Bayer

Investor News

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Interim report for the second quarter of 2009:

Bayer robust in a difficult environment

- HealthCare strong – further growth at CropScience – MaterialScience stabilized
- Group sales EUR 8,009 million (minus 5.9 percent)
- EBITDA before special items EUR 1,765 million (minus 6.9 percent)
- EBIT before special items EUR 1,101 million (minus 11.8 percent)
- Group net income EUR 532 million (minus 7.3 percent)
- Net cash flow EUR 1,399 million (plus 57.4 percent)
- Earnings targets for full year 2009 confirmed

Leverkusen, July 29, 2009 – In the second quarter of 2009 the Bayer Group's businesses turned in a robust performance in a difficult environment. "The clear increase in sales and earnings at HealthCare was particularly pleasing," Management Board Chairman Werner Wenning commented when the interim report was published on Wednesday. CropScience also continued to increase sales and matched the good earnings level of the prior-year period. MaterialScience improved its performance compared with the first quarter of 2009 but remained well below the prior year. The signs that the bottom of the cycle has been reached in the industrial business have thus been confirmed, although a lasting improvement is not yet in sight. "The second quarter as a whole fully met our expectations. We are adhering to our ambitious earnings targets for the full year 2009", Wenning said.

Key data for the Bayer Group improved in the second quarter of 2009 compared with the first three months – in some cases considerably – but remained below the high level of the second quarter of 2008. Group sales fell by 5.9 percent to EUR 8,009 million (Q2 2008: EUR 8,511 million). Adjusted for currency and portfolio effects, sales fell by 8.9 percent. Earnings before interest, taxes, depreciation and amortization (EBITDA) – before special items – dropped by 6.9 percent to EUR 1,765 million (Q2 2008: EUR 1,896 million). The operating result (EBIT) before special items receded by 11.8 percent to EUR 1,101 million (Q2 2008: EUR 1,248 million).

HealthCare on a path of growth in all divisions

The HealthCare subgroup registered strong gains in sales and earnings. Second-quarter sales rose by 8.3 percent to EUR 4,045 million (Q2 2008: EUR 3,734 million). The currency- and portfolio-adjusted (Fx & portfolio adj.) increase was 4.8 percent. “It should be noted that both the Pharmaceuticals and the Consumer Health segments contributed to this positive performance,” Wenning commented.

Sales in the Pharmaceuticals segment rose by 9.1 percent (Fx & portfolio adj. 6.1 percent) to EUR 2,634 million. The strongest gains were recorded by the General Medicine business unit, followed by Specialty Medicine, Diagnostic Imaging and Women’s Healthcare. Among Bayer’s leading pharmaceutical products, the cancer drug Nexavar® was the fastest-growing brand with a currency-adjusted (Fx adj.) increase of 29.5 percent. Also very successful were the multiple sclerosis drug Betaferon®/Betaseron® (Fx adj. plus 13.3 percent), the YAZ® family of oral contraceptives (Fx adj. plus 4.1 percent) and Aspirin Cardio® (Fx adj. plus 14.6 percent). The antibiotic Cipro®/Ciprobay® (Fx adj. plus 11.1 percent) benefited from a contract signed with the U.S. government in 2008.

Following a weaker first quarter marred by factors such as inventory reductions by customers, sales of the Consumer Health segment improved by 6.9 percent (Fx & portfolio adj. 2.4 percent) compared with the second quarter of 2008, to EUR 1,411 million. The non-prescription medicines business (Consumer Care) recorded particularly strong gains by the One-A-Day® line of multivitamin products (Fx adj. plus 22.5 percent) and the Bepanthen®/Bepanthol® family of skincare products (Fx adj. plus 14.6 percent). Sales of the pain relievers Aspirin® and Aleve® fell by a currency-adjusted 12.6 percent and 11.0 percent, respectively. The Medical Care Division grew sales thanks especially to the strong performance of its Contour® and Breeze® blood glucose monitoring systems (Fx adj. plus 10.4 percent each), while the medical equipment business declined slightly in a weaker market environment (Fx adj. minus 3.4 percent). Sales of the Animal Health Division were steady year on year (Fx adj. plus 0.7 percent), with the Advantage® product line for flea and tick control posting gains (Fx adj. plus 2.9 percent).

EBITDA before special items of Bayer HealthCare advanced by 11.9 percent to EUR 1,112 million (Q2 2008: EUR 994 million). This was attributable to the good business performance in both segments and to synergies from the integration of Schering, Berlin, Germany.

CropScience developed well

“CropScience also raised sales again in the second quarter,” Wenning reported. Sales of this subgroup moved forward by 2.7 percent to EUR 1,852 million (Q2 2008: EUR 1,804 million). The currency-adjusted increase was 2.0 percent.

Sales in the Crop Protection segment edged ahead by 0.9 percent (Fx adj. plus 1.0 percent) to EUR 1,540 million. Despite unfavorable weather patterns in a number of major growing areas, sales of herbicides and insecticides were up by 4.0 percent and 12.5 percent, respectively. Business with seed treatment products developed particularly well, with sales rising by 33.3 percent due to early receipt of orders for the fall season in North America. By contrast, fungicide sales were down in nearly all regions (minus 14.4 percent).

Sales of the Environmental Science, BioScience segment rose by a gratifying 12.2 percent (Fx adj. plus 7.4 percent) to EUR 312 million. The BioScience business unit grew by 23.9 percent (Fx adj. plus 17.3 percent), due largely to higher sales of vegetable seed. Business with hybrid rice and cotton seed also continued to expand. The Environmental Science business unit, too, raised sales by 4.2 percent (Fx adj. plus 0.6 percent). Business with products for private customers posted significant growth in the United States.

EBITDA before special items of CropScience was level year on year at EUR 497 million (Q2 2008: EUR 501 million), with higher selling prices offset by a slight decline in volumes and an increase in raw material costs.

MaterialScience distinctly ahead of the first quarter

“Our high-tech materials business stabilized in the second quarter, with sales and earnings showing a marked improvement against the first three months,” Wenning explained. However, volumes and selling prices at MaterialScience were still substantially below the prior-year period. Sales of the subgroup dropped by 30.2 percent to EUR 1,830 million (Q2 2008: EUR 2,622 million). Adjusted for currency and portfolio effects, sales were down by 34.4 percent. Demand in key customer industries was significantly lower than in the prior-year period due to the financial and economic crisis. Sales of foam raw materials (Polyurethanes) posted the steepest decline (Fx & portfolio adj. minus 38.6 percent), while business with high-tech plastics (Polycarbonates) receded by 32.3 percent on a currency-adjusted basis. The Coatings, Adhesives, Specialties unit registered a decline of 29.3 percent (Fx & portfolio adj.).

EBITDA before special items of MaterialScience dropped by 67.5 percent to EUR 121 million (Q2 2008: EUR 372 million). Lower raw material and energy costs and a divestment gain of EUR 15 million had a positive effect. The restructuring program launched in 2007 also resulted in cost savings. EBITDA before special items in the first quarter of 2009 was minus EUR 116 million.

“MaterialScience has responded extensively to the slump in demand,” Wenning stressed. Considerable production capacities in the Polycarbonates, Polyurethanes and Coatings, Adhesives, Specialties businesses were temporarily shut down at an early stage, he said. In addition, the decision has been made to permanently shut down certain capacities for Polyurethanes; Coatings, Adhesives, Specialties; and Basic Chemicals by the end of the year. Further structural measures are to take place depending on market developments, particularly in Polycarbonates. “What’s more, we will speed up the implementation of the restructuring programs already announced,” said the Bayer CEO.

Net debt significantly reduced

The Bayer Group’s operating result was diminished in the second quarter by special items of minus EUR 80 million (Q2 2008: minus EUR 143 million). Of this amount, additional funding for the German corporate pension assurance association, necessitated by record bankruptcy losses, accounted for minus EUR 70 million. Further special charges of EUR 64 million were taken for restructuring at CropScience and MaterialScience, and EUR 35 million for litigations. The negative items were partially offset by a net amount of EUR 89 million in income from the integration of Schering, consisting mainly of gains from divestments of business activities in the Schering portfolio. After special items, EBIT declined by 7.6 percent to EUR 1,021 million (Q2 2008: EUR 1,105 million). Net income of the Bayer Group was down 7.3 percent year on year at EUR 532 million (Q2 2008: EUR 574 million); core earnings per share fell by 11.0 percent to EUR 1.05 (Q2 2008: EUR 1.18).

Gross cash flow declined by 5.6 percent to EUR 1,248 million. However, net cash flow climbed by a gratifying 57.4 percent to EUR 1,399 million. The increase was due mainly to a further reduction in cash tied up in inventories, as well as to lower income tax payments. Net financial debt fell to EUR 11.7 billion as of June 30 – compared to EUR 14.0 billion on March 31 – thanks to the conversion of the mandatory convertible bond.

First half dominated by the effects of the financial and economic crisis

Despite the positive sales and earnings performance of HealthCare and CropScience, the Bayer Group was hampered by the effects of the financial and economic crisis throughout the first half of 2009. Group sales fell by 6.7 percent (Fx & portfolio adj. 9.3 percent), to EUR 15,904 million (H1 2008: EUR 17,047 million). EBITDA before special items dropped by 15.2 percent to EUR 3,460 million (H1 2008: EUR 4,081 million), while underlying EBIT receded by 22.8 percent to EUR 2,118 million (H1 2008: EUR 2,745 million). After special items, EBIT fell by 18.5 percent to EUR 1,994 million (H1 2008: EUR 2,448 million). Group net income came in at EUR 957 million, down 28.4 percent against the prior-year figure of EUR 1,336 million.

Continued positive outlook for HealthCare and CropScience in 2009

Bayer continues to predict divergent development of its subgroups in the full year 2009. HealthCare and CropScience still expect to achieve a positive performance in terms of sales and EBITDA before special items. HealthCare also 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 aims to maintain the EBITDA margin before special items at the high level of about 25 percent.

At MaterialScience, second-quarter sales and earnings exceeded the very low levels of the first quarter as expected. While the signs that the downturn is bottoming out have been confirmed, a sustained improvement is not yet in sight. Moreover, earnings are likely to be held back by a renewed increase in raw material costs. The subgroup nevertheless expects to report positive EBITDA before special items in the third quarter.

“Against this background we expect to post full-year Group sales of between EUR 31 billion and EUR 32 billion and are adhering to our ambitious target of limiting the decline in Group EBITDA before special items to 5 percent,” Wenning said.

Bayer still expects to make capital expenditures of EUR 1.4 billion in 2009, while research and development expenses are planned to rise to approximately EUR 2.9 billion. It is intended to further reduce net financial debt toward EUR 10 billion in 2009. This forecast does not take into account any possible portfolio changes.

Note:
The tables below contain the key data for the Bayer Group and its subgroups for the second quarter of 2009.

*The complete report on the second quarter is available for online viewing and download at **www.investor.bayer.com***

*We are also offering the following Internet services at **www.investor.bayer.com:***
- Presentation charts for the Investor Conference Call available for download at 12:00 noon CEST
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Bayer Key Data, 2nd Quarter and 1st Half of 2009

Bayer Group (EUR million)	Q2 2008	**Q2 2009**	Change in %	H1 2008	**H1 2009**	Change in %
Sales	8,511	**8,009**	-5.9	17,047	**15,904**	-6.7
EBITDA	1,774	**1,709**	-3.7	3,829	**3,370**	-12.0
Special items	*(122)*	***(56)***	-	*(252)*	***(90)***	-
EBITDA before special items	1,896	**1,765**	-6.9	4,081	**3,460**	-15.2
EBIT	1,105	**1,021**	-7.6	2,448	**1,994**	-18.5
Special items	*(143)*	***(80)***	-	*(297)*	***(124)***	-
EBIT before special items	1,248	**1,101**	-11.8	2,745	**2,118**	-22.8
Net income	574	**532**	-7.3	1,336	**957**	-28.4

Bayer HealthCare (EUR million)	Q2 2008	**Q2 2009**	Change in %	H1 2008	**H1 2009**	Change in %
Sales	3,734	**4,045**	+8.3	7,465	**7,888**	+5.7
EBITDA	887	**1,176**	+32.6	1,857	**2,219**	+19.5
Special items	*(107)*	***64***	-	*(187)*	***46***	-
EBITDA before special items	994	**1,112**	+11.9	2,044	**2,173**	+6.3
EBIT	513	**821**	+60.0	1,076	**1,496**	+39.0
Special items	*(126)*	***63***	-	*(226)*	***45***	-
EBIT before special items	639	**758**	+18.6	1,302	**1,451**	+11.4

Bayer CropScience (EUR million)	Q2 2008	**Q2 2009**	Change in %	H1 2008	**H1 2009**	Change in %
Sales	1,804	**1,852**	+2.7	3,782	**3,972**	+5.0
EBITDA	493	**427**	-13.4	1,156	**1,160**	+0.3
Special items	*(8)*	***(70)***	-	*(58)*	***(74)***	-
EBITDA before special items	501	**497**	-0.8	1,214	**1,234**	+1.6
EBIT	367	**304**	-17.2	891	**913**	+2.5
Special items	*(8)*	***(70)***	-	*(62)*	***(78)***	-
EBIT before special items	375	**374**	-0.3	953	**991**	+4.0

Bayer MaterialScience (EUR million)	Q2 2008	**Q2 2009**	Change in %	H1 2008	**H1 2009**	Change in %
Sales	2,622	**1,830**	-30.2	5,134	**3,466**	-32.5
EBITDA	365	**82**	-77.5	772	**(46)**	**-**
Special items	*(7)*	***(39)***	-	*(7)*	***(51)***	-
EBITDA before special items	372	**121**	-67.5	779	**5**	-99.4
EBIT	244	**(84)**		525	**(365)**	**-**
Special items	*(9)*	***(62)***	-	*(9)*	***(80)***	-
EBIT before special items	253	**(22)**		534	**(285)**	**-**

EBITDA = EBIT plus amortization of intangible assets and depreciation of property, plant and equipment. EBITDA, EBITDA before special items and EBITDA margin before special items 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.