



## Investor News

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### MaterialScience leaves the crisis behind

#### **Bayer increases sales and earnings in the second quarter**

- Sales grow by 14.6 percent to EUR 9,179 million
  - EBITDA before special items up 8.6 percent to EUR 1,917 million
  - Core earnings per share increase by 9.5 percent to EUR 1.15
  - Investing in the future: research and development expenses in 2010 to reach a new high of approximately EUR 3.1 billion
  - Group outlook confirmed for 2010
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**Leverkusen, July 29, 2010** – The Bayer Group once again achieved gains in sales and earnings in the second quarter of 2010. “MaterialScience has left the crisis behind and saw business expand more strongly than expected. Volumes have returned to the pre-crisis level,” explained Management Board Chairman Werner Wenning on Thursday following the publication of the interim report for the second quarter. Sales at HealthCare improved slightly, while the subgroup’s earnings matched the prior-year level. CropScience was down year on year. That subgroup saw volumes and selling prices decline in a market environment made difficult by the competitive situation and unfavorable weather conditions. “We can confirm the 2010 Group outlook we raised in April,” Wenning said.

The Bayer Chairman announced that the company will increase its investment for the future more substantially than planned. “We now expect research and development expenses for the full year to come in at a record level of some EUR 3.1 billion. In this way we are supporting our successful pharmaceutical research and development pipeline – and underscoring our position as the leading research-based pharmaceutical and chemical company in Germany,” said Wenning. Previously the company had planned to raise research and development spending in 2010 to approximately EUR 2.9 billion, compared to EUR 2,746 million in the previous year.

Sales of the Bayer Group rose by 14.6 percent in the second quarter, to EUR 9,179 million (Q2 2009: EUR 8,009 million). Adjusted for currency and portfolio effects, business grew by 9.2 percent. Earnings before interest, taxes, depreciation and amortization (EBITDA) – before special items – improved by 8.6 percent to EUR 1,917 million (Q2 2009: EUR 1,765 million). This was attributable primarily to the gratifying business trends at MaterialScience and Consumer Health, as well as to positive currency effects. The operating result (EBIT) before special items advanced by 14.4 percent to EUR 1,260 million (Q2 2009: EUR 1,101 million). Research and development expenses rose by 12.7 percent to EUR 747 million (Q2 2009: EUR 663 million).

### **Pleasing growth in the Consumer Health business**

Sales of the HealthCare subgroup rose by 6.4 percent in the second quarter, to EUR 4,305 million (Q2 2009: EUR 4,045 million). Adjusted for currency and portfolio effects (Fx & portfolio adj.), business was up by 2.0 percent. “Both of the subgroup’s segments contributed to this performance, with Consumer Health posting particularly pleasing growth,” explained Wenning.

The Pharmaceuticals segment raised sales by 4.3 percent (Fx & portfolio adj. 1.1 percent) to EUR 2,748 million. Business expanded especially in the Asia/Pacific and Latin America/Africa/Middle East regions, more than offsetting the declines in North America. Among the segment’s top products, the hemophilia medication Kogenate<sup>®</sup> posted the highest growth rate of 25.2 percent (Fx adj.), benefiting from fluctuations in the ordering schedule. Business with the antibiotic Avalox<sup>®</sup>/Avelox<sup>®</sup> was also very successful, growing by 20.8 percent (Fx adj.), as was performance of the cancer drug Nexavar<sup>®</sup> at plus 19.6 percent (Fx adj.). Also achieving substantial gains were Aspirin<sup>®</sup> Cardio (Fx adj. plus 11.2 percent) and Kinzal<sup>®</sup>/Pritor<sup>®</sup> (Fx adj. plus 8.5 percent). By contrast, business with the YAZ<sup>®</sup> family of oral contraceptives fell by 14.9 percent (Fx adj.). These declines resulted mainly from lower demand in the United States, where business was additionally hampered by intensified generic competition. Sales of the multiple sclerosis drug Betaferon<sup>®</sup>/Betaseron<sup>®</sup> receded by 10.7 percent (Fx adj.), mostly because of intensified competition especially in Germany and the United States.

Sales of the Consumer Health segment climbed by 10.3 percent (Fx & portfolio adj. 3.8 percent) in the second quarter, to EUR 1,557 million. All regions, and particularly North America and Asia/Pacific, contributed to this increase. In the non-prescription medicines

business (Consumer Care), there were particularly gratifying performances by the One-A-Day<sup>®</sup> multivitamin product line (Fx adj. plus 14.8 percent) and the analgesic Aleve<sup>®</sup>/naproxen (Fx adj. plus 14.3 percent). Canesten<sup>®</sup> for the treatment of fungal infections also improved significantly, gaining 14.0 percent on a currency-adjusted basis. Sales of the Medical Care Division grew less dynamically, particularly as a result of the weak trend in the U.S. diabetes care market. On a currency-adjusted basis, sales of the Contour<sup>®</sup> blood glucose meter line moved back by 8.8 percent. By contrast, the medical equipment business saw sales expand by 10.8 percent (Fx adj.). A substantial increase in sales was registered by the Animal Health Division, due especially to the positive performance of the Advantage<sup>®</sup> line of flea and tick control products (Fx adj. plus 20.5 percent).

EBITDA before special items at HealthCare came in nearly level with the prior year at EUR 1,102 million (Q2 2009: EUR 1,112 million), despite a significant increase of 13.9 percent in research and development costs. “With these expenditures, we are supporting the continued positive development of our research and development pipeline,” explained Wenning. Lower earnings in the Pharmaceuticals segment were nearly offset by a gratifying improvement at Consumer Health.

### **Difficult market and weather conditions in the crop protection business**

CropScience saw sales rise by 1.7 percent in the second quarter, to EUR 1,884 million (Q2 2009: EUR 1,852 million). After adjusting for currency and portfolio effects, sales fell by 5.5 percent. “The declines in the conventional crop protection business were partially offset by the continued positive business performance in Environmental Science and BioScience,” Wenning explained.

Sales in the Crop Protection segment fell by 1.3 percent (Fx adj. 8.6 percent) to EUR 1,520 million. While sales of herbicides came in close to the prior-year level on a currency-adjusted basis, business with insecticides, fungicides and seed treatment products was down significantly in some cases. In Europe, sales declined by 3.0 percent after adjusting for currency effects, due mainly to the unfavorable weather conditions. Sales in North America moved back by a currency-adjusted 30.0 percent. Business there was hampered by the difficult market and competitive situation, as well as by pressure exerted on prices by generic manufacturers in the United States. By contrast, a positive performance was seen in Asia/Pacific, where sales increased by 6.5 percent on a

currency-adjusted basis, due especially to the gratifying business trend in Australia. In Latin America/Africa/Middle East, sales advanced by 3.1 percent (Fx adj.).

The Environmental Science, BioScience segment raised sales by 16.7 percent (Fx & portfolio adj. 9.8 percent) to EUR 364 million. Sales in the Environmental Science business unit climbed by 15.7 percent (Fx adj. 9.1 percent). Sales of products for professional users for use in non-agricultural applications rose significantly, in the United States and in Germany and Japan. By contrast, there was a slight decline year on year in sales of products for private users. Thanks especially to higher sales of canola seed, the BioScience business unit saw business expand by 17.9 percent (Fx & portfolio adj. 10.8 percent).

EBITDA before special items of CropScience was down by 20.3 percent to EUR 396 million (Q2 2009: EUR 497 million). This was attributable to much lower earnings at Crop Protection, while the Environmental Science, BioScience segment improved profitability.

### **MaterialScience successful in all product groups and regions**

The significant improvement in the high-tech materials business continued: MaterialScience posted sales of EUR 2,689 million (Q2 2009: EUR 1,830 million) in the second quarter of 2010. The subgroup thus improved sales by 46.9 percent (Fx adj. 40.5 percent) against the prior-year quarter, which was impacted by the global financial and economic crisis. "This very gratifying improvement was due especially to the considerable increase in demand in our primary customer industries," Wenning explained. Volumes rose significantly in all product groups and regions. MaterialScience also expanded sales by a substantial 21.3 percent (Fx adj. 15.9 percent) compared to the first quarter of 2010.

Business with raw materials for foams (Polyurethanes) improved by a currency-adjusted 37.1 percent year on year thanks to a marked expansion of volumes. Furthermore, selling prices increased in Asia/Pacific and Europe, enabling the subgroup to more than offset price declines in North and Latin America. Growth in the Polycarbonates business was even stronger, with sales of these high-performance plastics climbing by a currency-adjusted 59.4 percent. Here MaterialScience managed to raise selling prices substantially overall, as well as significantly grow volumes in all regions. Business with raw materials for coatings, adhesives and specialties also trended successfully, with sales up by a currency-adjusted 37.3 percent.

The subgroup more than tripled its year-on-year earnings in the second quarter thanks to the improved business situation. EBITDA before special items advanced to EUR 371 million (Q2 2009: EUR 121 million). This success was based on the substantial expansion of volumes and the associated clear improvement in capacity utilization, as well as on higher selling prices and efficiency improvements. By contrast, earnings of MaterialScience were diminished by higher purchase prices on the raw material markets as a result of the global economic recovery.

### **Core earnings per share rise by 9.5 percent**

Earnings in the second quarter were diminished by special charges of EUR 255 million (Q2 2009: net special charges of EUR 80 million). Of these special charges, EUR 123 million related to litigations at HealthCare and CropScience and EUR 132 million to the partial write-down for the cancer drug Zevalin<sup>®</sup>. After special items, the operating result (EBIT) fell by 1.6 percent to EUR 1,005 million (Q2 2009: EUR 1,021 million). Net income came in level year on year at EUR 525 million (Q2 2009: EUR 532 million). Core earnings per share rose by 9.5 percent to EUR 1.15 (Q2 2009: EUR 1.05).

Gross cash flow increased by 3.0 percent to EUR 1,286 million (Q2 2009: EUR 1,248 million), due especially to the upward business trend at MaterialScience. Net cash flow improved by 10.4 percent to EUR 1,545 million (Q2 2009: EUR 1,399 million), thanks in part to our measures to further optimize working capital management. Net financial debt of the Bayer Group increased from EUR 9.7 billion on March 31 to EUR 10.7 billion on June 30. This increase, which is typical for the second quarter, was mainly due to the dividend payment of EUR 1.2 billion, to annual payments of variable compensation to Bayer's employees and to the expected high interest payments resulting from the fact that the interest payment dates for the company's bonds occur mainly in the second quarter. Negative currency effects of EUR 0.6 billion were an additional factor.

### **First-half sales and earnings benefited from the recovery at MaterialScience**

Sales and earnings of the Bayer Group increased significantly in the first half of 2010, thanks above all to the recovery at MaterialScience. Sales climbed by 10.0 percent (Fx & portfolio adj. 7.7 percent) to EUR 17,495 million (H1 2009: EUR 15,904 million). EBITDA before special items rose by 10.8 percent to EUR 3,835 million (H1 2009: EUR 3,460 million), while EBIT before special items improved by 19.6 percent to EUR 2,534 million

(H1 2009: EUR 2,118 million). EBIT grew by 10.4 percent to EUR 2,202 million (H1 2009: EUR 1,994 million). Net income was up by 27.3 percent to EUR 1,218 million (H1 2009: EUR 957 million), while core earnings per share advanced 19.9 percent to EUR 2.35 (H1 2009: EUR 1.96).

### **Bayer remains optimistic for 2010**

For the full year, Bayer anticipates a further recovery in the global economy, although the pace of growth is expected to slow as the year progresses. "We remain optimistic for 2010," Wenning emphasized. The strong recovery at MaterialScience is compensating for the below-forecast business performance at HealthCare and CropScience. Currency parities have also continued to trend positively. Bayer continues to target currency- and portfolio-adjusted sales growth of more than 5 percent. The company also still aims to increase EBITDA before special items to more than EUR 7 billion. Core earnings per share are expected to improve by more than 15 percent. The company's estimates are based on the exchange rates prevailing at the end of the second quarter of 2010.

HealthCare is adjusting its sales forecast for 2010 overall following the unexpected market entry of a generic competitor to YAZ<sup>®</sup> in the United States. The subgroup now expects sales in the Pharmaceuticals segment to remain level year on year on a currency- and portfolio-adjusted basis. Consumer Health, however, is still expected to expand faster than the market. After adjusting for currency and portfolio effects, HealthCare anticipates a slight increase in sales (previously: about 3 percent). In part because of the situation pertaining to YAZ<sup>®</sup>, the subgroup expects EBITDA before special items to at least reach the prior-year level (previously: year-on-year increase).

Against the background of the unfavorable weather and market conditions in the first half of the year, CropScience is lowering its sales and earnings forecast for 2010. Provided market conditions return to normal in the second half of the year, this subgroup anticipates that sales in 2010 overall will be slightly lower than the prior-year level on a currency- and portfolio-adjusted basis (previously: increase of between 2 and 3 percent). CropScience expects EBITDA before special items to decline significantly in 2010 overall (previously: level with the prior year).

MaterialScience remains optimistic for the second half and expects business to continue trending positively. From today's viewpoint, the subgroup now considers as conservative

the previous targets of increasing full-year sales by approximately 20 percent and more than doubling EBITDA before special items. MaterialScience expects to exceed these forecasts. In the third quarter, the subgroup anticipates that sales and EBITDA before special items will be in line with those of the previous quarter.

**Note:**

*The tables below contain the key data for the Bayer Group and its subgroups for the second quarter and first half of 2010.*

*The full report for the second quarter is available for online viewing and download at [www.investor.bayer.com](http://www.investor.bayer.com).*

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**Forward-Looking Statements**

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## Bayer Key Data, 2nd Quarter and 1st Half of 2010

<b>Bayer Group</b> (EUR million)	Q2 2009	<b>Q2 2010</b>	Change in %	H1 2009	<b>H1 2010</b>	Change in %
Sales	8,009	<b>9,179</b>	+14.6	15,904	<b>17,495</b>	+10.0
EBITDA	1,709	<b>1,794</b>	+5.0	3,370	<b>3,635</b>	+7.9
<i>Special items</i>	(56)	<b>(123)</b>	-	(90)	<b>(200)</b>	-
EBITDA before special items	1,765	<b>1,917</b>	+8.6	3,460	<b>3,835</b>	+10.8
EBIT	1,021	<b>1,005</b>	-1.6	1,994	<b>2,202</b>	+10.4
<i>Special items</i>	(80)	<b>(255)</b>	-	(124)	<b>(332)</b>	-
EBIT before special items	1,101	<b>1,260</b>	+14.4	2,118	<b>2,534</b>	+19.6
Group net income	532	<b>525</b>	-1.3	957	<b>1,218</b>	+27.3
Core earnings per share (EUR)	1.05	<b>1.15</b>	+9.5	1.96	<b>2.35</b>	+19.9

<b>Bayer HealthCare</b> (EUR million)	Q2 2009	<b>Q2 2010</b>	Change in %	H1 2009	<b>H1 2010</b>	Change in %
Sales	4,045	<b>4,305</b>	+6.4	7,888	<b>8,174</b>	+3.6
EBITDA	1,176	<b>1,045</b>	-11.1	2,219	<b>2,095</b>	-5.6
<i>Special items</i>	64	<b>(57)</b>	-	46	<b>(86)</b>	-
EBITDA before special items	1,112	<b>1,102</b>	-0.9	2,173	<b>2,181</b>	+0.4
EBIT	821	<b>575</b>	-30.0	1,496	<b>1,291</b>	-13.7
<i>Special items</i>	63	<b>(189)</b>	-	45	<b>(218)</b>	-
EBIT before special items	758	<b>764</b>	+0.8	1,451	<b>1,509</b>	+4.0

<b>Bayer CropScience</b> (EUR million)	Q2 2009	<b>Q2 2010</b>	Change in %	H1 2009	<b>H1 2010</b>	Change in %
Sales	1,852	<b>1,884</b>	+1.7	3,972	<b>3,836</b>	-3.4
EBITDA	427	<b>330</b>	-22.7	1,160	<b>841</b>	-27.5
<i>Special items</i>	(70)	<b>(66)</b>	-	(74)	<b>(114)</b>	-
EBITDA before special items	497	<b>396</b>	-20.3	1,234	<b>955</b>	-22.6
EBIT	304	<b>203</b>	-33.2	913	<b>591</b>	-35.3
<i>Special items</i>	(70)	<b>(66)</b>	-	(78)	<b>(114)</b>	-
EBIT before special items	374	<b>269</b>	-28.1	991	<b>705</b>	-28.9

<b>Bayer MaterialScience</b> (EUR million)	Q2 2009	<b>Q2 2010</b>	Change in %	H1 2009	<b>H1 2010</b>	Change in %
Sales	1,830	<b>2,689</b>	+46.9	3,466	<b>4,905</b>	+41.5
EBITDA	82	<b>371</b>	-	(46)	<b>658</b>	-
<i>Special items</i>	(39)	<b>0</b>	-	(51)	<b>0</b>	-
EBITDA before special items	121	<b>371</b>	-	5	<b>658</b>	-
EBIT	(84)	<b>226</b>	-	(365)	<b>372</b>	-
<i>Special items</i>	(62)	<b>0</b>	-	(80)	<b>0</b>	-
EBIT before special items	(22)	<b>226</b>	-	(285)	<b>372</b>	-

EBITDA, EBITDA before special items and core earnings per share are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. For the definition of these indicators, see the current annual report at [www.bayer.com](http://www.bayer.com).