Bayer

Investor News

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Bayer CropScience CEO Professor Friedrich Berschauer:

“Innovation and new technologies will help us to meet the growing demand for food and energy-producing plants”

- Stronger research focus on the needs of the “new ag economy”
- Promising active ingredient and plant biotechnology pipeline
- Seed and biotech sales to reach EUR 1 billion in the longer term
- Successful first half of 2007 indicates optimistic outlook for the full year

Monheim, September 6, 2007 – Bayer CropScience plans to align its research even more closely with the needs of the “new agricultural economy.” “We expect a continuously growing demand for agricultural products, and in the future this demand will be driven not only by the production of food, feed and fiber but also by the use of biofuels," said Professor Friedrich Berschauer, Chairman of the Board of Management of Bayer CropScience AG, at the company’s Annual Press Conference in Monheim. Berschauer explained that limited agricultural land, the uninterrupted growth of the world's population and the impact of climate change are threatening the supply of agricultural products and are leading to shortage-driven prices for major agricultural commodities. He described this development as a “silent agricultural revolution.” Bayer CropScience expects the use of agricultural raw materials for the production of biofuels to increase considerably, and this will benefit both the seed market and the crop protection market. Professor Berschauer: “Innovation and constant technological progress are the only way to overcome this challenge."

Therefore, Bayer CropScience plans to increase its annual research and development budget to some EUR 750 million by 2015 (2006: EUR 614 million). The company’s research effort is focused on promising areas such as new modes of action in crop protection, improved plant health as well as optimized plant characteristics and new agronomic traits. It is also increasing its emphasis on aspects such as herbicide tolerance, insect resistance and increased yields. Bayer CropScience is additionally working on new biotechnological approaches to making plants more resistant to a number of stress factors such as heat, drought, cold and soil salinity. The first products from this stress tolerance research program are expected to reach the market in 2015.

“We are convinced that we can only keep pace with the future requirements of the new agricultural economy if we use all the options available for safeguarding harvests and increasing yields”, Berschauer emphasized. “The increase in productivity which we will need to achieve in agriculture in the coming years will only be possible with modern crop protection and the new approaches offered by plant breeding and plant biotechnology.”

Promising active ingredient and plant biotechnology pipeline

Bayer CropScience started a launch program in 2000 with the objective of bringing 26 new active substances for crop protection to market by 2011. “We expect these substances to have a combined peak sales potential of approximately EUR 2 billion”, the CEO said, underlining the contribution of crop protection research to Bayer CropScience’s value-added. Of the total of 26 compounds, 17 had already been launched by the end of 2006 and last year achieved sales of EUR 1 billion.

Throughout 2007, the company has received regulatory approvals for three more active ingredients in their first markets. It also has ten substances in late-stage development and another nine at an early stage of development. Bayer CropScience will continue to draw on a wide range of new and promising research projects in the future. Currently, the company has 45 new projects at an early stage of research.

The company also has a well-equipped seed and plant biotechnology pipeline which currently contains over 40 lead projects. It has six herbicide tolerance and insect resistance projects in a late-stage of development. They are scheduled for launch from 2010 onwards. Furthermore, the introduction of three new herbicide tolerance traits is also planned within the next three years, amongst them one that confers tolerance to the herbicide glyphosate. “We are confident that our BioScience pipeline will be a major source of new impetus as we expand our business,” Berschauer said.

Seed and biotech sales planned to reach EUR 1 billion within ten years

“Within the next ten years we want to expand sales in our BioScience business from the 2006 level of EUR 342 million to around EUR 1 billion”, was how Berschauer explained the unit's growth potential. In order to reach this target, Bayer CropScience is making considerable investments in research and development and in the targeted expansion of its seed portfolio. In this context, the acquisition of Stoneville’s cotton seed business in the United States, with a transaction volume of US$ 310 million, is the biggest single acquisition since Bayer CropScience was established. The company is currently Number 2 in the global cotton seed market and is able to offer a wide range of seeds that combine attractive traits with high yields and excellent fiber quality.

In addition, within the last 12 months the company has acquired the two U.S. cotton companies CPCSD and Reliance Genetics, the Korean company SeedEx with its hot pepper and brassica varieties, and Unilever's tomato seed business. It will also be setting up two joint ventures in China, the world’s largest hybrid rice market. The partners are Lu Dan Seed Company and Nong Ke Seed Company.

New opportunities in the corn and soybean markets

In the future Bayer CropScience is planning to increase its involvement in the markets for herbicide-tolerant and insect-resistant corn and soybean varieties. To this end, the company plans to award licenses to use its LibertyLink® herbicide tolerance technology to seed producers and dealers and thus to participate more effectively in the growth of the U.S. corn and soybean markets. Bayer CropScience concluded a licensing agreement of this kind with the Monsanto Company in June 2007. In addition to licensing royalties, Bayer CropScience is anticipating higher income from sales of its total herbicide Liberty®. The company estimates that the global market for biotechnologically optimized plant traits for corn, soybeans, canola, cotton and rice will double in value between 2005 and 2015, to around EUR 3.6 billion.

Berschauer commented that Bayer CropScience will continue to review opportunities for cooperation and acquisitions with a view to developing its BioScience business further. The focus will be on canola, cotton, rice and vegetables - crops in which the company is already well placed in the seed business.

Jatropha – An alternative biofuel feedstock

In response to the enormous global demand for biofuels, Bayer CropScience is working on ways of using plants which have not featured in agriculture to date as an economically efficient feedstock. One of these plants is *Jatropha curcas*, an oil-bearing shrub with inedible fruit which grows predominantly in arid regions. The seeds consist of more than 30 percent oil which can be used to make a low-pollutant biodiesel which reduces CO_2 emissions. The advantage is that this biodiesel can be used in many engines worldwide without the need for extensive technical modification. Jatropha can be cultivated on marginal land in tropical and subtropical regions, or in other words on land that is unsuitable for producing food crops. “We hope that our research in this area will make a major contribution to the development of a sustainable biofuel industry”, Berschauer said.

First half of 2007: A record level of EBIT after special items

In operating terms the financial year 2007 has also been very satisfactory for Bayer CropScience so far. Sales in the first six months were on the same level as last year at EUR 3.35 billion. Adjusted for currency and portfolio effects, this corresponds to an increase of 4 percent. “Our EBIT after special items reached EUR 709 million, the highest level since our company was set up in 2002”, Berschauer commented.

Sales of new active ingredients developed particularly well in the first six months, growing by 30 percent to EUR 792 million. The BioScience business also turned in a gratifying performance, with sales growing by 6 percent (adjusted for currency and portfolio effects: 10 percent). The Seed Treatment business also developed very well, growing by 17 percent (adjusted for currency and portfolio effects: 25 percent) as a result of increasing demand for biofuels. Berschauer said that Bayer CropScience expects to top the sales threshold of EUR 500 million in the Seed Treatment Business Unit (2006: EUR 467 million) for the first time with sales for the full year 2007.

Bayer CropScience is optimistic about the second half of the year, and plans to increase sales above the previous year's level. The company is aiming for an underlying EBITDA margin in excess of 22 percent for the full year. In the medium term, a number of cost-structure programs, which are expected to yield savings of EUR 130 million in 2007, should contribute to improving the company's profitability even further. Assuming normal market conditions, Bayer CropScience anticipates being able to achieve an underlying EBITDA margin of 25 percent in 2009.

Bayer AG is a global research-based and growth-oriented enterprise with core competencies in the fields of health care, nutrition and high-tech materials. Bayer CropScience AG, a subsidiary of Bayer AG with annual sales of EUR 5.7 billion (2006), is one of the world's leading innovative crop science companies in the areas of crop protection, non-agricultural pest control, seeds and plant biotechnology. The company offers an outstanding range of products and extensive service backup for modern, sustainable agriculture and for non-agricultural applications. Bayer CropScience has a global workforce of about 17,900 and is represented in more than 120 countries. This and further news is available at:
www.newsroom.bayercropscience.com

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