

Jump in HealthCare sales and earnings

Bayer: excellent start to 2007

- All subgroups on course for growth – sales up 22.7 percent to €8.3 billion
- EBITDA before special items climbs 27.2 percent to €2.0 billion
- EBIT before special items moves ahead 16.8 percent to €1.4 billion
- Group net income improves from €0.6 billion to €2.8 billion
- Net debt reduced by €4.8 billion

Overview of Sales, Earnings and Financial Position

Bayer got off to an excellent start in 2007, substantially improving on its strong performance in the prior-year quarter. **Sales** rose by 22.7 percent to €8,335 million (Q1 2006: €6,791 million). Revenues for the first three months of 2007 include €1,410 million in sales of the acquired products of Schering, Berlin, Germany. When adjusted for the effects of exchange rate shifts and portfolio changes, sales rose by 7.5 percent, with HealthCare (+7.9 percent), CropScience (+5.9 percent) and MaterialScience (+9.4 percent) all contributing to the increase.

The Group's **EBITDA** before special items advanced by 27.2 percent to €1,990 million (Q1 2006: €1,564 million). The figure for HealthCare jumped by 103.9 percent to €948 million (Q1 2006: €465 million), mainly in light of the Schering AG acquisition and a solid performance by Consumer Health. At CropScience there was a 6.0 percent improvement to €584 million (Q1 2006: €551 million), particularly as a result of higher volumes and improved cost structures. EBITDA before special items of MaterialScience fell by 24.1 percent from the high level of the prior-year quarter, to €409 million (Q1 2006: €539 million), largely due to increased raw material costs.

Net Sales by Market

€ million		Total
Q1		
2006	1,115 5,676	6,791
2007	1,301 7,034	8,335
Q2		
2006	1,060 5,676	6,736
2007		
Q3		
2006	1,183 6,276	7,459
2007		
Q4		
2006	1,167 6,803	7,970
2007		

■ Domestic ■ Foreign

Operating Result (EBIT)



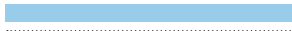


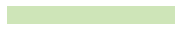


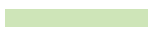
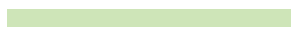
€ million	
Q1	
2006	1,049
2007	1,175
Q2	
2006	877
2007	
Q3	
2006	630
2007	
Q4	
2006	206
2007	

EBIT before special items advanced by 16.8 percent in the first quarter of 2007, to €1,375 million (Q1 2006: €1,177 million). Earnings were diminished by special charges of €200 million (Q1 2006: €128 million). The acquisition and integration of Schering, Berlin, Germany, led to special charges of €139 million. Special charges of €61 million were incurred for restructuring at CropScience, MaterialScience and Bayer Industry Services. After special items, **EBIT** of the Bayer Group moved ahead by 12.0 percent to €1,175 million (Q1 2006: €1,049 million).

After a non-operating result of minus €218 million (Q1 2006: minus €210 million), pre-tax income came in at €957 million (Q1 2006: €839 million). The non-operating result contained net interest expense of €156 million (Q1 2006: €143 million). Here it should be noted that interest charges for the same period of the previous year were boosted by one-time effects, while financing costs in the first quarter of 2007 rose due to acquisitions. After tax expense of €301 million (Q1 2006: €277 million), income after taxes from continuing operations rose to €656 million (Q1 2006: €562 million).

Income after taxes from discontinued operations was €2.2 billion, including divestment gains of €2.1 billion for the Diagnostics business and €0.1 billion for H.C. Starck.

After minority stockholders' interest, net income of the Bayer Group amounted to €2,809 million (Q1 2006: €600 million). Earnings per share came to €3.44 (Q1 2006: €0.82).

Gross Cash Flow			Net Cash Flow		
€ million			€ million		
Q1			Q1		
2006		1,089	2006		38
2007		1,411	2007		375
Q2			Q2		
2006		928	2006		882
2007			2007		
Q3			Q3		
2006		1,135	2006		1,515
2007			2007		
Q4			Q4		
2006		761	2006		1,493
2007			2007		

Gross cash flow improved by 29.6 percent from the prior-year quarter, to €1,411 million (Q1 2006: €1,089 million), due to the strong growth in business and the inclusion of Schering, Berlin, Germany. Net cash flow rose by €337 million to €375 million (Q1 2006: €38 million). The total net cash flow including discontinued operations was €413 million.

Net debt declined by €4.8 billion to €12.8 billion in the first quarter of 2007, due particularly to the proceeds from the divestments of the Diagnostics business and H.C. Starck.

Provisions for pensions and other post-employment benefits declined by €0.4 billion compared with December 31, 2006, to €6.2 billion, mainly because of higher capital market interest.

Future Perspectives

Economic outlook

For 2007 we continue to expect the global economy to grow at a rate that is considerably faster than the long-term average. In our opinion, the economic slowdown in the United States will only have a moderate effect on the global economy. Robust growth in Europe and also in the emerging economies of Asia and Latin America is expected to compensate for the weakness in the United States. Although we anticipate that the global economy will maintain its current momentum, risks could result from continuing imbalances in the world economy. It is also very difficult to predict the development of oil prices. We therefore expect a positive trend across the MaterialScience market sectors, although the extent of this trend will vary from region to region. The global crop protection market is expected to expand compared to the previous year. We do not expect a major change in the performance of the pharmaceuticals market compared to the prior year.

Bayer Group sales and earnings forecast

In light of the very successful start to 2007, we confirm our positive outlook for the year. At the present time we are not altering the guidance we issued in March. For the full year we therefore continue to target more than 10 percent growth in both Group sales and underlying EBITDA, along with a slight increase in the underlying EBITDA margin.

We remain confident of the trend in our HealthCare business. For the year as a whole we intend to grow with or faster than the market in all divisions and improve the underlying EBITDA margin toward 24 percent.

The market environment for our CropScience business in the first quarter was positive as expected. Provided market conditions do not significantly deteriorate, we continue to expect that we will grow slightly faster than the market and improve the underlying EBITDA margin toward 22 percent.

Following the anticipated strong start to the year, MaterialScience plans to achieve further volume growth in 2007 and expects to sustain a good, value-creating earnings level. Underlying EBITDA in the second quarter is expected to be roughly on par with the first quarter.

Performance by Subgroup and Segment

Changes in corporate structure

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

As of March 31, 2007, our interest in the voting capital of Bayer Schering Pharma AG, Berlin, Germany, amounted to 96.3 percent. The acquired business of Schering, Berlin, Germany, is included in the Pharmaceuticals segment of the HealthCare subgroup as of June 23, 2006. This business is not included in the figures for the first quarter of 2006.

The names “Bayer Schering Pharma” or “Schering” as used in this report always refer to Bayer Schering Pharma AG, Berlin, Germany, or its predecessor, Schering AG, Berlin, Germany, respectively. The reference to Bayer Schering Pharma AG or Schering AG also includes business conducted by affiliated entities in countries outside Germany. Bayer Schering Pharma AG and Schering-Plough Corporation, New Jersey, United States, are unaffiliated companies that have been totally independent of each other for many years.

The commentaries in this report relate exclusively to continuing operations, except where specific reference is made to discontinued operations or to a total value (total). The Diagnostics Division and H.C. Starck, both now divested, and the Wolff Walsrode activities, divestment of which is pending, are reported as discontinued operations. The prior-year data are restated accordingly.

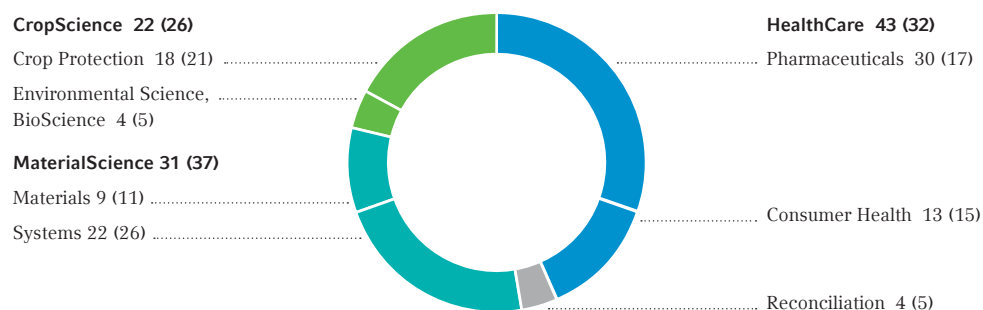
Key Data by Subgroup and Segment

€ million	Sales		EBIT before special items*		EBITDA before special items*		EBITDA margin before special items*	
	1st Quarter 2006	1st Quarter 2007	1st Quarter 2006	1st Quarter 2007	1st Quarter 2006	1st Quarter 2007	1st Quarter 2006	1st Quarter 2007
HealthCare	2,203	3,610	385	624	465	948	21.1%	26.3%
Pharmaceuticals	1,148	2,495	207	420	246	711	21.4%	28.5%
Consumer Health	1,055	1,115	178	204	219	237	20.8%	21.3%
CropScience	1,771	1,786	408	447	551	584	31.1%	32.7%
Crop Protection	1,413	1,434	285	343	406	461	28.7%	32.1%
Environmental Science, BioScience	358	352	123	104	145	123	40.5%	34.9%
MaterialScience	2,486	2,608	423	291	539	409	21.7%	15.7%
Materials	710	739	132	38	170	80	23.9%	10.8%
Systems	1,776	1,869	291	253	369	329	20.8%	17.6%
Reconciliation	331	331	(39)	13	9	49	2.7%	14.8%
Continuing operations	6,791	8,335	1,177	1,375	1,564	1,990	23.0%	23.9%

2006 figures restated

* for definition see Bayer Group Key Data on page 2, also page 29.

Sales by Segment in Percent, 1st Quarter 2007 (Q1 2006 in parentheses)



Bayer HealthCare

Sales of the **Bayer HealthCare** subgroup rose in the first quarter by 63.9 percent, or €1,407 million, to €3,610 million. The acquired business of Schering, Berlin, Germany, contributed €1,410 million to this figure. Currency- and portfolio-adjusted sales improved by 7.9 percent, due particularly to the gratifying trend in our Consumer Health segment.

EBITDA before special items for this subgroup climbed by 103.9 percent to €948 million (Q1 2006: €465 million). Underlying **EBIT** advanced by €239 million to €624 million (Q1 2006: €385 million). The special items totaling minus €139 million in our HealthCare business resulted from charges connected with the integration of Schering, Berlin, Germany. **EBIT** of Bayer HealthCare moved ahead by €106 million, or 28.0 percent, to €485 million.

Pharmaceuticals

Sales of our **Pharmaceuticals** segment rose by €1,347 in the first quarter of 2007, to a total of €2,495 million (Q1 2006: €1,148 million), with the acquired business of Schering, Berlin, Germany, accounting for €1,410 million. Adjusted for currency and portfolio changes, sales expanded by 4.6 percent. Sharply higher sales of Nexavar[®] and Levitra[®] more than offset the expected decline for Cipro[®]/Ciprobay[®].

The figures for the first quarter of 2006 do not contain the business of Schering, Berlin, Germany, acquired in June 2006. The commentaries given below on business developments related to the acquired products include comparisons with data for the first quarter of 2006 that were prepared by Schering AG, Berlin, Germany, and do not form part of the Bayer Group financial statements. We refer to those figures as “pro forma.” The acquired Schering business posted dynamic currency- and portfolio-adjusted sales growth of more than 5 percent.

Sales of the Primary Care business unit in the first three months of 2007 dipped by 1.8 percent to €773 million, but rose by 1.5 percent on a currency- and portfolio-adjusted basis. On a currency-adjusted basis, business with Levitra[®] developed particularly well, expanding by 14.7 percent, while sales of Avalox[®]/Avelox[®] also improved slightly in the first quarter, advancing by 3.8 percent. Increasing competition from generic products led to a marked decline for Cipro[®]/Ciprobay[®], with sales dropping by 15.0 percent when adjusted for shifts in currency parities.

In our Women's Healthcare business unit, we achieved sales of €627 million in the first quarter. The main growth drivers were the oral contraceptives of the Yasmin[®]/YAZ[®]/Yasminelle[®] product line, sales of which rose by 41.1 percent (pro forma) when adjusted for currency changes. This positive performance was due particularly to the launch of Yasminelle[®] in Europe and of YAZ[®] in the United States and Latin America. In January, the U.S. Food and Drug Administration (FDA) expanded the registration for YAZ[®], which can now be used in the United States to treat moderately severe acne in women. Currency-adjusted sales of our intra-uterine system Mirena[®] also advanced by a pleasing 25.0 percent (pro forma) thanks mainly to strong growth in the United States.

Bayer HealthCare	1st Quarter 2006	1st Quarter 2007	Change
	€ million	€ million	%
Net sales	2,203	3,610	+ 63.9
EBITDA¹	459	783	+ 70.6
<i>Special items</i>	(6)	(165)	
<i>EBITDA before special items²</i>	465	948	+ 103.9
EBITDA margin before special items	21.1%	26.3%	
EBIT¹	379	485	+ 28.0
<i>Special items</i>	(6)	(139)	
<i>EBIT before special items²</i>	385	624	+ 62.1
Gross cash flow¹	292	557	+ 90.8
Net cash flow¹	43	383	•

2006 figures restated

¹ for definition see Bayer Group Key Data on page 2

² for definition see also page 29

Pharmaceuticals	1st Quarter 2006	1st Quarter 2007	Change
	€ million	€ million	%
Sales	1,148	2,495	+ 117.3
Primary Care ¹	787	773	- 1.8
Women's Healthcare	•	627	•
Diagnostic Imaging (including Medrad)	•	307	•
Specialized Therapeutics	•	303	•
Hematology/Cardiology	327	268	- 18.0
Oncology ²	34	159	•
Dermatology (Intendis)	•	58	•
EBITDA³	241	546	+ 126.6
<i>Special items</i>	(5)	(165)	
<i>EBITDA before special items⁴</i>	246	711	+ 189.0
EBITDA margin before special items	21.4%	28.5%	
EBIT³	202	281	+ 39.1
<i>Special items</i>	(5)	(139)	
<i>EBIT before special items⁴</i>	207	420	+ 102.9
Gross cash flow³	162	390	+ 140.7
Net cash flow³	(11)	279	•

2006 figures restated

¹ Schering andrology business not included in Q1 2006

² Schering oncology business not included in Q1 2006

³ for definition see Bayer Group Key Data on page 2

⁴ for definition see also page 29

Sales of the Diagnostic Imaging business unit came to €307 million. Currency-adjusted sales of Magnevist® rose by 11.8 percent (pro forma), while those of Ultravist® fell by 20.8 percent (pro forma) from the prior-year quarter. Having voluntarily withdrawn the 370 mgI/ml formulation of Ultravist® in the summer of 2006, we resumed sales of this product in numerous countries in the first quarter of 2007. We expect to quickly proceed with distribution of this product in the remaining countries as well.

Sales of the Specialized Therapeutics business unit amounted to €303 million. Currency-adjusted sales of our top product Betaferon®/Betaseron® to treat multiple sclerosis (MS) expanded by 9.9 percent (pro forma) in the first quarter. To safeguard our Betaseron® business, we signed an agreement with Novartis in March 2007 to acquire the biologics manufacturing facility in Emeryville, California, currently used to produce Betaseron®. The acquisition is subject to the approval of the antitrust authorities. According to the terms of the agreement, Bayer will make a one-time payment to Novartis of approximately US\$ 110 million for the production facility, including the Biologics License Application (BLA). Bayer Schering Pharma will continue to pay Novartis royalties equivalent to those being paid currently on net sales of Betaseron® manufactured by Bayer at the Emeryville facilities until the original agreement with Novartis expires in October 2008. After this date, no more royalties will be due to Novartis on the sales of Betaseron®. Bayer Schering Pharma will also acquire the existing inventories. In return, Novartis will receive a license to establish its own brand based on interferon beta-1b starting in 2009. When it is approved by the health authorities, Bayer Schering Pharma will manufacture the product for Novartis from 2009 forward and receive in return a low double-digit percentage royalty from Novartis.

Sales of the Hematology/Cardiology business unit fell by 18.0 percent to €268 million, mainly due to termination of the plasma distribution agreements for Canada and Germany. Adjusted for currency and portfolio changes, business was up by 3.7 percent. Currency-adjusted sales of Kogenate® advanced by 3.2 percent in the first quarter. At the end of January 2007, the European Commission granted an additional registration authorizing the use of Kogenate® for continuous infusion in hemophilia A patients undergoing major surgery. Currency-adjusted sales of Trasylol® declined by 4.4 percent. Two separate observational studies reported on a possible correlation between the administration of Trasylol® (aprotinin), our product for use during open-heart surgery, and severe renal dysfunction and vasoconstriction (myocardial infarction and stroke). A follow-up study to one of them reported on a possible correlation between administration of this product and increased long-term mortality. Based on our study data and many years of experience with Trasylol®, Bayer believes that this product is a safe and effective medicine when used correctly. We are currently cooperating closely with the relevant regulatory authorities to resolve the questions that have arisen.

Best-Selling Pharmaceutical Products	1st Quarter 2006	1st Quarter 2007	Change	Currency- adjusted change
	€ million	€ million	%	%
Betaferon®/Betaseron®* (Specialized Therapeutics)	•	244	•	•
Yasmin®/YAZ®/Yasminelle®* (Women's Healthcare)	•	240	•	•
Kogenate® (Hematology/Cardiology)	204	201	-1.5	+3.2
Adalat® (Primary Care)	157	145	-7.6	-0.9
Avalox®/Avelox® (Primary Care)	130	128	-1.5	+3.8
Cipro®/Ciprobay® (Primary Care)	132	108	-18.2	-15.0
Levitra® (Primary Care)	78	84	+7.7	+14.7
Mirena®* (Women's Healthcare)	•	81	•	•
Magnevist®* (Diagnostic Imaging)	•	80	•	•
Glucobay® (Primary Care)	77	72	-6.5	-1.2
Total	778	1,383	+77.8	+87.1
Proportion of Pharmaceuticals sales	68%	55%		

Products ranked by Q1 2007 sales
* acquired Schering AG product

Best-Selling Schering Products (pro forma)	1st Quarter 2006	1st Quarter 2007	Change	Currency- adjusted change
	€ million	€ million	%	%
Betaferon®/Betaseron® (Specialized Therapeutics)	232	244	+5.2	+9.9
Yasmin®/YAZ®/Yasminelle® (Women's Healthcare)	180	240	+33.3	+41.1
Mirena® (Women's Healthcare)	68	81	+19.1	+25.0
Magnevist® (Diagnostic Imaging)	76	80	+5.3	+11.8

Our Oncology business unit lifted sales by €125 million to €159 million. Included in this figure is €98 million in sales of the acquired oncology business of Schering AG, Berlin, Germany, which mainly comprises the key products Fludara® and Campath®. Currency- and portfolio-adjusted sales rose by 83.6 percent. Our new cancer drug, Nexavar®, first launched in December 2005, performed very well in the market, with sales of €47 million (Q1 2006: €20 million). Study results for Nexavar® in liver cancer are also very promising. The phase III study involving patients with advanced hepatocellular carcinoma reached its primary endpoint. Overall survival was significantly extended in patients treated with Nexavar®. Furthermore, Bayer plans to expand the registration of Campath®, developed jointly by Bayer and Genzyme, to include first-line treatment of B-cell chronic lymphocytic leukemia (B-CLL). Genzyme submitted the required supplemental license application to the FDA on March 19, 2007 and to the European Medicines Agency (EMA) on April 4, 2007.

The Dermatology (Intendis) business unit had sales of €58 million. Currency-adjusted sales of the principal products Skinoren® and Advantan® rose by 16.5 percent and 1.8 percent (pro forma), respectively.

EBITDA of the **Pharmaceuticals** segment before special items advanced to €711 million in the first quarter of 2007, from €246 million in the same period of last year. This sharp increase is mainly due to the earnings contribution from the acquired business of Schering, Berlin, Germany, and to improved cost structures, including synergies already realized. **EBIT** before special items rose by €213 million, or 102.9 percent, to €420 million. The special charges of €139 million in the Pharmaceuticals segment resulted from expenses for the acquisition and integration of Schering. **EBIT** moved ahead by €79 million, or 39.1 percent, to €281 million.

Consumer Health

All divisions contributed to the gratifying performance of our **Consumer Health** segment, where **sales** improved by 5.7 percent to €1,115 million (Q1 2006: €1,055 million). On a currency-adjusted basis, business expanded by a substantial 11.4 percent.

Sales in the Consumer Care Division rose by 2.6 percent to €659 million (Q1 2006: €642 million), or by 8.1 percent on a currency-adjusted basis. Among our top products, Aleve® performed particularly well, with sales up 40.9 percent when adjusted for changes in currency parities, thanks mainly to the launch of Aleve® Liquid Gels in the United States.

There was a significant increase in sales of the Diabetes Care Division, where business improved by 17.1 percent to €226 million (Q1 2006: €193 million), due primarily to a strong performance by our blood glucose monitoring systems Ascensia® Contour® and Ascensia® Breeze®, which replace the older Elite® systems in the Ascensia® product family. Currency-adjusted sales of the division improved by an even more gratifying 23.0 percent.

Sales of the Animal Health Division rose by 4.5 percent to €230 million (Q1 2006: €220 million), or by 11.2 percent when adjusted for currency changes. The increase was primarily due to the encouraging performance of our Advantage® product line, especially in North America, sales of which rose 35.5 percent on a currency-adjusted basis.

EBITDA of the **Consumer Health** segment before special items grew by €18 million, or 8.2 percent, in the first quarter of 2007, to €237 million. Higher earnings resulting from the growth in sales more than offset an increase in marketing expenses to support the new product launches planned for 2007. **EBIT** before special items advanced by 14.6 percent to €204 million (Q1 2006: €178 million). After special items, **EBIT** improved by 15.3 percent to €204 million (Q1 2006: €177 million).

Consumer Health	1st Quarter 2006	1st Quarter 2007	Change
	€ million	€ million	%
Net sales	1,055	1,115	+ 5.7
Consumer Care	642	659	+ 2.6
Diabetes Care	193	226	+ 17.1
Animal Health	220	230	+ 4.5
EBITDA*	218	237	+ 8.7
<i>Special items</i>	<i>(1)</i>	<i>0</i>	
<i>EBITDA before special items</i>	<i>219</i>	<i>237</i>	<i>+ 8.2</i>
EBITDA margin before special items	20.8%	21.3%	
EBIT*	177	204	+ 15.3
<i>Special items</i>	<i>(1)</i>	<i>0</i>	
<i>EBIT before special items</i>	<i>178</i>	<i>204</i>	<i>+ 14.6</i>
Gross cash flow*	130	167	+ 28.5
Net cash flow*	54	104	+ 92.6

2006 figures restated

* for definition see Bayer Group Key Data on page 2

Best-Selling Consumer Health Products	1st Quarter 2006	1st Quarter 2007	Change	Change currency- adjusted
	€ million	€ million	%	%
Ascensia® product line (Diabetes Care)	190	223	+ 17.4	+ 23.8
Aspirin®* (Consumer Care)	116	113	- 2.6	+ 2.3
Advantage® product line (Animal Health)	59	75	+ 27.1	+ 35.5
Aleve®/naproxen (Consumer Care)	53	69	+ 30.2	+ 40.9
Canesten® (Consumer Care)	41	43	+ 4.9	+ 7.3
Baytril® (Animal Health)	40	40	0.0	+ 2.8
Bepanthen®/Bepanthol® (Consumer Care)	35	36	+ 2.9	+ 5.1
Supradyn® (Consumer Care)	35	33	- 5.7	- 3.2
One-A-Day® (Consumer Care)	30	31	+ 3.3	+ 12.1
Rennie® (Consumer Care)	26	27	+ 3.8	+ 5.4
Total	625	690	+ 10.4	+ 16.1
Proportion of Consumer Health sales	59%	62%		

* Total Aspirin® sales = €167 million (Q1 2006: €164 million), including Aspirin® Cardio, which is reflected in sales of the Pharmaceuticals segment

Sales of our **CropScience** subgroup, at €1,786 million, showed a slight year-on-year increase (Q1 2006: €1,771 million). Adjusted for currency and portfolio changes, business expanded by a gratifying 5.9 percent.

EBITDA before special items advanced by €33 million, or 6.0 percent, to €584 million. The combined effect of higher volumes and cost savings more than offset the pressure on margins from adverse shifts in currency parities. **EBIT** before special items improved by €39 million, or 9.6 percent, to €447 million. Earnings were held back by special charges related to the restructuring project initiated in 2006. First-quarter **EBIT** was steady at €408 million.

Crop Protection

First-quarter sales in the Crop Protection segment grew to €1,434 million (Q1 2006: €1,413 million). When adjusted for currency and portfolio changes, sales moved ahead 6.5 percent. The early start to the season in Europe, the increased cultivation of plants for the production of biofuels and internationally high prices for crop commodities led to growth in business, particularly in the Seed Treatment, Herbicides and Fungicides business units.

Sales of the Insecticides business unit fell by €37 million to €311 million. When adjusted for currency and portfolio changes, sales decreased by 4.2 percent. The decline should be viewed in light of the impact on our North American business of factors including a shift from soil- and foliar-applied insecticides to seed treatment products in the first quarter of this year. Sales in Europe increased, thanks mainly to a strong performance by our new insecticide Biscaya®.

Sales of the Fungicides business unit grew by 1.6 percent in the first quarter of 2007, to €384 million. On a currency-adjusted basis, the increase amounted to 4.2 percent. Buoyed by the trend in Europe, sales of our new cereal fungicides Proline® and Fandango®, in particular, made good gains. Business with our Flint® line of fungicide products benefited from a recovery in the Latin American market. The downward sales trend for our Folicur® product line was largely the result of a drop in business in the United States. Sales were hampered by the fact that our customers had built up substantial precautionary inventories in 2005/2006 for the prevention of Asian rust in soybeans. Another factor was the planned switch to the active ingredient prothioconazole, which received marketing authorization in the United States at the end of the first quarter of 2007.

Sales of the Herbicides business unit advanced by 3.3 percent to €568 million, with currency-adjusted growth amounting to 7.2 percent. The main reason for the improvement was the strong performance of our young cereal herbicides Atlantis®, Hussar® and Sekator®, particularly in Europe.

Bayer CropScience	1st Quarter 2006	1st Quarter 2007	Change
	€ million	€ million	%
Net sales	1,771	1,786	+ 0.8
EBITDA*	551	548	- 0.5
<i>Special items</i>	0	(36)	
<i>EBITDA before special items</i>	551	584	+ 6.0
<i>EBITDA margin before special items</i>	31.1%	32.7%	
EBIT*	408	408	0.0
<i>Special items</i>	0	(39)	
<i>EBIT before special items</i>	408	447	+ 9.6
Gross cash flow*	387	369	- 4.7
Net cash flow*	(350)	(238)	+ 32.0

* for definition see Bayer Group Key Data on page 2

Best-Selling Bayer CropScience Products*	1st Quarter 2006	1st Quarter 2007	Change	Currency- adjusted change
	€ million	€ million	%	%
Confidor®/Gaucho®/Admire®/Merit® (Insecticides/Seed Treatment/Environmental Science)	165	163	- 1.2	+ 3.1
Folicur®/Raxil® (Fungicides/Seed Treatment)	95	77	- 18.9	- 16.1
Atlantis® (Herbicides)	49	76	+ 55.1	+ 57.1
Proline® (Fungicides)	58	72	+ 24.1	+ 24.7
Basta®/Liberty® (Herbicides)	72	72	0.0	+ 8.0
Puma® (Herbicides)	68	69	+ 1.5	+ 7.5
Flint®/Stratego®/Sphere® (Fungicides)	49	60	+ 22.4	+ 29.1
Poncho® (Seed Treatment)	31	59	+ 90.3	+ 106.1
Hussar® (Herbicides)	32	47	+ 46.9	+ 44.6
Betanal® (Herbicides)	45	45	0.0	+ 2.2
Total	664	740	+ 11.4	+ 15.8
Proportion of Bayer CropScience sales	37%	41%		

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

Crop Protection	1st Quarter 2006	1st Quarter 2007	Change
	€ million	€ million	%
Net sales	1,413	1,434	+ 1.5
Insecticides	348	311	- 10.6
Fungicides	378	384	+ 1.6
Herbicides	550	568	+ 3.3
Seed Treatment	137	171	+ 24.8
EBITDA*	406	425	+ 4.7
<i>Special items</i>	0	(36)	
<i>EBITDA before special items</i>	406	461	+ 13.5
<i>EBITDA margin before special items</i>	28.7%	32.1%	
EBIT*	285	304	+ 6.7
<i>Special items</i>	0	(39)	
<i>EBIT before special items</i>	285	343	+ 20.4
Gross cash flow*	285	282	- 1.1
Net cash flow*	(289)	(113)	+ 60.9

* for definition see Bayer Group Key Data on page 2

Sales of the Seed Treatment business unit advanced by a substantial €34 million, or 24.8 percent, to €171 million. The currency-adjusted increase was 31.1 percent. Our new insecticidal seed treatment Poncho®, in particular, performed very well in the market in light of an early start to the season in Europe and especially because of the planned increase in corn acreages in the United States to meet heightened demand for biofuels.

First-quarter **EBITDA** before special items of our Crop Protection segment climbed by 13.5 percent year on year to €461 million, the positive overall sales trend and the savings achieved through our cost structure and efficiency improvement programs offsetting the currency-related squeeze on margins. **EBIT** before special items in the first quarter came in at €343 million (Q1 2006: €285 million). After special items, **EBIT** amounted to €304 million (Q1 2006: €285 million).

Environmental Science, BioScience

Sales of the **Environmental Science, BioScience** segment edged down 1.7 percent to €352 million, but rose by 3.7 percent on a currency-adjusted basis.

The Environmental Science unit recorded sales of €188 million, which was 2.6 percent below the prior-year figure. Currency-adjusted sales moved ahead 2.4 percent thanks to good business with home and garden products for consumers.

Sales of the BioScience unit held steady year on year at €164 million, though on a currency-adjusted basis they increased by 5.3 percent. The improvement was due particularly to the good development of our vegetable seed business.

EBITDA before special items of the Environmental Science, BioScience segment fell by €22 million year on year to €123 million (Q1 2006: €145 million), due primarily to negative currency effects and increased research and development spending at BioScience. **EBIT** fell by €19 million to €104 million (Q1 2006: €123 million).

Environmental Science, BioScience	1st Quarter 2006	1st Quarter 2007	Change
	€ million	€ million	%
Net sales	358	352	- 1.7
Environmental Science	193	188	- 2.6
BioScience	165	164	- 0.6
EBITDA*	145	123	- 15.2
<i>Special items</i>	<i>0</i>	<i>0</i>	
<i>EBITDA before special items</i>	<i>145</i>	<i>123</i>	<i>- 15.2</i>
EBITDA margin before special items	40.5%	34.9%	
EBIT*	123	104	- 15.4
<i>Special items</i>	<i>0</i>	<i>0</i>	
<i>EBIT before special items</i>	<i>123</i>	<i>104</i>	<i>- 15.4</i>
Gross cash flow*	102	87	- 14.7
Net cash flow*	(61)	(125)	- 104.9

* for definition see Bayer Group Key Data on page 2

The **MaterialScience** subgroup got off to a good start in 2007, expanding its business once again. **Sales** rose by 4.9 percent to €2,608 million (Q1 2006: €2,486 million), or by 9.4 percent on a currency-adjusted basis. Growth was mainly the result of higher volumes in all segments and regions. We also succeeded in holding selling prices steady overall in the face of continuing strong price pressure.

EBITDA before special items did not reach the high level of the previous year, coming in at €409 million (Q1 2006: €539 million). We did not succeed in compensating for the approximately €140 million increase in raw material and energy costs through higher volumes. **EBIT** before special items fell by €132 million, or 31.2 percent, to €291 million. After special items, first-quarter **EBIT** declined by €26 million, or 8.4 percent, to €285 million. Earnings of the Systems segment in the prior-year quarter were diminished by one-time expenses of €112 million arising from an arbitration proceeding in the United States concerning the production of propylene oxide.

Materials

Sales in the **Materials** segment advanced by 4.1 percent to €739 million, or by 9.0 percent on a currency-adjusted basis. The Polycarbonates business unit, with sales of €683 million, saw a currency-adjusted 9.1 percent increase in business despite lower selling prices. Volumes advanced in all regions. Sales of the Thermoplastic Polyurethanes business unit moved ahead 8.0 percent when adjusted for currency changes, thanks largely to higher volumes in Europe.

First-quarter **EBITDA** before special items dropped by €90 million, or 52.9 percent, to €80 million, with higher volumes not fully offsetting selling price erosion and raw material cost increases. **EBIT** fell by 71.2 percent to €38 million.

Systems

Sales of our **Systems** segment in the first quarter gained 5.2 percent from the prior-year period, to €1,869 million. Currency-adjusted sales improved by a substantial 9.6 percent.

Thanks to price increases and volume gains, our Polyurethanes business unit improved sales by 5.0 percent to €1,332 million. Adjusted for shifts in currency parities, growth came to 9.7 percent. The Coatings, Adhesives, Sealants business unit saw sales advance by 6.5 percent. The currency-adjusted increase amounted to 10.3 percent. Here, too, price increases and higher volumes were contributory factors.

EBITDA before special items of our Systems segment was down by €40 million, or 10.8 percent, from the excellent level of the prior-year period, to €329 million. Although we almost completely absorbed the increase in raw material costs by raising prices and boosting volume sales, earnings were weighed down by other factors, including the problems experienced by our supplier of raw MDI in Shanghai. **EBIT** before special items fell by €38 million, or 13.1 percent, to €253 million. The closure of our MDI plant at New Martinsville, West Virginia, United States, led to €6 million in special charges for the first quarter. After special items, **EBIT** rose by €68 million, or 38.0 percent, to €247 million.

Bayer MaterialScience	1st Quarter 2006	1st Quarter 2007	Change
	€ million	€ million	%
Net sales	2,486	2,608	+ 4.9
EBITDA*	427	409	- 4.2
<i>Special items</i>	(112)	0	
<i>EBITDA before special items</i>	539	409	- 24.1
EBITDA margin before special items	21.7%	15.7%	
EBIT*	311	285	- 8.4
<i>Special items</i>	(112)	(6)	
<i>EBIT before special items</i>	423	291	- 31.2
Gross cash flow*	317	304	- 4.1
Net cash flow*	273	37	- 86.4

2006 figures restated

* for definition see Bayer Group Key Data on page 2

Materials	1st Quarter 2006	1st Quarter 2007	Change
	€ million	€ million	%
Net sales	710	739	+ 4.1
Polycarbonates	656	683	+ 4.1
Thermoplastic Polyurethanes	54	56	+ 3.7
EBITDA*	170	80	- 52.9
<i>Special items</i>	0	0	
<i>EBITDA before special items</i>	170	80	- 52.9
EBITDA margin before special items	23.9%	10.8%	
EBIT*	132	38	- 71.2
<i>Special items</i>	0	0	
<i>EBIT before special items</i>	132	38	- 71.2
Gross cash flow*	126	69	- 45.2
Net cash flow*	35	(25)	•

2006 figures restated

* for definition see Bayer Group Key Data on page 2

Systems	1st Quarter 2006	1st Quarter 2007	Change
	€ million	€ million	%
Net sales	1,776	1,869	+ 5.2
Polyurethanes	1,269	1,332	+ 5.0
Coatings, Adhesives, Sealants	369	393	+ 6.5
Inorganic Basic Chemicals	106	106	0.0
Others	32	38	+ 18.8
EBITDA*	257	329	+ 28.0
<i>Special items</i>	(112)	0	
<i>EBITDA before special items</i>	369	329	- 10.8
EBITDA margin before special items	20.8%	17.6%	
EBIT*	179	247	+ 38.0
<i>Special items</i>	(112)	(6)	
<i>EBIT before special items</i>	291	253	- 13.1
Gross cash flow*	191	235	+ 23.0
Net cash flow*	238	62	- 73.9

* for definition see Bayer Group Key Data on page 2

Performance by Region

Bayer
Stockholders'
Newsletter 2007

**Group Management
Report
as of March 31, 2007**

Bayer's global business expanded in the first quarter of 2007 by €1,544 million, or 22.7 percent, to €8,335 million. Adjusted for shifts in exchange rates, sales rose by 27.3 percent. The increase in sales was mainly due to the inclusion of Schering, Berlin, Germany. The strongest percentage gains were recorded in the Europe and Latin America/Africa/Middle East regions. Adjusted for both currency and portfolio effects, business expanded by 7.5 percent.

The largest increases in absolute terms were achieved in **Europe**, where sales rose by €830 million, or 27.5 percent, to 3,848 million. Europe thus accounted for 46 percent of Group sales in the first quarter, with all subgroups posting a year-on-year improvement. Adjusted for currency and portfolio changes, business grew by 8.4 percent, mainly as a result of substantial increases in the Crop Protection and Systems segments. Sales in Germany climbed by 16.7 percent to €1,301 million, or by 5.0 percent when adjusted for portfolio changes.

Sales by Region and Segment (by Market)

€ million	Europe				North America			
	1st Quarter 2006	1st Quarter 2007	%	adj. %	1st Quarter 2006	1st Quarter 2007	%	adj. %
HealthCare	883	1,495	+ 69.3	+ 69.1	696	1,145	+ 64.5	+ 79.3
Pharmaceuticals	449	1,039	+ 131.4	+ 130.8	356	754	+ 111.8	+ 130.7
Consumer Health	434	456	+ 5.1	+ 5.1	340	391	+ 15.0	+ 25.4
CropScience	766	862	+ 12.5	+ 12.3	538	447	- 16.9	- 9.2
Crop Protection	623	723	+ 16.1	+ 16.0	380	292	- 23.2	- 16.1
Environmental Science, BioScience	143	139	- 2.8	- 3.3	158	155	- 1.9	+ 7.4
MaterialScience	1,065	1,185	+ 11.3	+ 11.3	700	631	- 9.9	- 1.6
Materials	274	283	+ 3.3	+ 3.6	151	149	- 1.3	+ 7.9
Systems	791	902	+ 14.0	+ 14.0	549	482	- 12.2	- 4.2
Continuing operations (incl. reconciliation)	3,018	3,848	+ 27.5	+ 27.5	1,936	2,226	+ 15.0	+ 25.4

2006 figures restated
adj. = currency adjusted

Sales in **North America** advanced by 15.0 percent to €2,226 million in the first quarter of 2007, or by 2.7 percent when adjusted for currency and portfolio changes. The Consumer Health segment in North America developed particularly well. The CropScience and MaterialScience subgroups, however, saw sales decline in this region.

In **Asia/Pacific** we expanded business by 19.3 percent, or by 10.1 percent when adjusted for currency and portfolio changes. Sales growth at Bayer HealthCare on a currency- and portfolio-adjusted basis was particularly due to gains in the Consumer Health segment. Sales of CropScience remained nearly steady in this region, dipping by 0.9 percent on a currency-adjusted basis, while MaterialScience posted substantial growth, with currency-adjusted sales up 20.4 percent.

Sales in the **Latin America/Africa/Middle East** region climbed by 27.7 percent, or by 12.9 on a currency- and portfolio-adjusted basis. CropScience sales in this region improved considerably, with a currency-adjusted 20.6 percent gain due primarily to a very pleasing uptrend in the crop protection business. We also generated higher sales in the HealthCare and MaterialScience subgroups.

		Asia/Pacific				Latin America/Africa/Middle East				Continuing Operations			
1st Quarter 2006	1st Quarter 2007	%	adj. %	1st Quarter 2006	1st Quarter 2007	%	adj. %	1st Quarter 2006	1st Quarter 2007	%	adj. %		
308	466	+51.3	+62.5	316	504	+59.5	+75.7	2,203	3,610	+63.9	+69.2		
224	379	+69.2	+82.7	119	323	+171.4	+196.7	1,148	2,495	+117.3	+122.2		
84	87	+3.6	+8.6	197	181	-8.1	+2.6	1,055	1,115	+5.7	+11.4		
236	219	-7.2	-0.9	231	258	+11.7	+20.6	1,771	1,786	+0.8	+5.1		
207	189	-8.7	-2.4	203	230	+13.3	+21.7	1,413	1,434	+1.5	+5.5		
29	30	+3.4	+10.4	28	28	0.0	+12.5	358	352	-1.7	+3.7		
450	506	+12.4	+20.4	271	286	+5.5	+12.2	2,486	2,608	+4.9	+9.4		
219	240	+9.6	+17.5	66	67	+1.5	+5.9	710	739	+4.1	+9.0		
231	266	+15.2	+23.1	205	219	+6.8	+14.2	1,776	1,869	+5.2	+9.6		
1,006	1,200	+19.3	+27.8	831	1,061	+27.7	+38.7	6,791	8,335	+22.7	+27.3		

Operating cash flow

Gross cash flow in the first quarter of 2007 amounted to €1,411 million, up 29.6 percent from the prior-year quarter (€1,089 million). The increase was mainly due to the inclusion of Schering, Berlin, Germany, and the strong performance of the business. Net cash flow improved by €337 million to €375 million (Q1 2006: €38 million). The change in working capital improved slightly compared with the first quarter of 2006 despite the growth in business.

Bayer Group Summary Cash Flow Statements	1st Quarter 2006	1st Quarter 2007
€ million		
Gross cash flow*	1,089	1,411
Changes in working capital/other non-cash items	(1,051)	(1,036)
Net cash provided by (used in) operating activities (net cash flow), continuing operations	38	375
Net cash provided by (used in) operating activities (net cash flow), discontinued operations	90	38
Net cash provided by (used in) operating activities (net cash flow) (total)	128	413
Net cash provided by (used in) investing activities (total)	(192)	4,589
Net cash provided by (used in) financing activities (total)	(187)	(1,764)
Change in cash and cash equivalents due to business activities (total)	(251)	3,238
Cash and cash equivalents, January 1	3,290	2,915
Change due to exchange rate movements and to changes in scope of consolidation	(13)	(10)
Cash and cash equivalents, March 31	3,026	6,143

2006 figures restated

* for definition see Bayer Group Key Data on page 2

Investing cash flow

There was a net cash inflow of €4,589 for investing activities in the first three months of 2007, compared with a €192 million outflow in the prior-year quarter. The main items here are net proceeds totaling €4.7 billion from the divestments of our Diagnostics business and H.C. Starck. In January 2007 we sold the Diagnostics business to Siemens for €4.3 billion. Following an initial receipt of €0.4 billion in December 2006, there was a further inflow of €3.7 billion (after deducting divested cash of approximately €0.2 billion) from this transaction at the beginning of 2007. In subsequent quarters we will pay approximately €0.6 billion in taxes on the divestment gain. We sold H.C. Starck to Advent International and The Carlyle Group for approximately €1.2 billion. The transaction volume is comprised mainly of a cash component – including compensation for financial liabilities – of more than €0.9 billion, along with the assumption of €0.2 billion in pension obligations. This sale was closed at the beginning of February 2007.

Cash outflows for property, plant and equipment (€193 million) and intangible assets (€8 million) totaled €201 million (Q1 2006: €419 million). The prior-year figure included in particular the purchase of the European marketing rights for the blood pressure treatments Pritor® and PritorPlus® and expenditures for the expansion of our polymers production facilities in Caojing, China.

Financing cash flow

The €1,764 million (Q1 2006: €187 million) cash outflow for financing activities comprised €245 million in interest payments, €1,510 million in net repayments of loans and €9 million for dividend payments to minority stockholders of consolidated companies. The item “Bayer AG dividend” in the prior-year period contained an inflow of €176 million from the reimbursement of advance capital gains tax payments made on intragroup dividends in 2004.

As of March 31, 2007 the Bayer Group had cash and cash equivalents of €6,143 million, including €784 million held in escrow accounts. The latter amount comprises €699 million deposited in a guarantee account following the decision by the Extraordinary Stockholders’ Meeting of Bayer Schering Pharma AG on January 17, 2007 to squeeze out Bayer Schering Pharma AG’s remaining minority stockholders. The decision means the shares still held by minority stockholders will be transferred to the main stockholder, Bayer Schering GmbH, a wholly owned subsidiary of Bayer AG, in return for cash compensation of €98.98 per share. Dissenting stockholders are seeking to have the stockholder resolution set aside or to have it declared null and void. An additional €85 million is earmarked for payments relating to civil law settlements in antitrust proceedings.

In view of the restriction on its use, the liquidity held in escrow accounts was not deducted when calculating net debt. The high level of cash and cash equivalents will return to normal in subsequent quarters, particularly following the redemption of bonds.

Liquid assets and net debt

Net debt (total) declined by €4.8 billion compared with December 31, 2006, to €12.8 billion. This was due particularly to cash inflows from the divestitures and to the improvement in operating cash flow. We intend to use the proceeds of the planned sale of Wolff Walsrode to The Dow Chemical Company to further reduce net debt.

Net Debt	Dec. 31, 2006	March 31, 2007
€ million		
Noncurrent financial liabilities as per balance sheets (including derivatives)	14,723	14,626
of which mandatory convertible bond	2,276	2,278
of which hybrid bond	1,247	1,245
Current financial liabilities as per balance sheets (including derivatives)	5,078	3,673
Derivative receivables	(185)	(165)
Financial liabilities	19,616	18,134
Cash and cash equivalents*	(2,116)	(5,359)
Current financial assets	(27)	(5)
Net debt from continuing operations	17,473	12,770
Net debt from discontinued operations	66	7
Net debt (total)	17,539	12,777

* In view of the restriction on its use, the €784 million liquidity in escrow accounts in the first quarter of 2007 (Q1 2006: €299 million) was not deducted when calculating net debt. March 31, 2007: €5,359 million = €6,143 million - €784 million (Dec. 31, 2006: €2,116 million = €2,915 million - €799 million).

As of March 31, 2007 we had noncurrent financial liabilities of €14.6 billion, including the €1.2 billion hybrid bond issued in July 2005 and the €2.3 billion mandatory convertible bond issued in April 2006. Moody's and Standard & Poor's treat 75 percent and 50 percent, respectively, of the hybrid bond as equity. Both rating agencies consider the mandatory convertible bond wholly as equity. Unlike conventional borrowings, the hybrid bond thus has only a limited effect on the Group's rating-specific debt indicators, while the mandatory convertible bond has no effect.

Standard & Poor's gives Bayer AG a long-term issuer rating of BBB+ with positive outlook, while Moody's gives the company a rating of A3 with negative outlook. The short-term ratings are A-2 (Standard & Poor's) and P-2 (Moody's). These investment-grade ratings evidence a continuing high level of creditworthiness.

Employees

The number of employees is shown as 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 March 31, 2007 the Bayer Group had 105,100 employees, a decline of 1.0 percent compared to December 31, 2006. The number of employees thus remained virtually steady. Personnel expenses increased by 27.7 percent to €1,898 million (Q1 2006: €1,486 million), mainly due to the inclusion of personnel expenses for the employees of the former Schering group.

In the individual regions, too, the number of employees was practically unchanged against December 31, 2006. Compared to the previous year, the size of the workforce increased significantly, primarily due to the inclusion of the employees of the former Schering group. We currently employ 16,700 people in North America, 17,800 in Asia/Pacific, 13,800 in Latin America/Africa/Middle East and 56,800 in Europe. Our 40,000 employees in Germany account for 38.1 percent of the Group total.

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 April 20, 2007, the number of Lipobay/Baycol cases pending against Bayer worldwide was approximately 1,230 (approximately 1,175 of them in the United States, including several class actions). At the same date, Bayer had settled 3,160 Lipobay/Baycol cases worldwide without acknowledging any liability and resulting in settlement payments of approximately US\$ 1,162 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 20 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.

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.

Cipro®:

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 since 1997. 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.

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:

As reported in the past, Liebel-Flarsheim Company and its parents, Mallinckrodt, Inc. and Tyco Healthcare Group LP, filed suit against Bayer's U.S. subsidiary Medrad alleging that some of Medrad's front load syringe injectors infringe patents held by Liebel-Flarsheim. In March 2007, the U.S. Court of Appeals decided that the Liebel-Flarsheim patents are invalid. Bayer believes that the legal risks involved in these proceedings are no longer material for the Bayer Group.

Yasmin®/YAZ®:

In April 2005, Schering AG (now Bayer Schering Pharma AG), Berlin, Germany, filed an ANDA IV suit against Barr Pharmaceuticals, Inc. and Barr Laboratories, Inc. in U.S. federal court alleging patent infringement by Barr for its generic version of Bayer Schering Pharma's Yasmin® oral contraceptive product in the United States. In June, 2005, Barr filed its counterclaims seeking to invalidate Bayer Schering Pharma's patent.

In January 2007, Schering received notice from Barr Laboratories, Inc. that it has filed an ANDA IV application with the U.S. FDA seeking approval of a generic version of Schering's YAZ® oral contraceptive product. Barr will be prohibited from marketing its generic version until after expiry in March 2009 of the three-year exclusivity period for marketing granted by the FDA.

The Company highly values its Yasmin® and YAZ® oral contraceptive products and is deeply committed to continuing its leadership position in oral contraception.

LLRICE:

Since August 2006 numerous lawsuits, including putative class actions, have been filed by rice farmers, distributors and rice mills against Bayer CropScience 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 from the Liberty Link rice lines (LLRICE) were identified in samples of conventional long-grain rice grown in the U.S. This is alleged to have led in particular 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, LLRICE 601 was further tested in cooperation with third parties, including a breeding institute in the U.S. However, it was never selected for commercialization.

In March 2007 traces of LLRICE 62 and LLRICE 604 were found in Clearfield 131 conventional hybrid rice marketed by BASF. Subsequently the USDA issued an order temporarily prohibiting the sale or planting of Clearfield 131.

The USDA and the FDA have stated that LLRICE 62, 601 and 604 do not constitute a health risk and are safe for use in food and feed and for the environment. The USDA deregulated LLRICE 62 in 1999 and, upon Bayer CropScience's application, deregulated LL RICE 601 in November 2006.

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

Rubber, polyester polyols, urethane:

Proceedings involving the former rubber-related lines of business

A number of investigations and proceedings by the respective authorities in the E.U. and Canada for alleged anticompetitive conduct involving certain products in the rubber field have been resolved, while others remain pending. As previously reported, in the United States the investigations of the U.S. Department of Justice into Bayer's conduct have been concluded. In November 2006, the E.U. Commission closed the proceedings related to BR/ESBR by imposing fines against several companies and granting full amnesty to Bayer.

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.

Impact of antitrust proceedings on Bayer

Excluding the portion allocated to Lanxess, the provision with respect to the described civil proceedings were reduced from €285 million in 2005 to €124 million as of March 31, 2007, due to settlement payments.

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 was seeking to vacate the final award, while Lyondell was seeking to confirm the award as well as obtain pre-award interest. On March 20, 2007, the Texas District Court denied Bayer's motion to vacate, confirmed in part the final award and ordered additional discovery relevant to one issue on which confirmation was not granted. Bayer has established appropriate provisions for the entire matter. In January 2007, Bayer filed a suit against Lyondell in the Delaware State Court of Chancery, seeking equitable reformation of one of the license agreements relating to the joint venture and restitution of certain monies paid or allegedly owing by Bayer to Lyondell.

Subsequent Events

In April 2007 the Japanese Ministry of Health, Labor and Welfare (MHLW) approved the novel cholesterol-lowering agent ZETIA[®] (ezetimibe). ZETIA[®] will be co-marketed by Bayer Yakuhin Ltd. and Schering-Plough K.K. Japan. The drug is approved for use either as mono-therapy or co-administered with a statin, for further reduction of LDL ("bad") cholesterol.

The co-marketing agreement regarding ZETIA[®] in Japan is part of Bayer's strategic pharmaceuticals alliance with Schering-Plough, which was announced in 2004. Bayer's primary care pharmaceutical products, such as the antibiotics Avelox[®] and Cipro[®], the cardiovascular product Adalat[®] and also Levitra[®] are today marketed and distributed by Schering-Plough in the United States and Puerto Rico.

Please note that Bayer Schering Pharma AG is not legally related to Schering-Plough Corporation, New Jersey, United States. The two companies have been totally independent of each other for many years.

Calculation of EBIT(DA) Before Special Items

EBITDA, EBITDA before special items and EBIT before special items are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. The company considers the underlying earnings figures to be more suitable indicators of operating performance since they are not affected by special items, and EBITDA before special items is not affected by depreciation, amortization or write-downs/write-backs. The company also believes that these indicators give readers a clearer picture of the results of operations and ensure greater comparability of data over time.

Special Items Reconciliation	EBIT 1st Quarter 2006	EBIT 1st Quarter 2007	EBITDA 1st Quarter 2006	EBITDA 1st Quarter 2007
€ million				
After special items	1,049	1,175	1,436	1,774
HealthCare	6	139	6	165
Schering PPA effects*	0	20	0	64
Schering integration costs	0	119	0	101
Litigation	5	0	5	0
Other	1	0	1	0
CropScience	0	39	0	36
Restructuring	0	39	0	36
MaterialScience	112	6	112	0
Restructuring	0	6	0	0
Litigation	112	0	112	0
Reconciliation	10	16	10	15
Restructuring Industry Services	0	16	0	15
Litigation	10	0	10	0
Total special items	128	200	128	216
Before special items	1,177	1,375	1,564	1,990

* The purchase price paid for Schering AG, Germany, was allocated among the acquired assets and assumed liabilities in accordance with the International Financial Reporting Standards (IFRS). The purchase price allocation, which is not yet complete, resulted in total charges to EBIT of €224 million in the first quarter of 2007. 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. When calculating EBIT before special items, we deducted a €20 million special charge recorded in this connection. EBIT before special items therefore reflects €204 million in charges resulting from the purchase price allocation. EBITDA before special items remains unaffected by the purchase price allocation.