



Investor News

Bayer interim report for the first quarter of 2009

CropScience and Pharmaceuticals continue on a path of growth – Slump in business at MaterialScience leaves a distinct mark

- Group sales: EUR 7,895 million (minus 7.5 percent)
 - EBITDA before special items: EUR 1,695 million (minus 22.4 percent)
 - EBIT before special items: EUR 1,017 million (minus 32.1 percent)
 - Net cash flow: EUR 693 million (plus 31.3 percent)
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Leverkusen, April 29, 2009 – The performance of the Bayer Group's businesses in the first quarter of 2009 varied widely as expected. "While CropScience and Pharmaceuticals continued on a path of growth, the slump in business at MaterialScience also left a distinct mark on sales and earnings of the Bayer Group," Management Board Chairman Werner Wenning explained on Wednesday when the interim report was published. Wenning described the goal of limiting the decline in the Group's earnings before interest, taxes, depreciation and amortization (EBITDA), before special items, for the full year 2009 to 5 percent as increasingly demanding. However, he believes it could still be achieved if there is a tangible recovery in the MaterialScience business. He said the downturn seems to be bottoming out. "The first signs of a modest recovery in demand are appearing," said Wenning.

Group sales for the period January through March came in at EUR 7,895 million, down 7.5 percent against the record figure of EUR 8,536 million reported for the same quarter last year. After adjusting for currency and portfolio effects (Fx & portfolio adj.), sales declined by 9.7 percent. EBITDA before special items decreased by 22.4 percent to EUR 1,695 million (Q1 2008: EUR 2,185 million). Here, too, the improvement posted for the life-science activities was not sufficient to offset the declines for the industrial business. The operating result (EBIT) before special items also moved lower, dropping by 32.1 percent to EUR 1,017 million (Q1 2008: EUR 1,497 million).

HealthCare benefits from the pleasing performance of the pharmaceuticals business

Sales of the HealthCare subgroup rose by 3.0 percent compared with the strong prior-year quarter, to EUR 3,843 million (Q1 2008: EUR 3,731 million). Adjusted for currency and portfolio effects, business remained at the previous year's level (plus 0.3 percent). "While our pharmaceuticals business saw pleasing growth overall, sales of Consumer Health were down because of inventory reductions and lower consumer spending," Wenning explained.

In the Pharmaceuticals segment, first-quarter sales rose by 4.8 percent (Fx & portfolio adj. 2.5 percent) to EUR 2,587 million. All four business units – General Medicine, Specialty Medicine, Women's Healthcare and Diagnostic Imaging – contributed to this increase. The cancer drug Nexavar[®] saw the strongest growth, with sales up 28.6 percent on a currency-adjusted (Fx adj.) basis. Sales of the multiple sclerosis treatment Betaferon[®]/Betaseron[®] (Fx adj. plus 7.4 percent) also developed well, as did those of the YAZ[®] family of oral contraceptives (Fx adj. plus 4.6 percent). Business with the hemophilia drug Kogenate[®] also improved (Fx adj. plus 3.2 percent). However, sales of the antiinfective Avalox[®]/Avelox[®] fell due to a weak flu season in the United States (Fx adj. minus 14.0 percent). Sales of the contrast agent Magnevist[®] were also down (Fx adj. minus 14.9 percent), although this decline was offset by an increase for Gadovist[®] (Fx adj. plus 44.9 percent). Sales of Aspirin Cardio[®] improved by 9.8 percent after adjusting for currency effects.

Sales in the Consumer Health segment were nearly level year on year at EUR 1,256 million (minus 0.5 percent). After adjusting for currency and portfolio effects, however, they shrank by 4.1 percent. The non-prescription medicines business (Consumer Care) was hampered by the difficult economic environment, which particularly impacted sales of the analgesics Aleve[®]/naproxen (Fx adj. minus 17.9 percent) and Aspirin[®] (Fx adj. minus 16.2 percent). On the other hand, sales of the Bepanthen[®]/Bepanthol[®] product line moved ahead (Fx adj. 8.3 percent). The newly formed Medical Care Division includes products and services for people with diabetes, along with the Medrad medical equipment business comprising systems and services for diagnostic imaging and therapy. Here, revenues were also held back by the weak economy. For example, sales of blood glucose monitoring systems such as Contour[®] (Fx adj. minus 4.6 percent) were hampered by the fall in consumer demand in the United States. The reduction of

inventories by U.S. distributors had a negative effect in the Animal Health Division. This affected sales of products such as the Advantage[®] flea and tick control line (Fx adj. minus 3.1 percent).

EBITDA before special items of the Bayer HealthCare subgroup improved by 1.0 percent to EUR 1,061 million (Q1 2008: EUR 1,050 million). There was a gratifying increase in earnings of the Pharmaceuticals segment, while those of Consumer Health declined.

CropScience increases selling prices and volumes

“Bayer CropScience had a very pleasing first quarter,” said Wenning. This subgroup increased sales by 7.2 percent (Fx adj. 7.4 percent) to EUR 2,120 million (Q1 2008: EUR 1,978 million) thanks to higher selling prices coupled with an increase in volumes.

In the Crop Protection business, sales climbed by 6.9 percent (Fx adj. 7.0 percent) to EUR 1,734 million, with strong increases particularly for herbicides (Fx adj. plus 13.1 percent) and fungicides (Fx adj. plus 13.6 percent). Sales of seed treatment products improved (Fx adj. plus 2.2 percent), while business with insecticides was down year on year (Fx adj. minus 12.0 percent), mainly because of a prolonged drought and low levels of pest infestation in southern Brazil and Argentina. The Crop Protection business in North America, western Europe and Asia/Pacific expanded significantly overall, while adverse weather patterns caused sales to decline in Latin America.

The Environmental Science, BioScience segment increased sales by 8.4 percent (Fx adj. 9.0 percent) to EUR 386 million. The BioScience business unit achieved sales growth of 16.2 percent (Fx adj. 19.7 percent), due primarily to the successful performance of InVigor[®] hybrid canola seed in North America. Sales of Environmental Science, however, receded by 0.6 percent (Fx adj. down by 3.3 percent). Business with consumer products fell markedly in Europe, due in part to the long winter season.

EBITDA before special items at Bayer CropScience grew by 3.4 percent in the first quarter to EUR 737 million (Q1 2008: EUR 713 million). Whereas earnings were lifted by the growth in business, expenses for marketing and production activities had the opposite effect.

Demand at MaterialScience drops sharply

Sales of our high-tech materials business posted a severe drop of 34.9 percent (Fx & portfolio adj. 38.4 percent) to EUR 1,636 million (Q1 2008: EUR 2,512 million). The global economic crisis led to considerably weaker demand in the relevant customer industries. "The MaterialScience subgroup experienced a steep fall in volumes, with pressure on prices increasing at the same time. Nearly all product groups at MaterialScience were impacted by this trend in all regional markets," said Wenning. "This is an unprecedented development for Bayer."

Business with foam raw materials (Polyurethanes) in the first quarter was down by 39.3 percent on a currency- and portfolio-adjusted basis. Sales of the Polycarbonates unit also fell sharply (Fx adj. minus 41.7 percent), as did those of raw materials for coatings, adhesives and specialties (Fx & portfolio adj. minus 40.8 percent).

The drop in volume sales and selling prices was accompanied by significantly lower capacity utilization at the production facilities of MaterialScience. This caused EBITDA before special items to slump to minus EUR 116 million (Q1 2008: plus EUR 407 million). No significant benefit was yet felt from the fall in raw material costs compared with the first quarter of last year.

Wenning pointed out that steps such as temporarily shutting down certain plants and cutting back production at others, bringing forward planned maintenance work and making greater use of flextime arrangements were introduced at all sites of MaterialScience worldwide at an early stage. Furthermore, management and the employee representatives at MaterialScience agreed to a reduction in the working hours of payscale employees at the German sites for a limited period, accompanied by a corresponding reduction in collectively agreed rates of pay. Comparable measures have been instituted for the subgroup's managerial employees. These measures have been in effect since February 2009. "We will continue to observe and continually analyze the trend in the market environment for MaterialScience. Possible further steps and adjustments will be designed in such a way that they do not impair the sustainability of our business," the Bayer Chairman announced.

Net income falls significantly, net cash flow substantially higher

The Bayer Group's operating result was diminished in the first quarter by special charges of EUR 44 million (Q1 2008: EUR 154 million). Of this figure, the integration of Schering AG, Berlin, Germany, accounted for EUR 18 million and restructuring programs at CropScience and MaterialScience for EUR 8 and EUR 18 million, respectively. After special items, the Bayer Group recorded EBIT of EUR 973 million, against EUR 1,343 million in the prior-year quarter (minus 27.6 percent). Group net income fell by 44.2 percent to EUR 425 million (Q1 2008: EUR 762 million), while core earnings per share were down by 36.8 percent to EUR 0.91 (Q1 2008: EUR 1.44).

Gross cash flow dropped by 26.8 percent to EUR 1,209 million, while net cash flow rose by 31.3 percent to EUR 693 million as less cash was tied up in working capital. Despite unfavorable currency effects, net financial debt therefore fell to EUR 14.0 billion as of March 31, 2009, from EUR 14.2 billion at the end of 2008.

Mixed outlook for the full year 2009

Bayer still predicts a wide variation among the subgroups in terms of performance for the full year 2009. "For HealthCare and CropScience we continue to expect a positive trend in the current year, with growth in sales and EBITDA before special items," Wenning confirmed. He said HealthCare plans to achieve currency-adjusted growth rates ahead of the market average in all divisions and to improve the EBITDA margin before special items toward 28 percent. CropScience expects further sales growth in a generally favorable market environment. This subgroup aims to maintain its EBITDA margin before special items at the high level of about 25 percent.

The drop in sales and earnings at MaterialScience in the first quarter of 2009 turned out to be even steeper than expected. However, sales stabilized at a low level in the first three months. "The downturn thus seems to be bottoming out. The first signs of a modest recovery in demand are appearing," said the Bayer CEO. Bayer anticipates an improvement in sales and earnings at MaterialScience in the second quarter compared with the first, and this subgroup is targeting positive EBITDA before special items for the full year.

“Against this background, we consider our goal of limiting the decline in Group EBITDA before special items to 5 percent to be increasingly demanding,” Wenning explained. However, he believes it could still be achieved if there is a tangible recovery in the MaterialScience business. Wenning said it would no longer be possible to match the prior-year earnings figure, still less to improve upon it. Group sales for the full year will likely come in at approximately EUR 32 billion.

The company now expects to make capital expenditures of EUR 1.4 billion in 2009, while research and development expenses are planned to rise to roughly EUR 2.9 billion. “We still expect to bring down net financial debt toward EUR 10 billion by the end of the year,” Wenning stressed, adding that the conversion of the mandatory convertible bond into equity when it matures in June 2009 and the improvement of net cash flow will help to achieve this. This forecast does not take into account any possible portfolio changes.

Note:

Tables containing the key data for the Bayer Group and its subgroups for the First Quarter 2009 are appended below.

The complete Financial Report as of March 31, 2009 is available on the Internet at www.investor.bayer.com.

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Forward-Looking Statements

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Bayer Key Data, 1st Quarter 2009

Bayer Group (EUR million)	Q1 2008	Q1 2009	Change in %
Sales	8,536	7,895	-7.5
EBITDA	2,055	1,661	-19.2
<i>Special items</i>	<i>(130)</i>	<i>(34)</i>	-
EBITDA before special items	2,185	1,695	-22.4
EBIT	1,343	973	-27.6
<i>Special items</i>	<i>(154)</i>	<i>(44)</i>	-
EBIT before special items	1,497	1,017	-32.1
Group net income	762	425	-44.2

Bayer HealthCare (EUR million)	Q1 2008	Q1 2009	Change In %
Sales	3,731	3,843	+3.0
EBITDA	970	1,043	+7.5
<i>Special items</i>	<i>(80)</i>	<i>(18)</i>	-
EBITDA before special items	1,050	1,061	+1.0
EBIT	563	675	+19.9
<i>Special items</i>	<i>(100)</i>	<i>(18)</i>	-
EBIT before special items	663	693	+4.5

Bayer CropScience (EUR million)	Q1 2008	Q1 2009	Change In %
Sales	1,978	2,120	+7.2
EBITDA	663	733	+10.6
<i>Special items</i>	<i>(50)</i>	<i>(4)</i>	-
EBITDA before special items	713	737	+3.4
EBIT	524	609	+16.2
<i>Special items</i>	<i>(54)</i>	<i>(8)</i>	-
EBIT before special items	578	617	+6.7

Bayer MaterialScience (EUR million)	Q1 2008	Q1 2009	Change in %
Sales	2,512	1,636	-34.9
EBITDA	407	(128)	-
<i>Special items</i>	<i>0</i>	<i>(12)</i>	-
EBITDA before special items	407	(116)	-
EBIT	281	(281)	-
<i>Special items</i>	<i>0</i>	<i>(18)</i>	-
EBIT before special items	281	(263)	-

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.