Continuing weak economy affects Bayer's half-year report

Sales increase, but earnings down

Full-year profits will be significantly below target /
Extensive programs in place to improve profitability

Leverkusen – Bayer's sales from continuing operations – which exclude the EC Erdölchemie and Fibers business groups – rose by 8 percent in the first half of 2001 compared with the same period last year, to EUR 15.6 billion. However, the operating result before exceptional items shrank by 23 percent to EUR 1.5 billion. "This decline in earnings is very disappointing," said Dr. Manfred Schneider, Chairman of the Bayer Board of Management. The decrease is due mainly to the temporary production problems for biological products, the sustained high cost of raw materials – especially in the Polymers segment – and a drop in demand from major customer sectors such as the automotive, electrical and construction industries. Net income fell by 3 percent to EUR 1.0 billion. This includes the EUR 0.3 billion gain from the sale of the 50 percent interest in EC Erdölchemie effective May 1, 2001.

"The anticipated economic recovery has unfortunately not yet materialized," said Dr. Schneider. Growth in Europe, and especially in Germany, continued to weaken in the second quarter. In North America, too, there was no discernible turnaround, and this is having an increasingly adverse effect on Asian markets, too. "Against this background and in view of the additional financial burden and loss of earnings in the Health Care segment resulting from the withdrawal of the cholesterol-lowering drug Lipobay/Baycol, we must assume that earnings for the year as a whole will be significantly below our previous expectations," he said. The company has launched a number of programs to improve profitability which are aimed at savings EUR 1.5 billion by the year 2005. These will also distinctly improve earning power in the shorter term.

Business in the Health Care segment increased by 4 percent to EUR 4.9 billion. Mainly because of the delay on releases of the genetically engineered blood-clotting product, Kogenate, sales of the Pharmaceuticals Business Group grew by only 2 percent, while sales of conventionally manufactured drug products rose by 8 percent. The segment's operating result dropped by 39 percent to EUR 0.4 billion, mainly due to production problems for biological products, which alone accounted for a decrease of EUR 250 million compared with the first half of 2000. Pharmaceuticals will continue to be affected by the problems with Kogenate in the second half of the year. In addition, it has now been decided to withdraw Lipobay/Baycol worldwide with the exception of Japan. According to initial estimates, this withdrawal will have a negative effect on earnings this year in the order of EUR 600 to 650 million, of which some EUR 250 to 300 million will be reported as a exceptional items. "This means that earnings in our Health Care segment for the year will be down 40 to 50 percent on our previous expectations. The target for 2002 of a 20 percent margin before exceptional items in this segment will also be unattainable," said Bayer’s CEO. On the other hand, the Health Care segment has initiated a number of cost-cutting programs that will yield savings of EUR 600 million in the next few years.

Sales in the Agriculture segment in the first half of 2001 matched the previous year's level of EUR 2.1 billion. The operating result slipped 7 percent to EUR 0.5 billion. The sluggishness of the economy in the United States and Latin America had an adverse effect, while sales in Europe were hampered by weather-related sales declines in products for cereals and mounting competitive pressure from generic herbicides. With an operating margin of 22 percent, the Agriculture segment nevertheless remained an international leader in terms of profitability.

The Polymers segment boosted sales by 9 percent to EUR 5.7 billion. The operating result, however, fell by 28 percent to EUR 0.4 billion. Dr. Schneider said the main reasons were the continuing high cost of petrochemical raw materials and utilities, inventory reductions and lower production volumes in important customer industries as well as the expenses for integrating the Lyondell polyols business acquired last year. All the business groups in this segment have embarked on aggressive programs to improve margins and many of these are already bearing fruit. They will lead to annual savings of up to EUR 700 million a year by 2005. Apart from this, the raw materials situation is predicted to ease slightly before the end of the year and the economic climate should improve early in 2002. "Irrespective of this, we will implement further price increases to restore margins to satisfactory levels," explained Dr. Schneider.

The Bayer Chairman was pleased with the development of the Chemicals segment, which grew sales by 19 percent to EUR 2.5 billion and raised its operating result by 18 percent to EUR 0.3 billion. The Bayer subsidiary H.C. Starck was again very successful, with double-digit growth rates. However, first signs of consolidation in the electronics market meant that growth is likely to be slower in the second half. The Specialty Products Business Group posted 22 percent higher sales, largely due to acquisitions. The segment's return on sales remained at 12 percent. An earnings-oriented portfolio management strategy and cost containment programs designed to save EUR 200 million a year should further enhance the performance of this segment.

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Forward-Looking Statements

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