

1. Overview of Sales, Earnings and Financial Position

Full year 2009

In 2009 Bayer was successful in a difficult environment. We achieved EBITDA before special items of €6.5 billion, the third-highest level in our history, and nearly reached our ambitious target of limiting the decline in earnings against the record year 2008 to about 5%. Moreover, we improved net cash flow by 49% to a record €5.4 billion. This enabled us to reduce net financial debt by €4.5 billion – a greater amount than planned – to €9.7 billion.

HealthCare again saw pleasing growth in both sales and earnings. CropScience achieved a slight improvement in sales despite a weakening market environment, though earnings came in somewhat below the previous year's record level. MaterialScience was hard hit by the slump in the world economy. Despite a recovery in business during the year, sales and earnings in 2009 came in well below the prior-year level.

Change in Sales

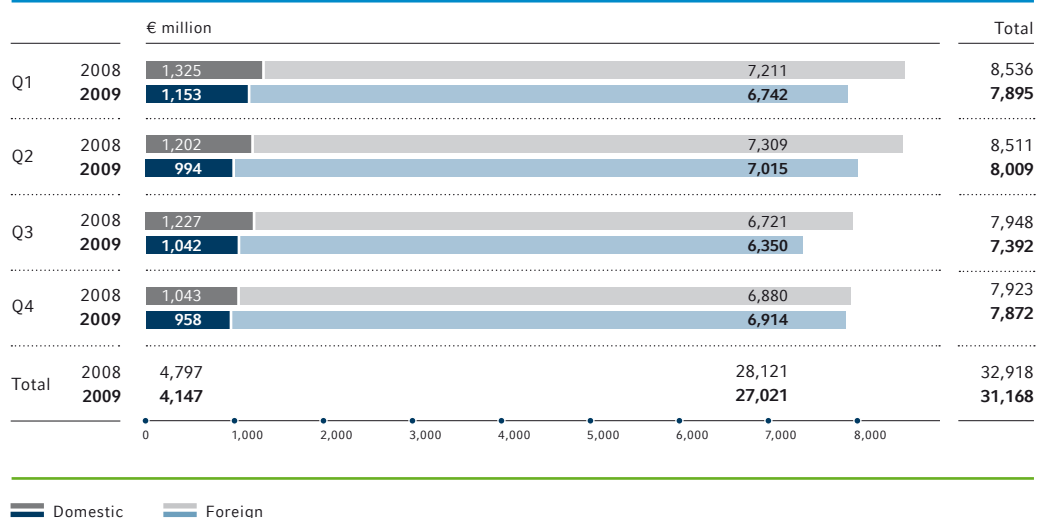
[Table 3.1]

	2008	2009
	%	%
Volume	+2.8	-2.9
Price	+1.6	-2.8
Currency	-3.4	+0.6
Portfolio	+0.6	-0.2

Group sales fell by 5.3% to €31,168 million (2008: €32,918 million). Adjusted for currency and portfolio effects (Fx & portfolio adj.), sales receded by 5.7%. Sales of HealthCare grew by 3.8% (Fx & portfolio adj. +3.8%). In the CropScience subgroup, business expanded by 2.0% (Fx & portfolio adj. +2.5%). Sales of MaterialScience fell by a substantial 22.8% (Fx & portfolio adj. 24.7%) due to the economic situation.

Bayer Group Quarterly Sales

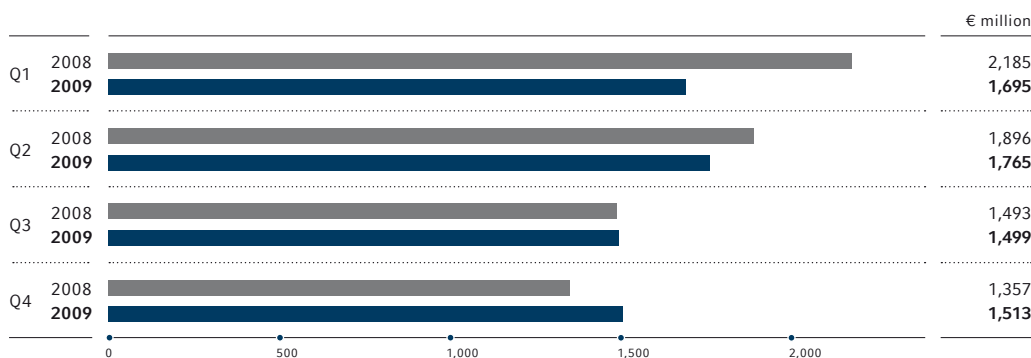
[Graphic 3.1]



EBITDA before special items of the Bayer Group, at €6,472 million, was down 6.6% from the prior-year figure of €6,931 million. Shifts in currency parities, particularly in the emerging markets, diminished earnings by some €140 million. The EBITDA margin before special items declined slightly to 20.8% (2008: 21.1%).

Bayer Group Quarterly EBITDA Before Special Items

[Graphic 3.2]



EBITDA before special items of HealthCare improved by 7.5% to a record €4,468 million (2008: €4,157 million), yielding an EBITDA margin before special items of 27.9% (2008: 27.0%). Contributing to this increase were the gratifying business performance and the synergies from the integration of the former business of Schering, Berlin, Germany. EBITDA before special items of CropScience, at €1,508 million, was 5.9% below the very good result for the preceding year (€1,603 million). The EBITDA margin before special items came in at 23.2% (2008: 25.1%). The drop in earnings was due primarily to higher raw material costs and negative currency effects, which were only partly offset by earnings contributions from the additional sales. In the difficult year 2009, EBITDA before special items of MaterialScience amounted to €446 million (2008: €1,088 million). This substantially lower earnings level was due to negative price and volume effects on account of the much weaker demand caused by the economic slump. However, earnings of MaterialScience improved as the year went on, approaching the 2008 level by the third quarter. The EBITDA margin before special items dropped to 5.9% (2008: 11.2%).

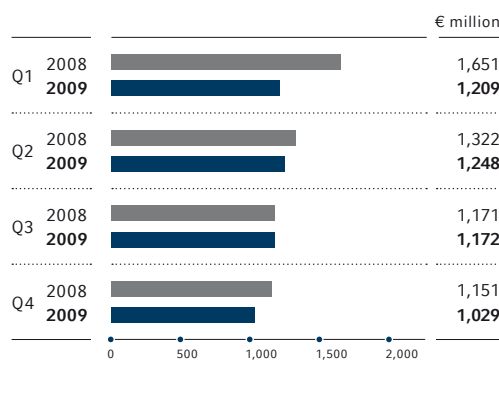
EBIT before special items of the Bayer Group, at €3,772 million, was down 13.1% from the previous year's level of €4,342 million. EBIT in 2009 was diminished by net special charges of €766 million (2008: €798 million). Of the 2009 figure, HealthCare accounted for €372 million, CropScience for €219 million and MaterialScience for €140 million. The net special charges related mainly to restructuring (2009: €354 million; 2008: €215 million) and the integration and acquisition of Schering, Berlin, Germany (2009: €87 million; 2008: €365 million). These expenses completed the current restructuring programs. Special charges of €225 million (2008: €106 million) were litigation-related, €68 million comprised additional funding for the German corporate pension assurance association necessitated by record bankruptcy losses, and €32 million consisted of impairment charges (2008: €98 million). EBIT of the Bayer Group fell by 15.2% to €3,006 million (2008: €3,544 million).

After a non-operating result of minus €1,136 million (2008: minus €1,188 million), income before income taxes in 2009 came in at €1,870 million (2008: €2,356 million). The main components of the non-operating result were €548 million (2008: €702 million) in net interest expense, €436 million (2008: €300 million) in interest cost for pension and other provisions, and a €92 million (2008: €79 million) exchange loss. The lower net interest expense was partly due to the reduction in financial debt and the decline in interest rates. Tax expense in 2009 came to €511 million (2008: €636 million).

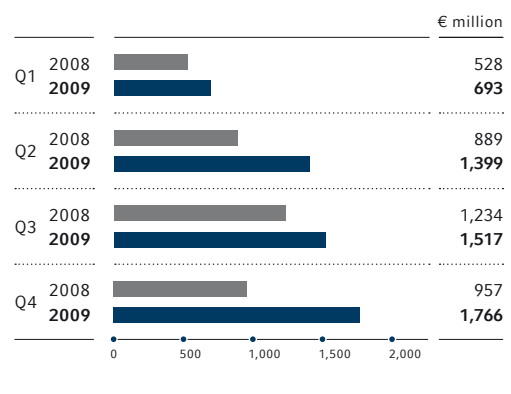
After tax we recorded income from continuing operations of €1,359 million (2008: €1,720 million).

The Bayer Group posted net income of €1,359 million in 2009 (2008: €1,719 million). Earnings per share were €1.70 (2008: €2.22). Core earnings per share moved back to €3.64 (2008: €4.17). The calculation of core earnings per share is explained in Chapter 4.3 "Core Earnings Per Share," page 75.

Gross Cash Flow by Quarter [Graphic 3.3]



Net Cash Flow by Quarter [Graphic 3.4]



Gross cash flow of the Bayer Group receded by 12.0% year on year to €4,658 million (2008: €5,295 million) due to the weak business performance at MaterialScience. By contrast, net cash flow advanced by 49.0% to €5,375 million (2008: €3,608 million), due particularly to improved working capital management and lower income tax payments.

We significantly reduced net financial debt during the year to €9.7 billion on December 31, 2009, compared with €14.2 billion at the end of 2008. The reduction included the conversion of the €2.3 billion mandatory convertible bond. The net pension liability – the aggregate of pension obligations and plan assets – rose by €0.4 billion compared with December 31, 2008, to €6.4 billion, mainly because of lower long-term interest rates on the capital market.

Fourth quarter of 2009

Sales of the Bayer Group dipped by 0.6 percent in the fourth quarter of 2009, to €7,872 million (Q4 2008: €7,923 million). After adjustment for currency and portfolio effects (Fx & portfolio adj.), sales rose by 3.4%. HealthCare sales increased by 0.6% (Fx & portfolio adj. +5.9%). Business in our CropScience subgroup grew by 3.4% (Fx & portfolio adj. +6.2%). Sales of MaterialScience declined by 1.9%, but expanded by 1.0% on a currency-adjusted basis.

Key Data by Subgroup and Segment, 4th Quarter

[Table 3.2]

	Sales		EBIT before special items*		EBITDA before special items*		EBITDA margin before special items*	
	4th Quarter 2008	4th Quarter 2009	4th Quarter 2008	4th Quarter 2009	4th Quarter 2008	4th Quarter 2009	4th Quarter 2008	4th Quarter 2009
	€ million	€ million	€ million	€ million	€ million	€ million	%	%
HealthCare	4,140	4,164	759	775	1,095	1,154	26.4	27.7
Pharmaceuticals	2,673	2,698	481	497	753	789	28.2	29.2
Consumer Health	1,467	1,466	278	278	342	365	23.3	24.9
CropScience	1,352	1,398	53	42	182	166	13.5	11.9
Crop Protection	1,124	1,177	52	42	158	149	14.1	12.7
Environmental Science, BioScience	228	221	1	0	24	17	10.5	7.7
MaterialScience	2,055	2,016	(86)	59	54	203	2.6	10.1
Reconciliation	376	294	(20)	(59)	26	(10)	6.9	(3.4)
Continuing Operations	7,923	7,872	706	817	1,357	1,513	17.1	19.2

2008 figures restated

* for definition see chapter 4.2 "Calculation of EBIT(DA) Before Special Items," page 74

EBITDA before special items in the fourth quarter advanced by 11.5% to €1,513 million (Q4 2008: €1,357 million), despite a negative currency effect of about €80 million. HealthCare posted underlying EBITDA of €1,154 million (Q4 2008: €1,095 million), up 5.4% year on year. EBITDA before special items of CropScience fell by 8.8% to €166 million (Q4 2008: €182 million). EBITDA before special items at MaterialScience nearly quadrupled to €203 million from €54 million in the prior-year quarter, when earnings were already hampered by the economic crisis. **EBIT** before special items in the fourth quarter advanced by 15.7% to €817 million (Q4 2008: €706 million). Net special charges of €451 million (Q4 2008: €294 million) were incurred, with HealthCare accounting for €312 million (Q4 2008: €197 million), CropScience for €98 million (Q4 2008: €62 million) and MaterialScience for €45 million (Q4 2008: €35 million). Fourth-quarter EBIT thus came in at €366 million (Q4 2008: €412 million).

After a non-operating result of minus €248 million (Q4 2008: minus €375 million), income before income taxes was €118 million (Q4 2008: €37 million). The non-operating result contained net interest expense of €94 million (Q4 2008: €167 million). Including tax income of €38 million (Q4 2008: €65 million), income from continuing operations was €156 million (Q4 2008: €102 million).

After non-controlling interest, Group net income in the fourth quarter came to €153 million (Q4 2008: €106 million). Earnings per share came in at €0.18 (Q4 2008: €0.16). Core earnings per share were €0.90 (Q4 2008: €0.71).

Gross cash flow declined by 10.6% year on year in the fourth quarter of 2009, to €1,029 million (Q4 2008: €1,151 million). Net cash flow climbed by 84.5% to €1,766 million (Q4 2008: €957 million), mainly because of a significant decrease in cash tied up in working capital.