

Bayer: a strong company

Dear Stakeholders:

2009 was an especially challenging year. Despite our best efforts, we too were unable to prevent a decline in sales and earnings. Yet thanks to our strategic alignment, we navigated the economic downturn with comparative success. Sales fell by 5.3 percent to €31.2 billion, and we limited the drop in earnings to 6.6 percent. EBITDA before special items came in at €6.5 billion, making 2009 operationally one of the three best years in Bayer's history. We also improved net cash flow by 49 percent to €5.4 billion. This enabled us to reduce net financial debt by €4.5 billion – a bigger drop than expected – to €9.7 billion.

These achievements were the result of an outstanding level of commitment by our employees, to whom I extend my sincere thanks on behalf of the entire Board of Management.

Our business performance varied from one subgroup to another. HealthCare again registered growth in both sales and earnings that was driven by all divisions. This subgroup's activities account for about half of our sales and some 70 percent of underlying EBITDA. We strategically strengthened our HealthCare subgroup with further acquisitions and a number of license agreements in key areas. These transactions included research, development and distribution partnerships, particularly in oncology, the purchase of exclusive rights to an insulin product for the Chinese market, and the acquisition of two dermatology products in the United States.

CropScience further increased sales and market share, with our young products again showing above-market growth. Thus in 2009 we already achieved an important target: €2 billion in sales of products based on active ingredients launched since 2000. In terms of earnings, CropScience was unable to match the record level of 2008 due to higher raw material costs and negative currency effects. Strategically, however, there were a number of highlights, ranging from extensive license agreements in the field of plant traits to the acquisition of U.S.-based biotech company Athenix, which was Bayer's largest transaction in 2009.

For MaterialScience, it was a very difficult year as expected. Yet business recovered tangibly as the year went on. The subgroup initiated a rapid, broad response to the sharp drop in demand with measures such as temporary plant shutdowns, production cutbacks, and short-term reductions in working hours and compensation. These actions paid off. We also accelerated the implementation of our restructuring programs and applied strict cost management.



It goes without saying that you, our stockholders, should benefit from the relatively stable performance of our business. The Board of Management and the Supervisory Board are therefore proposing to pay a dividend for 2009 of €1.40 per share, the same as in the previous year. This payout reflects the Bayer Group's operational earning power and future perspectives.

We brought 2009 to a successful close and are optimistic for 2010. This year we are targeting currency- and portfolio-adjusted sales growth of more than 5 percent and aim to increase EBITDA before special items toward €7 billion. Core earnings per share are expected to improve by about 10 percent.

Having largely achieved our current target margins, our main focus for the future is on creating value through profitable growth. To do this we plan to continue investing

primarily in our research and development pipeline, in BioScience and in the emerging markets. We expect to achieve steady currency- and portfolio-adjusted sales growth of approximately 5 percent annually through 2012 and plan to raise EBITDA before special items to around €8 billion within this period. We are targeting an average 10 percent annual improvement in core earnings per share, which would mean an increase to around €5 per share.

Today we are benefiting from the work we have done in recent years to align the enterprise toward innovation and growth and give it a competitive structure.

That work began with the biggest reorganization in Bayer's history. We separated the Group's strategic management from the day-to-day running of the business, created clear lines of responsibility and focused our activities more closely on their respective markets. This new organizational structure proved to be a solid foundation for our subsequent activities.

We focused our portfolio on the core areas of health care, nutrition and high-tech materials. The acquisition of Schering AG, Berlin, Germany, crucially strengthened our pharmaceutical operations. Since 2002 we have acquired or divested businesses worth a total of over €43 billion in order to restructure the Bayer Group.

Since the reorganization – in other words, between 2002 and 2009 – we implemented efficiency improvement and cost containment measures with a total volume of some €4 billion, completing the last of the restructuring programs last year. There can be no doubt that we would not have mastered the crisis so well if we had not transformed our portfolio and increased our efficiency.

This is also reflected in our stock market performance, which was very positive last year at nearly 40 percent. Bayer shares thus trended significantly better than the DAX or the EURO STOXX 50. Since 2005 our stock has appreciated by an average of 22 percent a year, taking dividends into account.

As you can see, long-term alignment and sustainable business management have been the top priority at Bayer for many years. And this strategy also proves effective in a difficult environment.

An important milestone is our new sustainability strategy, which we presented last year. We are contributing Bayer products and the expertise of our employees to eight international lighthouse projects in the areas of health care, nutrition and climate protection to help drive sustainable development forward throughout the world. These activities once again underline our strategic objective of balancing ecological, economic and social needs.

A special focus has been set with our foundation activities. Greater investment in education is needed to safeguard the future. In this context, the Bayer Science & Edu-

cation Foundation is providing financial assistance for projects designed to improve science teaching in schools. Since the launch of our school support program at the end of 2007, we have already facilitated more than 100 projects with total funding of over €1.25 million.

Our direction is clear: as an inventor company, Bayer stands for research and development. That's why the cover of this Annual Report is dedicated to research. The picture shows the director of our new HealthCare research center in China.

Innovation is vital for a company's future. With this in mind, we are maintaining our commitment to research and development even in these challenging times. In 2009 we invested €2.75 billion in research and development – the largest amount in Bayer's 146-year history. These expenditures are intended to lead to pioneering innovations that will benefit future generations too.

This fall, after 44 years with Bayer and more than eight years as Chairman of the Board of Management, I will relinquish my responsibility for steering the company. I would like to thank Bayer for the opportunity to have such an interesting, challenging and varied career. My thanks are also due to all the colleagues who have shown such dedication and commitment to Bayer over the years.

In addition, I would like to thank you, our stockholders, for the trust you have placed in me and the entire Board of Management in recent years. I ask that you give the same support to my successor, Dr. Marijn E. Dekkers, and the management team in continuing Bayer's successful course.

Sincerely,



WERNER WENNING
Chairman of the Board of Management of Bayer AG