

## Q3 2007 Analyst and Investor Briefing

November 6, 2007

- **Sales** rose by 4.5% to €7,793m (Q3'06: €7,459m); Volume +6%, price +1%, currency -3%, portfolio +0%. Portfolio and currency adjusted sales increased by 7.0%.
  - **Reported EBITDA** at €1,439m, up by 28.0% (Q3'06: €1,124m).
  - **Underlying EBITDA** advanced by 6.9% to €1,559m (Q3'06: €1,459m).
  - **Reported EBIT** up by 7.5% to €677m (Q3'06: €630m).
  - **Net Special Items** of -€276m include:  
*HealthCare*: Total -€269m, mainly due to Schering integration costs (-€68m), Schering PPA (-€51m) and impairment of intangible assets from the Betaferon development project BEYOND (-€152m).  
*CropScience*: -€4m (restructuring).  
*MaterialScience*: -€3m, (restructuring).
  - **Underlying EBIT** rose by 23.9% to €953m (Q3'06: €769m).
  - **Non-operating result** up by 0.4% to -€266m (Q3'06: -€267m) including net interest expenses of €180m (Q3'06: -€214m). Income in affiliates of -€25m
- mainly due to some smaller write-downs in equity investments.
- **One-time non-cash tax income** of €911m arising in connection with the German corporate tax reform.
  - **Net income** at €1,175m up by €855m (Q3'06: €320m). Adjusted for the one-time tax effect, tax expense amounted to €142m, compared to €109m in Q3'06. **EPS** came to €1.46 (Q3'06: €0.42).
  - **Core EPS** at €0.81 (Q3'06: €0.77), excluding one-time tax gain. Consequently Q4'06 tax gain of €203m has to be eliminated, which brings Core EPS for Q4'06 to €0.50 and for FY'06 to €2.99.
  - **Gross cash flow** improved by 2.6% to €1,165m (Q3'06: €1,135m). Strong **Working Capital** (€458m) performance lifted **net cash flow (cont.)** up by 7.1% to €1,623m. **Investments** at €482m (+48.3%). **Operating free cash flow (total)** at €1.139m (Q3'06: €1,170m).
  - **Net debt** (total) qoq reduced by €831 to €12,720m. Net debt down by €4,819m since year end 2006.

| € million          | Q3 2006      |              |                   |             |               |                 | Q3 2007      |              |                   |             |               |                 |
|--------------------|--------------|--------------|-------------------|-------------|---------------|-----------------|--------------|--------------|-------------------|-------------|---------------|-----------------|
|                    | Sales        | EBITDA rep.  | EBITDA underlying | EBIT rep.   | Special Items | EBIT underlying | Sales        | EBITDA rep.  | EBITDA underlying | EBIT Rep.   | Special Items | EBIT underlying |
| <b>HealthCare</b>  | <b>3,482</b> | <b>565</b>   | <b>882</b>        | <b>392</b>  | <b>(106)</b>  | <b>498</b>      | <b>3,680</b> | <b>836</b>   | <b>953</b>        | <b>375</b>  | <b>(269)</b>  | <b>644</b>      |
| Pharma             | 2,444        | 337          | 640               | 199         | (92)          | 291             | 2,570        | 598          | 715               | 169         | (269)         | 438             |
| Cons. Health       | 1,038        | 228          | 242               | 193         | (14)          | 207             | 1,110        | 238          | 238               | 206         | 0             | 206             |
| <b>CropScience</b> | <b>1,049</b> | <b>140</b>   | <b>143</b>        | <b>(12)</b> | <b>(15)</b>   | <b>3</b>        | <b>1,157</b> | <b>166</b>   | <b>167</b>        | <b>30</b>   | <b>(4)</b>    | <b>34</b>       |
| CP                 | 872          | 130          | 133               | (7)         | (15)          | 8               | 985          | 174          | 175               | 56          | (4)           | 60              |
| ES/BS              | 177          | 10           | 10                | (5)         | 0             | (5)             | 172          | (8)          | (8)               | (26)        | 0             | (26)            |
| <b>MaterialSc.</b> | <b>2,596</b> | <b>352</b>   | <b>381</b>        | <b>232</b>  | <b>(32)</b>   | <b>264</b>      | <b>2,625</b> | <b>419</b>   | <b>421</b>        | <b>292</b>  | <b>(3)</b>    | <b>295</b>      |
| Materials          | 743          | 77           | 77                | 38          | 0             | 38              | 767          | 80           | 80                | 32          | 0             | 32              |
| Systems            | 1,853        | 275          | 304               | 194         | (32)          | 226             | 1,858        | 339          | 341               | 260         | (3)           | 263             |
| <b>Reconc.</b>     | <b>332</b>   | <b>67</b>    | <b>53</b>         | <b>18</b>   | <b>14</b>     | <b>4</b>        | <b>331</b>   | <b>18</b>    | <b>18</b>         | <b>(20)</b> | <b>0</b>      | <b>(20)</b>     |
| <b>Group</b>       | <b>7,459</b> | <b>1,124</b> | <b>1,459</b>      | <b>630</b>  | <b>(139)</b>  | <b>769</b>      | <b>7,793</b> | <b>1,439</b> | <b>1,559</b>      | <b>677</b>  | <b>(276)</b>  | <b>953</b>      |

## Bayer Group sales and earnings forecast for 2007

### Group:

Plan to increase **sales** to > €32bn or about +6%, adjusted for portfolio and currency effects (previous forecast: about 5%).

Intend to grow the **underlying EBITDA margin** by at least 1 percentage point from the 19.3% in 2006 (previous forecast: increase to > 20%).

### HealthCare:

Continue to expect that all HealthCare divisions will grow with or faster than the market. Raising the target margin and now expect to achieve an **underlying EBITDA margin** of > 25% (previous forecast: 25 percent). We expect marketing and R&D costs to be higher in the 4<sup>th</sup> quarter of 2007 than in the preceding quarters.

### CropScience:

Anticipate a continuing positive market environment in the 4<sup>th</sup> quarter. For the full year 2007, we confirm the target of increasing the **underlying EBITDA margin** to > 22%.

### MaterialScience:

We do not envisage any significant change in the business environment in the 4<sup>th</sup> quarter and continue to expect a good, value-creating earnings level. Due to the normal seasonal slowdown in business activity toward the end of the year, we expect **underlying EBITDA** in the 4<sup>th</sup> quarter to be below that of the third quarter but above the 4<sup>th</sup> quarter of 2006.

## Q3'07 HealthCare

**Pharmaceuticals** sales rose 5.2% (Fx adj. +8.1%) to €2,570m. *Primary Care*: Avelox €99m (+25.3%, Fx adj. +29.3%) grew on favourable business in US and Asia Pacific. Levitra up 10.4% (Fx adj. +14.4%) to €85m. Adalat €152m (-1.9%, Fx adj. +2.0%). Cipro €96m (-17.9%, Fx adj. -16.0%). *Women's HealthCare*: Yasmin sales (including Yaz and Yasminelle) rose by 35.0% (Fx adj. +40.7%)

to €278m, driven by market share gains in all regions. Mirena advanced by 29.7% to €96m (Fx adj. +35.4%), driven mainly by growth in the US market. *Diagnostic Imaging*: Ultravist (€59m, +90.3%, Fx adj. +92.2%) recovered strongly especially in Europe after last year's voluntary withdrawal of 370mg/ml formulation. *Specialized Therapeutics*: Betaferon rose by 6.5% (Fx adj. +9.0%) to €262m. *Hematology/Cardiology*: Kogenate advanced by 7% (Fx adj. +10.4%) to €213m. Plasma portfolio effect at -€18m due to termination of distribution in some regions in 2006. *Oncology*: Nexavar contributed €76m.

**Underlying EBITDA** at €715m (Q3'07: €640m), up 11.7%, mainly due to the gratifying increase in business and synergies already achieved. **Underlying EBIT** up 50.5% to €438m.

**Consumer Health** sales up 6.9% to €1,110m (Fx adj. +10.2%). *Consumer Care*: Bepanthen family grew by 6.3% to €34m (Fx adj. +9.0%). Favorable performance of Canesten (€48m, +17.1%, Fx adj. +20.2%). Aleve down by 14.5% to €53m (Fx adj. -6.8%), mainly due to destocking of newly launched Aleve liquid gels. Aspirin OTC down by 3.4% (Fx adj. +0.8%) to €112m, because of soft sales in parts of Latin America. One-A-Day vitamin product grew by +27.6% (Fx adj. +35.8%) to €37m. Rennie also advanced by 23.8% (Fx adj. +27.3%) to €26m. *Diabetes Care*: Ascensia product line expanded sales by 19.7% (Fx adj. +24.0%) to €213m, due to strong performance of Contour in North America and Europe. *Animal Health*: Advantage up 8.6% (Fx adj. +15.0%) to €76m, driven mainly by strong performance of K9 Advantix.

**Underlying EBITDA** down by 1.7% to €238m. Earnings on the additional business were offset by the higher expenses for new product launches and expenditures of €15m for the renewal of the IT infrastructure at Diabetes Care in North America. **Underlying EBIT** flat (€206m; -0.5%).

## Q3'07 CropScience

**Crop Protection** sales increased by 13.0% to €985m (Fx and portfolio adj. +14.8%). Sales in the **Herbicides** business slightly dropped 1.3% to €306m (Fx and portfolio adj. -0.2%). Lower sales of cotton and soybean herbicides in NA due to smaller planting acreages were offset by the successful marketing of our young products such as Atlantis and Sekator, particularly in Europe. **Fungicides** sales advanced by 27.6% to €194m (Fx adj. +27.2%), mainly due to higher sales of soybean fungicides in Brazil and of cereal and nut fungicides in the US. **Insecticides** up 5.2% to €281m (Fx and portfolio adj. +10.3%). Confidor turned in a very gratifying performance in an improved LA market environment. **Seed Treatment** strongly up by 42.7% to €204m (Fx adj. +44.0%), driven by the good performance of Poncho and CropStar, which benefited from the increase in global corn acreages and early season in Europe.

**Underlying EBITDA** climbed by 31.6% to €175m, the positive impact of higher volumes being partially offset by adverse currency effects. **Underlying EBIT** up by €52m to €60m.

**Environmental Science/BioScience** sales edged back by 2.8% (Fx adj. -1.2%) to €172m. **Environmental Science** down by 7.3% (Fx adj. -4.0%) to €127m, due to a heightened generic competition for Professional Products and unfavorable weather conditions in the US. Sales of **BioScience** unit advanced by 12.5% to €45m (Fx adj. +8.2%), driven by good performance of the canola seed InVigor and from vegetable seeds.

**Underlying EBITDA** fell by €18m to -€8m, primarily due to decrease of Environmental Science business, higher R&D costs in BioScience and a seasonally negative earnings contribution from the Stoneville acquisition. **Underlying EBIT** at -€26m (Q3'06: -€5m).

## Q3'07 MaterialScience

**Materials** segment sales advanced by 3.2% (Fx and portfolio adj. +5.8%) to €767m. Polycarbonates sales up 1.6% to €706m, mainly due to slight increases in both volumes and selling prices.

**Underlying EBITDA** up by 3.9% to €80m. Higher prices and volumes compensated for higher raw material and energy costs. **Underlying EBIT** down 15.8% to €32m.

**Systems** segment sales were slightly up 0.3% to €1,858m (Fx and portfolio adj. +2.6%) with Polyurethanes contributing €1,299m (-2.2%). While global MDI sales grew nicely, polyols sales declined. TDI supply continued to be tight in all regions. Coatings, Adhesives, Sealants grew nicely on higher prices and volumes (€415m, +7.8%).

**Underlying EBITDA** up by 12.2% to €341m. Higher selling prices offset increases in raw material and energy costs. **Underlying EBIT** up by 16.4% to €263m.

## Bayer Investor Relations contacts:

Dr. Alexander Rosar (+49-214-30-81013)  
 Dr. Jürgen Beunink (+49-214-30-65742)  
 Peter Dahlhoff (+49-214-30-33022)  
 Ilia Kürten (+49-214-30-35426)  
 Ute Menke (+49-214-30-33021)  
 Judith Nestmann (+49-214-30-66836)  
 Dr. Olaf Weber (+49-214-30-33567)

## Forward-looking statements

This announcement contains forward-looking statements based on current assumptions and forecasts made by Bayer Group management. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. These factors include those discussed in our public reports filed with the Frankfurt Stock Exchange and with the U.S. Securities and Exchange Commission (including our Form 20-F). The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.



## Indicative impact of the additional amortization charge and work-down of inventory step-up on EBIT and EBITDA in connection with Schering acquisition

### Acquisition of Schering - Indicative Impact of Additional Amortization\*



| In € million, figures rounded                             | FY 2006a    | FY 2007e    | Q3 2007a    | Q4 2007e    | FY 2008e      | FY 2009e    |
|-----------------------------------------------------------|-------------|-------------|-------------|-------------|---------------|-------------|
| <b>Work-down of inventory step-up (1)</b>                 | <b>-429</b> | <b>-215</b> | <b>-51</b>  | <b>-51</b>  | <b>-205</b>   | <b>0</b>    |
| Amortization of intangibles & tangibles, excl. trademarks | -419        | -730        | -181        | -180        | -875          | -900        |
| > Of which capitalized as part of inventory (2)           | 345         | 405         | 162         | 162         | 405           | 405         |
| Expensed amortization capitalized in previous periods (3) |             | -345        | -162        | -162        | -405          | -405        |
| Amortization of trademarks                                | -48         | -88         | -22         | -22         | -90           | -90         |
| <b>P/L effective amortization (4)</b>                     | <b>-122</b> | <b>-758</b> | <b>-203</b> | <b>-202</b> | <b>-965</b>   | <b>-990</b> |
| <b>EBIT impact (1)+(4)</b>                                | <b>-551</b> | <b>-973</b> | <b>-254</b> | <b>-253</b> | <b>-1,170</b> | <b>-990</b> |
| EBIT special items (1)+(2)+(3)                            | -84         | -155        | -51         | -51         | -205          | 0           |
| <b>Underlying EBIT impact</b>                             | <b>-467</b> | <b>-818</b> | <b>-203</b> | <b>-202</b> | <b>-965</b>   | <b>-990</b> |
| <b>EBITDA impact</b>                                      | <b>-429</b> | <b>-215</b> | <b>-51</b>  | <b>-51</b>  | <b>-205</b>   | <b>0</b>    |
| EBITDA special items (1)                                  | -429        | -215        | -51         | -51         | -205          | 0           |
| <b>Underlying EBITDA impact</b>                           | <b>0</b>    | <b>0</b>    | <b>0</b>    | <b>0</b>    | <b>0</b>      | <b>0</b>    |

\* Status: November 6, 2007

Estimated figures are indicative. Assumptions subject to change.