (net income)</b> | <b>600</b>          | <b>2,809</b>        |
| <b>Earnings per share (€)</b>                                      |                     |                     |
| <b>From continuing operations</b>                                  |                     |                     |
| Basic*   | 0.77                | 0.82                |
| Diluted*   | 0.77                | 0.82                |
| <b>From continuing and discontinued operations</b>                 |                     |                     |
| Basic*   | 0.82                | 3.44                |
| Diluted*   | 0.82                | 3.44                |

2006 figures restated

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

# Bayer Group Consolidated Balance Sheets

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|   | March 31,<br>2006 | March 31,<br>2007 | Dec. 31,<br>2006 |
|---|-------------------|-------------------|------------------|
| € million   |                   |                   |                  |
| <b>Noncurrent assets</b>  |                   |                   |                  |
| Goodwill  | 2,546             | 8,183             | 8,227            |
| Other intangible assets   | 4,656             | 15,448            | 15,807           |
| Property, plant and equipment   | 7,339             | 8,740             | 8,867            |
| Investments in associates   | 776               | 517               | 532              |
| Other financial assets  | 1,227             | 1,177             | 1,094            |
| Other receivables   | 140               | 184               | 165              |
| Deferred taxes  | 1,301             | 1,005             | 1,205            |
|   | <b>17,985</b>     | <b>35,254</b>     | <b>35,897</b>    |
| <b>Current assets</b>   |                   |                   |                  |
| Inventories   | 4,774             | 6,327             | 6,153            |
| Trade accounts receivable   | 5,436             | 6,759             | 5,802            |
| Other financial assets  | 526               | 238               | 401              |
| Other receivables   | 1,403             | 1,356             | 1,217            |
| Claims for tax refunds  | 446               | 550               | 581              |
| Cash and cash equivalents   | 3,026             | 6,143             | 2,915            |
| Assets held for sale and discontinued operations                                    | 2,832             | 346               | 2,925            |
|   | <b>18,443</b>     | <b>21,719</b>     | <b>19,994</b>    |
| <b>Total assets</b>   | <b>36,428</b>     | <b>56,973</b>     | <b>55,891</b>    |
| <b>Stockholders' equity</b>   |                   |                   |                  |
| Capital stock of Bayer AG   | 1,870             | 1,957             | 1,957            |
| Capital reserves of Bayer AG  | 2,942             | 4,028             | 4,028            |
| Other reserves  | 7,222             | 9,855             | 6,782            |
|   | <b>12,034</b>     | <b>15,840</b>     | <b>12,767</b>    |
| Equity attributable to minority interest  | 71                | 66                | 84               |
|   | <b>12,105</b>     | <b>15,906</b>     | <b>12,851</b>    |
| <b>Noncurrent liabilities</b>   |                   |                   |                  |
| Provisions for pensions and other post-employment benefits                          | 5,961             | 6,156             | 6,543            |
| Other provisions  | 1,670             | 1,506             | 1,464            |
| Financial liabilities   | 7,418             | 14,626            | 14,723           |
| Other liabilities   | 469               | 402               | 449              |
| Deferred taxes  | 293               | 4,397             | 4,346            |
|   | <b>15,811</b>     | <b>27,087</b>     | <b>27,525</b>    |
| <b>Current liabilities</b>  |                   |                   |                  |
| Other provisions  | 2,809             | 4,571             | 3,765            |
| Financial liabilities   | 1,309             | 3,673             | 5,078            |
| Trade accounts payable  | 1,610             | 2,289             | 2,369            |
| Tax liabilities   | 283               | 463               | 400              |
| Other liabilities   | 1,608             | 2,826             | 3,055            |
| Liabilities directly related to assets held for sale<br>and discontinued operations | 893               | 158               | 848              |
|   | <b>8,512</b>      | <b>13,980</b>     | <b>15,515</b>    |
| <b>Total stockholders' equity and liabilities</b>                                   | <b>36,428</b>     | <b>56,973</b>     | <b>55,891</b>    |

2006 figures restated

## Bayer Group Consolidated Statements of Cash Flows

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as of March 31, 2007

|  | 1st Quarter<br>2006 | 1st Quarter<br>2007 |
|--|---------------------|---------------------|
| € million  |                     |                     |
| Income from continuing operations after taxes  | 562                 | 656                 |
| Income taxes   | 277                 | 301                 |
| Non-operating result   | 210                 | 218                 |
| Income taxes paid  | (216)               | (343)               |
| Depreciation and amortization  | 387                 | 599                 |
| Change in pension provisions   | (130)               | (96)                |
| (Gains) losses on retirements of noncurrent assets   | (1)                 | 12                  |
| Non-cash effects of the remeasurement<br>of acquired assets (inventory work-down)                                      | –                   | 64                  |
| <b>Gross cash flow</b>   | <b>1,089</b>        | <b>1,411</b>        |
| Decrease (increase) in inventories   | (114)               | (213)               |
| Decrease (increase) in trade accounts receivable   | (889)               | (1,011)             |
| (Decrease) increase in trade accounts payable  | (231)               | (114)               |
| Changes in other working capital, other non-cash items   | 183                 | 302                 |
| <b>Net cash provided by (used in) operating activities<br/>(net cash flow), continuing operations</b>                  | <b>38</b>           | <b>375</b>          |
| Net cash provided by (used in) operating activities<br>(net cash flow), discontinued operations                        | 90                  | 38                  |
| <b>Net cash provided by (used in) operating activities<br/>(net cash flow), total</b>                                  | <b>128</b>          | <b>413</b>          |
| Cash outflows for property, plant, equipment and intangible assets   | (419)               | (201)               |
| Cash inflows from sales of property, plant, equipment and other assets   | 20                  | 18                  |
| Cash inflows from divestitures less divested cash  | 0                   | 4,673               |
| Cash outflows for acquisitions less acquired cash  | (20)                | (22)                |
| Cash inflows from noncurrent financial assets  | 26                  | 5                   |
| Interest and dividends received  | 107                 | 93                  |
| Cash inflows (outflows) from current financial assets  | 94                  | 23                  |
| <b>Net cash provided by (used in) investing activities (total)</b>   | <b>(192)</b>        | <b>4,589</b>        |
| Capital contributions  | 0                   | 0                   |
| Bayer AG dividend, dividend payments to minority stockholders,<br>reimbursements of advance capital gains tax payments | 165                 | (9)                 |
| Issuances of debt  | 269                 | 444                 |
| Retirements of debt  | (393)               | (1,954)             |
| Interest paid  | (228)               | (245)               |
| <b>Net cash provided by (used in) financing activities (total)</b>   | <b>(187)</b>        | <b>(1,764)</b>      |
| <b>Change in cash and cash equivalents due to business activities (total)</b>  | <b>(251)</b>        | <b>3,238</b>        |
| <b>Cash and cash equivalents, January 1</b>  | <b>3,290</b>        | <b>2,915</b>        |
| Change in cash and cash equivalents due to changes in scope of consolidation   | (2)                 | (1)                 |
| Change in cash and cash equivalents due to exchange rate movements   | (11)                | (9)                 |
| <b>Cash and cash equivalents, March 31</b>   | <b>3,026</b>        | <b>6,143</b>        |

2006 figures restated

## Bayer Group Consolidated Statements of Recognized Income and Expense

|  | 1st Quarter<br>2006 | 1st Quarter<br>2007 |
|--|---------------------|---------------------|
| € million  |                     |                     |
| Changes in fair values of derivatives designated as hedges and available-for-sale financial assets, recognized in stockholders' equity               | 9                   | 1                   |
| Changes in actuarial gains/losses on defined benefit obligations for pensions and other post-employment benefits, recognized in stockholders' equity | 805                 | 331                 |
| Exchange differences on translation of operations outside the euro zone, recognized in stockholders' equity  | (144)               | 36                  |
| Deferred taxes on valuation adjustments offset directly against stockholders' equity   | (315)               | (134)               |
| Changes due to changes in scope of consolidation   | -                   | 31                  |
| <b>Valuation adjustments recognized directly in stockholders' equity</b>   | <b>355</b>          | <b>265</b>          |
| <b>Income after taxes</b>  | <b>597</b>          | <b>2,810</b>        |
| <b>Total income and expense recognized in the financial statements</b>   | <b>952</b>          | <b>3,075</b>        |
| of which attributable to minority interest   | (5)                 | 2                   |
| of which attributable to Bayer AG stockholders   | 957                 | 3,073               |

## Key Data by Segment

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| Segment  | HealthCare          |                     |                     |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | Pharmaceuticals     |                     | Consumer Health     |                     |
|  | 1st Quarter<br>2006 | 1st Quarter<br>2007 | 1st Quarter<br>2006 | 1st Quarter<br>2007 |
| € million  |                     |                     |                     |                     |
| Net sales (external)                                   | 1,148               | 2,495               | 1,055               | 1,115               |
| Change   | + 20.6 %            | +117.3 %            | + 22.0 %            | + 5.7 %             |
| Currency-adjusted change                               | + 15.2 %            | +122.2 %            | + 15.8 %            | + 11.4 %            |
| Intersegment sales                                     | 13                  | 12                  | 2                   | 3                   |
| Operating result (EBIT)                                | 202                 | 281                 | 177                 | 204                 |
| Depreciation, amortization and write-downs/write-backs | 39                  | 265                 | 41                  | 33                  |
| Gross cash flow*                                       | 162                 | 390                 | 130                 | 167                 |
| Net cash flow*   | (11)                | 279                 | 54                  | 104                 |
| Number of employees at end of period                   | 16,700              | 39,400              | 11,700              | 11,500              |

2006 figures restated

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

## Key Data by Region

| Region                                    | Europe              |                     | North America       |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | 1st Quarter<br>2006 | 1st Quarter<br>2007 | 1st Quarter<br>2006 | 1st Quarter<br>2007 |
| € million                                 |                     |                     |                     |                     |
| Net sales (external) – by market          | 3,018               | 3,848               | 1,936               | 2,226               |
| Change                                    | + 6.8 %             | + 27.5 %            | + 20.8 %            | + 15.0 %            |
| Currency-adjusted change                  | + 6.6 %             | + 27.5 %            | + 9.8 %             | + 25.4 %            |
| Net sales (external) – by point of origin | 3,226               | 4,153               | 1,952               | 2,220               |
| Change                                    | + 6.9 %             | + 28.7 %            | + 21.2 %            | + 13.7 %            |
| Currency-adjusted change                  | + 6.8 %             | + 28.7 %            | + 10.0 %            | + 24.2 %            |
| Interregional sales                       | 1,045               | 1,374               | 477                 | 516                 |
| Operating result (EBIT)                   | 663                 | 724                 | 262                 | 357                 |
| Gross cash flow*                          | 689                 | 1,302               | 259                 | (52)                |
| Number of employees at end of period      | 45,200              | 56,800              | 13,000              | 16,700              |

2006 figures restated

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

| CropScience      |                  |                                   |                  | MaterialScience  |                  |                  |                  |                  |                  |                       |                  |
|------------------|------------------|-----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----------------------|------------------|
| Crop Protection  |                  | Environmental Science, BioScience |                  | Materials        |                  | Systems          |                  | Reconciliation   |                  | Continuing Operations |                  |
| 1st Quarter 2006 | 1st Quarter 2007 | 1st Quarter 2006                  | 1st Quarter 2007 | 1st Quarter 2006 | 1st Quarter 2007 | 1st Quarter 2006 | 1st Quarter 2007 | 1st Quarter 2006 | 1st Quarter 2007 | 1st Quarter 2006      | 1st Quarter 2007 |
| 1,413            | 1,434            | 358                               | 352              | 710              | 739              | 1,776            | 1,869            | 331              | 331              | 6,791                 | 8,335            |
| -0.3 %           | +1.5 %           | +9.5 %                            | -1.7 %           | +12.0 %          | +4.1 %           | +9.6 %           | +5.2 %           |                  |                  | +11.4 %               | +22.7 %          |
| -5.8 %           | +5.5 %           | +3.4 %                            | +3.7 %           | +6.6 %           | +9.0 %           | +4.8 %           | +9.6 %           |                  |                  | +6.2 %                | +27.3 %          |
| 18               | 18               | 2                                 | 2                | 6                | 4                | 39               | 38               | (80)             | (77)             |                       |                  |
| 285              | 304              | 123                               | 104              | 132              | 38               | 179              | 247              | (49)             | (3)              | 1,049                 | 1,175            |
| 121              | 121              | 22                                | 19               | 38               | 42               | 78               | 82               | 48               | 37               | 387                   | 599              |
| 285              | 282              | 102                               | 87               | 126              | 69               | 191              | 235              | 93               | 181              | 1,089                 | 1,411            |
| (289)            | (113)            | (61)                              | (125)            | 35               | (25)             | 238              | 62               | 72               | 193              | 38                    | 375              |
| 15,500           | 14,900           | 2,800                             | 2,900            | 4,800            | 4,900            | 9,800            | 10,200           | 21,100           | 21,300           | 82,400                | 105,100          |

| Asia/Pacific     |                  | Latin America/ Africa/Middle East |                  | Reconciliation   |                  | Continuing Operations |                  |
|------------------|------------------|-----------------------------------|------------------|------------------|------------------|-----------------------|------------------|
| 1st Quarter 2006 | 1st Quarter 2007 | 1st Quarter 2006                  | 1st Quarter 2007 | 1st Quarter 2006 | 1st Quarter 2007 | 1st Quarter 2006      | 1st Quarter 2007 |
| 1,006            | 1,200            | 831                               | 1,061            |                  |                  | 6,791                 | 8,335            |
| +7.7 %           | +19.3 %          | +13.2 %                           | +27.7 %          |                  |                  | +11.4 %               | +22.7 %          |
| +2.2 %           | +27.8 %          | +1.6 %                            | +38.7 %          |                  |                  | +6.2 %                | +27.3 %          |
| 964              | 1,137            | 649                               | 825              |                  |                  | 6,791                 | 8,335            |
| +7.1 %           | +17.9 %          | +14.1 %                           | +27.1 %          |                  |                  | +11.4 %               | +22.7 %          |
| +1.4 %           | +26.9 %          | -0.4 %                            | +40.8 %          |                  |                  | +6.2 %                | +27.3 %          |
| 59               | 53               | 42                                | 57               | (1,623)          | (2,000)          |                       |                  |
| 123              | 73               | 44                                | 63               | (43)             | (42)             | 1,049                 | 1,175            |
| 128              | 98               | 38                                | 71               | (25)             | (8)              | 1,089                 | 1,411            |
| 13,600           | 17,800           | 10,600                            | 13,800           |                  |                  | 82,400                | 105,100          |

**Accounting policies**

Pursuant to Section 315a of the German Commercial Code, the unaudited consolidated interim financial statements as of March 31, 2007 have been prepared according to the International Financial Reporting Standards (IFRS) – including IAS 34 – of the International Accounting Standards Board (IASB), London, which are endorsed by the European Union, and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC), in effect at the closing date.

Reference should be made as appropriate to the notes to the 2006 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  | 1st Quarter<br>2006 | 1st Quarter<br>2007 |
|--|---------------------|---------------------|
| € million  |                     |                     |
| Income after taxes   | 597                 | 2,810               |
| Income attributable to minority interest   | (3)                 | 1                   |
| Income attributable to Bayer AG stockholders                                       | 600                 | 2,809               |
| Income from discontinued operations  | 35                  | 2,154               |
| Financing expenses for the mandatory convertible bond,<br>net of tax effects       | –                   | 24                  |
| Adjusted income after taxes from continuing operations                             | 565                 | 679                 |
| Adjusted net income  | 600                 | 2,833               |
| Weighted average number of issued ordinary shares                                  | 730,341,920         | 764,341,920         |
| Potential shares to be issued upon conversion<br>of the mandatory convertible bond | –                   | 59,523,810          |
| Adjusted weighted average total number of issued and<br>potential ordinary shares  | 730,341,920         | 823,865,730         |
| Basic earnings per share (€)   |                     |                     |
| from continuing operations   | 0.77                | 0.82                |
| from continuing and discontinued operations  | 0.82                | 3.44                |
| Diluted earnings per share (€)   |                     |                     |
| from continuing operations   | 0.77                | 0.82                |
| from continuing and discontinued operations  | 0.82                | 3.44                |

2006 figures restated

**Changes in the Bayer Group****Scope of consolidation**

As of March 31, 2007, the Bayer Group comprised 386 fully or proportionately consolidated companies, compared with 432 companies as of December 31, 2006. This decrease is primarily the result of companies leaving the group through the Diagnostics and H.C. Starck divestitures and of intragroup mergers of companies as part of the integration of Schering, Berlin, Germany.

### Discontinued operations

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In mid-2006 Bayer AG and Siemens AG signed an agreement concerning the sale of the Diagnostics business, which was transferred to the new owner on January 2, 2007.

On November 23, 2006 an agreement was concluded to divest the activities of the H.C. Starck group, formerly assigned to the Materials segment, to a consortium of two financial investors, Advent International and The Carlyle Group. This business was transferred to the new owners on February 1, 2007.

The agreement to sell the companies of the Wolff Walsrode group, which operates principally in the field of cellulose chemistry, to The Dow Chemical Company, United States, was signed in December 2006. Wolff Walsrode also was formerly assigned to the Materials segment. Pending the approval of the antitrust authorities, the transfer of this business is expected to take place in the summer of 2007.

The Diagnostics activities, H.C. Starck and Wolff Walsrode are recognized as discontinued operations. The prior-period data have been restated accordingly.

This information, which is provided from the standpoint 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. This presentation is thus in line with the principles for reporting discontinued operations.

| Discontinued Operations  | Diagnostics      |                  | H.C. Starck      |                  | Wolff Walsrode   |                  | Total            |                  |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                          | 1st Quarter 2006 | 1st Quarter 2007 | 1st Quarter 2006 | 1st Quarter 2007 | 1st Quarter 2006 | 1st Quarter 2007 | 1st Quarter 2006 | 1st Quarter 2007 |
| € million                |                  |                  |                  |                  |                  |                  |                  |                  |
| Net sales                | 378              | 0                | 247              | 74               | 78               | 85               | 703              | 159              |
| Operating result (EBIT)* | 31               | 2,778            | 22               | 109              | 6                | 13               | 59               | 2,900            |
| Income after taxes       | 21               | 2,044            | 12               | 103              | 2                | 7                | 35               | 2,154            |
| Gross cash flow*         | 64               | (10)             | 27               | 14               | 10               | 10               | 101              | 14               |
| Net cash flow*           | 64               | 7                | 26               | 26               | 0                | 5                | 90               | 38               |
| Net investing cash flow  | (29)             | 3,748            | (10)             | 922              | (2)              | (2)              | (41)             | 4,668            |
| Net financing cash flow  | (35)             | (3,755)          | (16)             | (948)            | 2                | (3)              | (49)             | (4,706)          |

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

### Related parties

In the course of the operating business, materials, inventories and services are sourced from a large number of business partners around the world. These include companies in which an interest is held, and companies with which members of the Supervisory Board of Bayer AG are associated. Transactions with these companies are carried out on an arm's-length basis. Business with such companies was not material from the viewpoint of the Bayer Group. The Bayer Group was not a party to any transaction of an unusual nature or structure that was material to it or to companies or persons closely associated with it, nor does it intend to be party to such transactions in the future.

Business transactions with companies included in the consolidated financial statements at equity, or at cost less impairment charges, mainly comprised trade in goods and services. The value of these transactions was, however, immaterial from the point of view of the Bayer Group. The same applies to financial receivables and payables vis-à-vis related parties.

#### **Other information**

The Annual Stockholders' Meeting on April 27, 2007 approved the dividend proposed by the Board of Management and Supervisory Board of €1.00 per share for fiscal 2006.

The stockholders also ratified the actions of the members of the Board of Management and the Supervisory Board.

The terms of office of all Supervisory Board members ended at the close of the 2007 Annual Stockholders' Meeting. In addition to the previous Supervisory Board members Dr. Paul Achleitner, Prof. Dr.-Ing. h.c. Hans-Olaf Henkel, Dr. Klaus Kleinfeld, Dr. Manfred Schneider, Dr. Ekkehard D. Schulz, Dr.-Ing. h.c. Jürgen Weber and Prof. Dr. Dr. h.c. Ernst-Ludwig Winnacker, the Annual Stockholders' Meeting elected Dr. Clemens Börsig, Chairman of the Supervisory Board of Deutsche Bank Aktiengesellschaft, Dr. Helmut Panke, former Chairman of the Board of Management of BMW Aktiengesellschaft, and Dr. Klaus Sturany, member of the Board of Management of RWE Aktiengesellschaft, as stockholders' representatives on the Supervisory Board. They will hold office until the conclusion of the Annual Stockholders' Meeting that resolves on the ratification of the actions of the members of the Supervisory Board for the 2011 fiscal year. In addition to the previous Supervisory Board members Willy Beumann, Karl-Josef Ellrich, Dr.-Ing. Thomas Fischer, Peter Hausmann, Rainer Hoffmann, Petra Kronen, Hubertus Schmoltdt and Thomas de Win, the employee delegates' assembly elected Oliver Zühlke and André Krejčík as employees' representatives on the Supervisory Board.

The existing Authorized Capital II was revoked and new Authorized Capital II created with the option of excluding subscription rights; Section 4, Paragraph 3 of the Articles of Incorporation (Capital Stock) was amended accordingly.

Due to the expiration of the authorization given by the previous Annual Stockholders' Meeting, the Board of Management was again authorized to purchase and sell company shares subject to exclusion of subscription rights.

The Annual Stockholders' Meeting approved the Control Agreement between Bayer AG and Bayer Schering GmbH.

PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Essen, Germany, was appointed as auditor for the 2007 fiscal year as well as for the audit review of the semi-annual financial report for the 2007 fiscal year.

Leverkusen, May 2, 2007  
Bayer Aktiengesellschaft

The Board of Management