Bayer

# Investor News

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## Bayer expects a record year in 2007

- Third-quarter sales grow 4.5 percent to EUR 7,793 million
- EBITDA before special items advances 6.9 percent to EUR 1,559 million
- EBIT before special items climbs 23.9 percent to EUR 953 million
- Group net income of EUR 1,175 million after one-time positive tax effect

**Leverkusen, November 6, 2007** – Growth in Bayer Group sales and earnings continued in the third quarter of 2007, with all of the subgroups contributing to the increases. “This business trend has strengthened our confidence that this will be another very successful year. In fact we are targeting another record for the full year 2007,” said Management Board Chairman Werner Wenning at the Fall Financial News Conference in Leverkusen on Tuesday.

Sales of the Bayer Group rose by 4.5 percent in the third quarter of 2007, to EUR 7,793 million (Q3 2006: EUR 7,459 million). Adjusted for currency and portfolio changes, business expanded by 7.0 percent. Despite adverse shifts in exchange rates and high raw material prices, earnings before interest, taxes, depreciation and amortization (EBITDA) and before special items increased in the third quarter by 6.9 percent to EUR 1,559 million (Q3 2006: EUR 1,459 million). The operating result (EBIT) before special items climbed by 23.9 percent to EUR 953 million (Q3 2006: EUR 769 million). “This means we again maintained a very positive trend,” said Wenning, commenting that Bayer has now recorded year-on-year increases in underlying EBIT in 19 consecutive quarters since the beginning of 2003.

**Bayer HealthCare: pleasing business expansion in both segments**

Business in the HealthCare subgroup expanded by EUR 198 million, the largest sales gain of all the subgroups in absolute terms. This 5.7 percent increase from the prior-year quarter brought sales to EUR 3,680 million. Adjusted for currency changes, sales improved by an even more substantial 8.8 percent. Sales growth was attributable to a gratifying business performance in both segments. Sales of the Pharmaceuticals segment increased to EUR 2,570 million, or by 8.1 percent on a currency-adjusted basis. The main growth drivers were the Yasmin® product family along with Mirena®, Ultravist® and Nexavar®.

Sales in the Consumer Health segment amounted to EUR 1,110 million. Adjusted for currency changes, sales advanced by 10.2 percent, thereby considerably outpacing the market. All three divisions – Consumer Care, Diabetes Care and Animal Health – contributed to the increase in sales, with growth in all regions. Particularly good gains were made by our One-A-Day® vitamins and products from the Rennie®, Berocca® and Canesten® lines, as well as the Ascensia® Contour® blood glucose monitoring systems and the Advantage® product line of Animal Health.

Bayer HealthCare raised underlying EBITDA in the third quarter of 2007 by 8.0 percent to EUR 953 million. “This increase was mainly due to the strong performance of the business and to synergies already realized from the integration of Schering,” explained Wenning.

**Strong growth rates at Bayer CropScience**

Bayer CropScience also achieved significant growth rates. Sales of this subgroup rose by 10.3 percent to EUR 1,157 million in the third quarter of 2007. Adjusted for currency and portfolio effects, the increase came to 12.1 percent. Sales of the Crop Protection segment amounted to EUR 985 million, gaining 14.8 percent when adjusted for currency and portfolio changes. “Higher prices for agricultural commodities, increased cultivation of crops for the production of biofuels and a more favorable market environment in Latin America led to an expansion in business,” Wenning explained. The Fungicides and Seed Treatment business units derived particular benefit from this trend in the third quarter, while sales of the Herbicides unit were virtually level with the previous third quarter. In the Insecticides business, the Confidor® product family performed particularly well, as did young products such as the herbicide Atlantis®, the fungicide Flint® and the seed treatment Poncho®.

Sales in the Environmental Science, BioScience segment decreased to EUR 172 million, or by 1.2 percent when adjusted for currency effects. In the Environmental Science unit, sales of products for professional users in the United States were lower as a result of heightened generic competition and unfavorable weather conditions, while there was an increase in business with home and garden products for consumers. In the BioScience unit, business growth was mainly generated by Bayer's canola seed, marketed under the InVigor® brand, and from vegetable seeds.

Earnings of Bayer CropScience improved considerably, due largely to higher volumes. EBITDA before special items advanced 16.8 percent to EUR 167 million.

**Bayer MaterialScience achieves higher prices and volumes**

The MaterialScience subgroup increased sales in the third quarter by 1.1 percent to EUR 2,625 million. Adjusted for currency and portfolio effects, sales advanced by 3.5 percent year on year. These gains were largely due to price increases in nearly all regions, as well as to a small rise in volumes that stemmed mainly from sustained growth in demand in Asia and Latin America.

Sales in the Materials segment rose to EUR 767 million, or by 5.8 percent after adjusting for currency and portfolio effects. The Polycarbonates and Thermoplastic Polyurethanes business units achieved slight increases in both volumes and selling prices. The Systems segment posted third-quarter sales of EUR 1,858 million, up 2.6 percent on a currency- and portfolio-adjusted basis. This growth in sales resulted mainly from selling price increases. The Coatings, Adhesives, Sealants business unit and the Inorganic Basic Chemicals business contributed to this improvement. However, currency- and portfolio-adjusted sales of the Polyurethanes business unit were level year on year.

The subgroup's EBITDA before special items rose by 10.5 percent in the third quarter of 2007, to EUR 421 million. "This was the first time in fiscal 2007 that Bayer MaterialScience showed a year-on-year improvement in underlying quarterly earnings," Wenning said, adding that the increase in raw material and energy costs had been offset, mainly through higher selling prices.

**Group net income contains special items and one-time income**

Third-quarter earnings were diminished by a range of special items resulting in a net charge of EUR 276 million (Q3 2006: EUR 139 million). Included here are EUR 119 million in expenses arising from the acquisition and integration of Schering and a EUR 152 million impairment of intangible assets from a Betaferon®/Betaseron® development project capitalized as part of the accounting for the Schering acquisition. Nonetheless, EBIT after special items rose by 7.5 percent to EUR 677 million (Q3 2006: EUR 630 million).

The non-operating result came in level with the previous year at minus EUR 266 million. This contained net interest expense of EUR 180 million, mainly reflecting the financing costs for the Schering acquisition.

The Bayer Group also recorded net tax income of EUR 769 million in the third quarter of 2007. This included a previously announced EUR 911 million one-time, non-cash, positive tax effect that resulted mainly from the remeasurement of the deferred tax liabilities accrued in connection with the Schering acquisition, particularly in order to reflect the lower nominal tax rates that will apply in Germany from 2008. Without this one-time effect, Bayer had third-quarter tax expense of EUR 142 million (Q3 2006: EUR 109 million).

Net income of the Bayer Group came in at EUR 1,175 million (Q3 2006: EUR 320 million). Earnings per share were EUR 1.46 (Q3 2006: EUR 0.42). Gross cash flow increased by 2.6 percent year on year to EUR 1,165 million, while net cash flow climbed 7.1 percent to EUR 1,623 million. Bayer reduced net debt by EUR 831 million in the third quarter, to EUR 12,720 million.

**Pleasing business trend in the first nine months**

“The Bayer Group also posted a further significant improvement in operating performance in the first nine months of 2007,” Wenning remarked. Sales from continuing operations increased by 16.0 percent to EUR 24,345 million (9M 2006: EUR 20,986 million). The year-on-year comparison should be viewed in light of the fact that in 2006 the acquired Schering business was included only on a pro-rata basis (from June 23, 2006). Currency- and portfolio-adjusted sales advanced by 6.6 percent in the first nine months. EBITDA before special items grew by 23.8 percent to EUR 5,355 million (9M 2006: EUR 4,326 million), while EBIT before special items climbed by 23.0 percent to EUR 3,513 million

(9M 2006: EUR 2,857 million). The Bayer Group posted net income of EUR 4,644 million for the first nine months of the year (9M 2006: EUR 1,372 million). This included divestment gains of EUR 2.1 billion for the Diagnostics business, EUR 0.1 billion for H.C. Starck and EUR 0.2 billion for Wolff Walsrode.

**"Confidence strengthened that we will have another very successful year"**

"Despite high raw material costs and unfavorable currency effects, this business trend has strengthened our confidence that 2007 will be another very successful year," said Wenning. "We now forecast an increase in Group sales in 2007 to more than EUR 32 billion. This would correspond to an increase of about 6 percent after adjusting for portfolio and currency effects." The company had previously forecast growth in sales of roughly 5 percent. Bayer plans to increase the Group's EBITDA margin before special items by at least one percentage point from the 19.3 percent recorded in 2006.

"We remain optimistic about the prospects for our HealthCare business," Wenning went on. For the year as a whole, he continues to expect all of the subgroup's divisions to grow with or faster than the market. "We now expect to achieve an EBITDA margin before special items of more than 25 percent." This takes into account the company's expectation that marketing as well as research and development costs will be higher in the fourth quarter of 2007 than in the preceding quarters.

Bayer expects the positive market environment for its CropScience business to be maintained in the fourth quarter, Wenning added, confirming the raised target announced in August of increasing the EBITDA margin before special items to more than 22 percent for the full year 2007.

Bayer also does not envisage any significant change in the business environment for its MaterialScience subgroup in the fourth quarter and continues to predict a good, value-creating earnings level. Due to the normal seasonal slowdown in business activity toward the end of the year, Bayer MaterialScience expects EBITDA before special items in the fourth quarter to be below that of the third quarter but above the fourth quarter of 2006.

## Further cost-structure measures at Bayer MaterialScience

Bayer MaterialScience strives to occupy the leading position in its competitive environment in terms of technology and profitability. “Our process and product innovations, as well as our world-scale production facilities, already give us an outstanding starting position in this respect,” Wenning said. This subgroup, he said, has initiated further cost-structure measures in order to sustainably strengthen its earning power. The measures are designed to help save EUR 300 million annually by the end of 2009. To this end it is planned to achieve further process and cost optimization in the operation and maintenance of production facilities worldwide. Bayer MaterialScience also intends to significantly lower administration, marketing and distribution costs. The company expects that total special charges of EUR 150 million to EUR 200 million through 2009 will be necessary to achieve these savings.

Bayer MaterialScience anticipates that the headcount reduction necessitated by the measures can be accomplished in a socially compatible way and through normal attrition.

## Successful development work in pharmaceuticals

“In the other subgroups, we also are focusing on further value creation,” said Wenning. “At Bayer HealthCare, particularly in the Pharmaceuticals segment, we believe we are on track to achieve a sustained increase in profitability.” In the Chairman’s words, the company is counting on the systematic implementation of the more focused research strategy the company has chosen and on the further development of its very promising pipeline. “The products surely harboring the greatest potential are Nexavar® and Xarelto®,” said Wenning.

For example, Nexavar® is firmly establishing itself as a treatment for kidney cancer, Wenning explained, saying Bayer is making gratifying progress with this product in the liver cancer indication as well. Just a few days ago, the European Commission granted marketing authorization for Nexavar® to treat liver cancer. Bayer is expecting further approvals, including completion of the accelerated procedure in the United States by the end of this year. With liver cancer particularly widespread in the Asia-Pacific region, marketing approval has already been applied for in China and Japan. Furthermore, Nexavar® is already at an advanced stage of clinical development for the treatment of lung, breast and skin cancer. In Wenning’s words, the product is on track to establish itself as a therapy for several types of cancer.

## Additional indication for the anti-thrombosis drug Xarelto®

Wenning described the oral anti-thrombosis drug rivaroxaban, which the company aims to market under the trade name Xarelto®, as the most promising product – one with blockbuster potential. The current study program already comprises four indications. A further indication – the treatment of hospitalized patients with internal diseases – is to be added to this program soon. It is planned for a total of about 50,000 patients to take part in these studies, making it the largest clinical study program Bayer has ever undertaken.

“The available results of the first Phase III study on prevention of venous thromboembolism in knee replacement surgery have exceeded our own expectations,” Wenning said, adding that just a few days previously the company had submitted the first registration applications in Europe for prevention of venous thromboembolism following major orthopedic surgery. Market introduction in Europe and submission of the registration application in the United States are planned for 2008. “These are highly promising perspectives for our company,” remarked the Bayer CEO.

“Our performance so far in 2007 has shown that Bayer is on the right track both strategically and operationally,” Wenning concluded. “Partly as a result of the Schering acquisition, we have enhanced our earning power and strengthened the operating performance potential of the Bayer Group for the long term. Our extensive cost-containment and efficiency-improvement measures are designed to help us further enhance our profitability. And even more importantly, with our innovative products we are not just increasing our sales, but making our own specific contribution to the solution of urgent social problems.”

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***Note:***

*Tables containing the key data for the Bayer Group and its subgroups for the third quarter and first nine months of 2007 are appended below.*

*The complete financial report as of September 30, 2007 is available on the Internet at **www.investor.bayer.com**.*

*We are also offering the following Internet services at **www.investor.bayer.com**:*
- *Live webcast of the **Fall Financial News Conference** beginning at 10:00 a.m. CET*
- *Presentation charts for the **Investor Conference Call** at 12:00 noon CET*
- *Live webcast of the **Investor Conference Call** beginning at 4:00 p.m. CET*

## Bayer Key Data, Third Quarter and First Nine Months of 2007

(certain prior-year data are restated)

| **Bayer Group** (EUR million) | Q3 2006 | **Q3 2007** | Change in % | 9M 2006 | **9M 2007** | Change in % |
|---|---|---|---|---|---|---|
| Sales | 7,459 | **7,793** | +4.5 | 20,986 | **24,345** | +16.0 |
| EBITDA | 1,124 | **1,439** | +28.0 | 3,829 | **4,785** | +25.0 |
| *Special items* | *(335)* | ***(120)*** | | *(497)* | ***(570)*** | |
| EBITDA before special items | 1,459 | **1,559** | +6.9 | 4,326 | **5,355** | +23.8 |
| EBIT | 630 | **677** | +7.5 | 2,556 | **2,769** | +8.3 |
| *Special items* | *(139)* | ***(276)*** | | *(301)* | ***(744)*** | |
| EBIT before special items | 769 | **953** | +23.9 | 2,857 | **3,513** | +23.0 |
| Group net income | 320 | **1,175** | - | 1,372 | **4,644** | - |

| **Bayer HealthCare** (EUR million) | Q3 2006 | **Q3 2007** | Change in % | 9M 2006 | **9M 2007** | Change in % |
|---|---|---|---|---|---|---|
| Sales | 3,482 | **3,680** | +5.7 | 7,942 | **11,007** | +38.6 |
| EBITDA | 565 | **836** | +48.0 | 1,478 | **2,407** | +62.9 |
| *Special items* | *(317)* | ***(117)*** | | *(339)* | ***(463)*** | |
| EBITDA before special items | 882 | **953** | +8.0 | 1,817 | **2,870** | +58.0 |
| EBIT | 392 | **375** | -4.3 | 1,126 | **1,291** | +14.7 |
| *Special items* | *(106)* | ***(269)*** | | *(128)* | ***(617)*** | |
| EBIT before special items | 498 | **644** | +29.3 | 1,254 | **1,908** | +52.2 |

| **Bayer CropScience** (EUR million) | Q3 2006 | **Q3 2007** | Change in % | 9M 2006 | **9M 2007** | Change in % |
|---|---|---|---|---|---|---|
| Sales | 1,049 | **1,157** | +10.3 | 4,398 | **4,505** | +2.4 |
| EBITDA | 140 | **166** | +18.6 | 1,059 | **1,062** | +0.3 |
| *Special items* | *(3)* | ***(1)*** | | *(3)* | ***(85)*** | |
| EBITDA before special items | 143 | **167** | +16.8 | 1,062 | **1,147** | +8.0 |
| EBIT | (12) | **30** | - | 626 | **649** | +3.7 |
| *Special items* | *(15)* | ***(4)*** | | *(15)* | ***(94)*** | |
| EBIT before special items | 3 | **34** | - | 641 | **743** | +15.9 |

| **Bayer MaterialScience** (EUR million) | Q3 2006 | **Q3 2007** | Change in % | 9M 2006 | **9M 2007** | Change in % |
|---|---|---|---|---|---|---|
| Sales | 2,596 | **2,625** | +1.1 | 7,629 | **7,856** | +3.0 |
| EBITDA | 352 | **419** | +19.0 | 1,211 | **1,217** | +0.5 |
| *Special items* | *(29)* | ***(2)*** | | *(159)* | ***(22)*** | |
| EBITDA before special items | 381 | **421** | +10.5 | 1,370 | **1,239** | -9.6 |
| EBIT | 232 | **292** | +25.9 | 861 | **843** | -2.1 |
| *Special items* | *(32)* | ***(3)*** | | *(162)* | ***(33)*** | |
| EBIT before special items | 264 | **295** | +11.7 | 1,023 | **876** | -14.4 |

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