

3.4 Performance by Region

Sales by Region and Segment (by Market)

	Europe				North America			
	2008	2009			2008	2009		
	€ million	€ million	% yoy	Fx adj. % yoy	€ million	€ million	% yoy	Fx adj. % yoy
HealthCare	6,379	6,344	-0.5	+2.5	4,512	4,634	+2.7	-1.8
Pharmaceuticals	4,181	4,107	-1.8	+1.0	2,646	2,712	+2.5	-1.9
Consumer Health	2,198	2,237	+1.8	+5.4	1,866	1,922	+3.0	-1.7
CropScience	2,625	2,540	-3.2	+0.5	1,396	1,529	+9.5	+5.9
Crop Protection	2,277	2,206	-3.1	+0.9	979	1,081	+10.4	+6.8
Environmental Science, BioScience	348	334	-4.0	-2.0	417	448	+7.4	+3.9
MaterialScience	4,267	3,054	-28.4	-28.4	2,108	1,536	-27.1	-30.7
Continuing operations (incl. reconciliation)	14,549	12,968	-10.9	-8.8	8,026	7,705	-4.0	-8.1

2008 figures restated
yoy = year on year; Fx adj. = currency-adjusted

4. Earnings; Asset and Financial Position of the Bayer Group

4.1 Earnings Performance of the Bayer Group

Bayer Group Summary Income Statements

[Table 3.15]

	2008	2009	Change
	€ million	€ million	%
Sales	32,918	31,168	-5.3
Cost of goods sold	16,456	15,135	-8.0
Selling expenses	8,105	7,923	-2.2
Research and development expenses	2,653	2,746	+3.5
General administration expenses	1,649	1,623	-1.6
Other operating income and expenses – net	(511)	(735)	-43.8
EBIT (operating result)	3,544	3,006	-15.2
Non-operating result	(1,188)	(1,136)	+4.4
Income before income taxes	2,356	1,870	-20.6
Income taxes	(636)	(511)	-19.7
Income after taxes from discontinued operations	4	0	•
Income after taxes	1,724	1,359	-21.2
of which attributable to non-controlling interest	5	0	•
of which attributable to Bayer AG stockholders (net income)	1,719	1,359	-20.9

Sales of the Bayer Group in 2009 fell by 5.3% or €1,750 million year on year to €31,168 million. The decline was mainly due to the drop in business at MaterialScience in the first three quarters. Adjusted for currency and portfolio effects, sales fell by 5.7%.

[Table 3.14]

	Asia/Pacific				Latin America/Africa/Middle East				Continuing Operations			
	2008	2009			2008	2009			2008	2009		
	€ million	€ million	% yoy	Fx adj. % yoy	€ million	€ million	% yoy	Fx adj. % yoy	€ million	€ million	% yoy	Fx adj. % yoy
	2,278	2,677	+17.5	+9.5	2,238	2,333	+4.2	+9.3	15,407	15,988	+3.8	+3.2
	1,805	2,136	+18.3	+9.1	1,398	1,512	+8.2	+12.7	10,030	10,467	+4.4	+3.3
	473	541	+14.4	+11.3	840	821	-2.3	+3.6	5,377	5,521	+2.7	+3.2
	964	1,028	+6.6	+5.1	1,397	1,413	+1.1	+1.2	6,382	6,510	+2.0	+2.6
	818	862	+5.4	+3.5	1,265	1,275	+0.8	+0.4	5,339	5,424	+1.6	+2.3
	146	166	+13.7	+13.8	132	138	+4.5	+9.6	1,043	1,086	+4.1	+4.1
	2,098	1,951	-7.0	-12.4	1,265	979	-22.6	-20.2	9,738	7,520	-22.8	-24.4
	5,385	5,712	+6.1	+0.3	4,958	4,783	-3.5	-0.6	32,918	31,168	-5.3	-5.9

The cost of goods sold decreased by 8.0% to €15,135 million. This was mainly attributable to a considerably lower cost of goods sold at MaterialScience, which resulted mainly from the drop in volumes and lower average raw material and energy prices for the year. The ratio of the cost of goods sold to total sales was 48.6% (2008: 50.0%). Selling expenses declined by 2.2% to €7,923 million, and were thus equivalent to 25.4% (2008: 24.6%) of sales. We increased our expenditures for research and development again in 2009 by 3.5% to €2,746 million. The ratio of R&D expenses to sales was 8.8% (2008: 8.1%). However, we reduced general administration expenses by 1.6% to €1,623 million (2008: €1,649 million). This was partly due to synergies from the integration of Schering, Berlin, Germany, and measures related to our restructuring program at MaterialScience. The negative balance of other operating income and expenses, at €735 million, resulted mainly from costs related to the integration of Schering, restructuring, litigations, additional funding for the German corporate pension assurance association, and valuation write-downs.

EBIT for 2009 came in at €3,006 million (2008: €3,544 million). Before net special charges of €766 million (2008: €798 million), EBIT decreased by 13.1% to €3,772 million (2008: €4,342 million).

The non-operating result improved by €52 million to minus €1,136 million. It included substantially lower net interest expense of €548 million (2008: €702 million), €436 million (2008: €300 million) in interest cost for pension and other provisions, a €59 million (2008: €70 million) net loss from investments in affiliated companies and a €92 million (2008: €79 million) net exchange loss. The change in net interest expense was partly due to the reduction of financial debt and to lower interest rates. The increase in interest expense for pension and other provisions resulted mainly from a decline in the return on pension plan assets, which is offset against the interest on pension provisions.

Tax expense in 2009 amounted to €511 million (2008: €636 million). Income after taxes, which in 2009 was equivalent to net income, came in at €1,359 million. Net income in 2008 was €1,719 million, including €4 million in income from discontinued operations and after deduction of €5 million in income attributable to non-controlling interest.

4.2 Calculation of EBIT(DA) Before Special Items

Key performance indicators for the Bayer Group are EBIT before special items, EBITDA before special items and the EBITDA margin before special items. These indicators are reported in order to allow a more accurate assessment of business operations. The special items – comprising effects that are non-recurring or do not regularly recur or attain similar magnitudes – are detailed in the following table. “EBITDA,” “EBITDA before special items” and “EBIT before special items” are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. The company considers EBITDA before special items 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 EBITDA margin before special items, which is the ratio of EBITDA before special items to sales, serves as a relative indicator for the internal and external comparison of operational earning power.

Depreciation and amortization in 2009 increased by 3.2% to €2,809 million (2008: €2,722 million), comprising €1,537 million (2008: €1,550 million) in amortization and write-downs of intangible assets and €1,272 million (2008: €1,172 million) in depreciation and write-downs of property, plant and equipment. Total asset write-downs were €149 million. Of this amount, €109 million constituted special items.

Special Items Reconciliation

[Table 3.16]

	EBIT* 2008	EBIT* 2009	EBITDA** 2008	EBITDA** 2009
	€ million	€ million	€ million	€ million
After special items	3,544	3,006	6,266	5,815
HealthCare	583	372	465	320
Schering PPA effects***	208	0	208	0
Schering integration costs	157	87	111	79
<i>of which gain from divestitures</i>	<i>(69)</i>	<i>(114)</i>	<i>(69)</i>	<i>(114)</i>
Write-downs	98	32	26	0
Restructuring	0	47	0	35
Litigations	106	180	106	180
Additional funding for the pension assurance association	0	26	0	26
Other	14	0	14	0
CropScience	166	219	153	197
Restructuring	166	177	153	155
Litigations	0	35	0	35
Additional funding for the pension assurance association	0	7	0	7
MaterialScience	49	140	47	105
Restructuring	49	130	47	95
Additional funding for the pension assurance association	0	10	0	10
Reconciliation	0	35	0	35
Litigations	0	10	0	10
Additional funding for the pension assurance association	0	25	0	25
Total special items	798	766	665	657
Before special items	4,342	3,772	6,931	6,472

* EBIT = operating result as per income statements

** EBITDA = EBIT plus amortization of intangible assets and depreciation of property, plant and equipment

*** The purchase price paid for Schering AG, Berlin, Germany, was allocated among the acquired assets and assumed liabilities in accordance with the International Financial Reporting Standards (IFRS). To ensure comparability with future earnings data, the expected long-term effects of the step-up are reflected in EBIT and EBITDA before special items, whereas temporary, non-cash effects of the purchase price allocation are eliminated and deducted when calculating EBIT before special items.

4.3 Core Earnings Per Share

Earnings per share according to IFRS are affected by the purchase price allocation for acquisitions and other special factors. To enhance comparability, we also determine core net income from continuing operations after elimination of the amortization of intangible assets, asset write-downs (including any impairment losses), and special items in EBITDA including the related tax effects.

From this core net income we calculate core earnings per share in the same way as earnings per share. Core earnings per share form the basis for our dividend policy, which is that the dividend should be between 30% and 40% of core earnings per share.

Core earnings per share in 2009 amounted to €3.64 (2008: €4.17). The proposed dividend of €1.40 is thus equivalent to 38.5% of core earnings per share (2008: 33.6%).

Calculation of Core EBIT and Core Earnings Per Share

[Table 3.17]

	2008	2009
	€ million	€ million
EBIT as per income statements	3,544	3,006
Amortization and write-downs of intangible assets	1,550	1,537
Write-downs of property, plant and equipment	88	88
Special items (other than write-downs)	665	657
Core EBIT	5,847	5,288
Non-operating result (as per income statements)	(1,188)	(1,136)
Income taxes (as per income statements)	(636)	(511)
Tax adjustment	(691)	(685)
Income after taxes attributable to non-controlling interest (as per income statements)	(5)	0
Core net income from continuing operations	3,327	2,956
Financing expenses for the mandatory convertible bond, net of tax effects	112	47
Adjusted core net income from continuing operations	3,439	3,003
	Shares	Shares
Weighted average number of issued ordinary shares	764,342,029	801,050,237
(Potential) shares (to be) issued upon conversion of the mandatory convertible bond	59,893,122	24,955,936
Adjusted weighted average total number of issued and potential ordinary shares	824,235,151	826,006,173
Core earnings per share from continuing operations (€)	4.17	3.64

The calculation of earnings per share in accordance with IFRS is explained in Note [16] to the consolidated financial statements on page 193. The (adjusted) core net income from continuing operations, core earnings per share and core EBIT are not defined in the IFRS.

4.4 Value Management

Cash value added-based system

One of the prime objectives of the Bayer Group is to sustainably increase enterprise value. In 1994 we became one of the first German companies to embark on the development of a value management system, which we introduced throughout the Group in 1997. The system is used for the planning, controlling and monitoring of our businesses. Our primary value-based indicator is the cash value added (CVA), which shows the degree to which the cash flows needed to cover the costs of equity and debt and of reproducing depletable assets have been generated. If the CVA is positive, the company or business entity concerned has created value. If it is negative, the anticipated capital and asset reproduction costs have not been earned. Gross cash flow and CVA are profitability indicators for a single reporting period. For a year-on-year comparison we therefore use the delta CVA, which is the difference between the CVAs of two consecutive periods. A positive delta CVA shows that value creation has improved from one period to the next.

Calculating the cost of capital

Bayer calculates the cost of capital according to the debt/equity ratio by the weighted average cost of capital (WACC) formula. The cost of equity capital is the return expected by stockholders, computed from capital market information. The cost of debt used in calculating WACC is based on the terms for a ten-year corporate bond issue.

Weighted average
cost of capital for the
Bayer Group

7.8%

To take into account the different risk and return profiles of our principal businesses, we calculate individual capital cost factors after income taxes for each of our subgroups. In 2009 this was 8.0% (2008: 8.0%) for HealthCare, 7.5% (2008: 7.5%) for CropScience and 7.0% (2008: 7.0%) for MaterialScience. The minimum return required for the Group in 2009 was 7.8% (2008: 7.5%).

Gross cash flow, cash flow return on investment and cash value added as performance yardsticks

The gross cash flow as published in our statement of cash flows is the measure of our internal financing capability. Bayer has chosen this parameter because it is relatively free of accounting influences and thus a more meaningful performance indicator.

The profitability of the Group and of its individual business entities is measured by the cash flow return on investment (CFROI). This is the ratio of the gross cash flow to the capital invested, which is derived from the statement of financial position and basically comprises the property, plant and equipment and intangible assets required for operations – stated at cost of acquisition or construction – plus working capital, less interest-free liabilities (such as current provisions). To allow for fluctuations in the capital invested, the CFROI is computed on the basis of the average figure for the respective year.

Taking into account the costs of capital and of reproducing depletable assets, we determine the gross cash flow hurdle. If the gross cash flow hurdle is equaled or exceeded, the required return on equity and debt plus the cost of asset reproduction has been earned. The CFROI hurdle for 2009 was 10.4% (2008: 10.1%), while the corresponding gross cash flow hurdle was €4,431 million (2008: €4,049 million).

Actual gross cash flow came in at €4,658 million, exceeding the hurdle by 5.1%. Thus in 2009 we earned our entire capital and asset reproduction costs, and the positive CVA of €227 million shows that Bayer created value. Given the previous year's CVA of €1,246 million, the Bayer Group therefore recorded a negative delta CVA of €1,019 million, showing that value creation was markedly lower than in the previous year. The CFROI for 2009 amounted to 10.9% (2008: 13.0%).

Positive CVA
=
value created

HealthCare and CropScience exceeded their target returns including asset reproduction, while MaterialScience – unlike in previous years – was unable to reach the gross cash flow hurdle in the crisis year 2009. The CFROI for HealthCare was 13.6% (2008: 13.6%). CropScience was below the previous year with a CFROI of 11.6% (2008: 14.1%). MaterialScience recorded a CFROI of only 3.7% (2008: 10.1%).

Value Management Indicators by Subgroup

[Table 3.18]

	HealthCare		CropScience		MaterialScience		Bayer Group	
	2008	2009	2008	2009	2008	2009	2008	2009
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Gross cash flow hurdle (GCF hurdle)	2,387	2,589	906	902	696	775	4,049	4,431
Gross cash flow* (GCF)	3,045	3,153	1,192	1,043	850	319	5,295	4,658
Cash value added (CVA)	658	564	286	141	154	(456)	1,246	227
Delta cash value added	663	(94)	264	(145)	(450)	(610)	497	(1,019)
CFROI hurdle	10.9%	11.1%	10.8%	10.6%	8.7%	8.7%	10.1%	10.4%
Cash flow return on investment (CFROI)	13.6%	13.6%	14.1%	11.6%	10.1%	3.7%	13.0%	10.9%
Average capital invested	22,380	23,261	8,471	8,967	8,442	8,686	40,862	42,811

*for definition see Chapter 4.5 "Liquidity and Capital Expenditures of the Bayer Group," page 78

4.5 Liquidity and Capital Expenditures of the Bayer Group

Bayer Group Summary Statements of Cash Flows

[Table 3.19]

	2008	2009
	€ million	€ million
Gross cash flow*	5,295	4,658
Changes in working capital/other non-cash items	(1,687)	717
Net cash provided by (used in) operating activities (net cash flow)	3,608	5,375
Net cash provided by (used in) investing activities	(3,089)	(1,126)
Net cash provided by (used in) financing activities	(873)	(3,621)
Change in cash and cash equivalents due to business activities	(354)	628
Cash and cash equivalents at beginning of period	2,531	2,094
Change due to exchange rate movements and to changes in scope of consolidation	(83)	3
Cash and cash equivalents at end of period	2,094	2,725

* Gross cash flow = income from continuing operations after taxes, plus income taxes, plus non-operating result, minus income taxes paid or accrued, plus depreciation, amortization and write-downs, minus write-backs, plus/minus changes in pension provisions, minus gains/plus losses on retirements of noncurrent assets, plus non-cash effects of the remeasurement of acquired assets. The change in pension provisions includes the elimination of non-cash components of the operating result. It also contains benefit payments during the year.

Operating cash flow

Gross cash flow in 2009 was down by 12.0% from the previous year to €4,658 million (2008: €5,295 million), largely because of the decline in the operating result. HealthCare showed a slight improvement in gross cash flow due to the steady growth in business. At CropScience and MaterialScience, lower operating results caused gross cash flow to recede. Net cash flow of the Group, however, rose by 49.0% to €5,375 million (2008: €3,608 million). This was mainly the result of improved working capital management. Considerably lower income tax payments (2009: €500 million; 2008: €1,073 million) also contributed to the improvement.

Investing cash flow

Net cash outflow for investing activities in 2009 totaled €1,126 million (2008: €3,089 million). Cash outflows for property, plant and equipment and intangible assets were 10.5% lower at €1,575 million (2008: €1,759 million). Of this amount, HealthCare accounted for €528 million (2008: €567 million), CropScience for €341 million (2008: €299 million) and MaterialScience for €504 million (2008: €672 million). Included here are disbursements related to the expansion of our polymers production facilities in Shanghai, China, and for marketing rights in the pharmaceuticals field. The €354 million in cash outflows for acquisitions related primarily to the purchase in November 2009 of Athenix Corp., United States, for which total payments of €247 million were made. In 2009 we also acquired two product lines from SkinMedica, Inc., United States, and the remaining 10% interest in Bayer Polymers Shanghai. The prior-year figure of €1,617 million related mostly to payments in connection with the acquisition of the remaining interest in Bayer Schering Pharma AG, Berlin, Germany, the acquisition of Possis Medical, Inc., United States, the purchase of the eastern European oTC business of Sigmel, Inc., the acquisition of the oTC business of the Chinese Topsun group and the purchase of Direvo Biotech AG, Germany. For further information see Note [6.2] to the consolidated financial statements, page 182ff. The main cash inflow item in 2009 was €477 million (2008: €553 million) in interest and dividends received.

The principal strategically relevant capital expenditures for property, plant and equipment in the operating segments of the Bayer Group in 2009 and 2008 are listed in the following table:

Capital Expenditures for Property, Plant and Equipment

[Table 3.20]

Segment	Description
Capital expenditures 2009	
Pharmaceuticals	Expansion of the production facility for contrast agents in Bergkamen, Germany Expansion and modernization of the Kogenate® facility in Berkeley, California, U.S.A. Expansion of production capacity for the YAZ® product family in Berlin, Germany Expansion of production capacity in Jakarta, Indonesia
Consumer Health	Expansion of the production facility for vitamins in Myerstown, Pennsylvania, U.S.A. Construction of a new distribution center in Lerma, Mexico, to consolidate storage capacities existing in different parts of Mexico
Crop Protection	Capacity expansions for herbicidal active ingredients in Frankfurt am Main and Knapsack, Germany, and Muskegon, Michigan, U.S.A. Expansion of production capacity for fungicides in Dormagen, Germany and Kansas City, Missouri, U.S.A. Expansion of production capacity for high-activity herbicides in Kansas City, Missouri, U.S.A. Expansion of formulating capacity for non-herbicides in Belford Roxo, Brazil Expansion of production capacity for fungicides in Muttenz, Switzerland
BioScience	Capacity expansion for the production of vegetable seeds in Parma, Idaho, U.S.A. Extension to a BioScience research laboratory in Ghent, Belgium
MaterialScience	Construction of a world-scale TDI production complex in Shanghai, China Production facility for polyisocyanates in Ankleshwar, India Roll-to-roll coating line in Leverkusen, Germany Construction of a systems house in Guangzhou, China Nitrous oxide reduction unit at the nitric acid production facility in Dormagen, Germany Construction of a pilot plant for carbon nanotubes in Leverkusen, Germany EcoCommercial Building in Noida, India
Capital expenditures 2008	
Pharmaceuticals	Optimization of steroid production in Bergkamen, Germany New packaging lines in Weimar and Berlin, Germany, and Gaillard, France Expansion of the production site in Beijing, China Capacity expansion in Jakarta, Indonesia
Crop Protection	Capacity expansions for herbicidal active ingredients in Frankfurt am Main and Knapsack, Germany Consolidation of formulating activities in Kansas City, Missouri, U.S.A Expansion of formulating capacity for non-herbicides in Belford Roxo, Brazil New insecticide formulation plant in Hangzhou, China Modification of a herbicide production facility in Ankleshwar, India
BioScience	Construction of canola greenhouse, phytotron and laboratory complex in Saskatoon, Canada
MaterialScience	Construction of a world-scale integrated production facility for MDI in Shanghai, China Polyether capacity increases in Dormagen, Germany, and Santa Clara, Mexico Construction of a pilot plant for carbon nanotubes in Leverkusen, Germany Construction of a polyurethane systems house in Noida, India Construction of the MacroColor Center in Noida, India Modification of a facility for the manufacture of high-purity polycarbonate in Antwerp, Belgium

Financing cash flow

Net cash outflow for financing activities in 2009 amounted to €3,621 million (2008: €873 million). It included €1,442 million in net loan repayments, the main item here being the €1,600 million disbursement to redeem the floating-rate EMTN note in the second quarter of 2009. Interest payments were 5.2% lower at €1,206 million (2008: €1,272 million). There was a €973 million outflow for "dividend payments and withholding tax on dividends" (2008: €1,126 million), including Bayer AG's €1,070 million dividend payment made in May 2009 and €101 million in refunds of withholding tax on intra-Group dividend payments.

Liquid assets and net financial debt

Net Financial Debt

[Table 3.21]

	Dec. 31, 2008	Dec. 31, 2009
	€ million	€ million
Bonds and notes	10,729	8,301
of which hybrid bond	1,245	1,267
of which mandatory convertible bond	2,296	0
Liabilities to banks	4,438	3,251
Liabilities under finance leases	535	550
Liabilities from derivatives	612	578
Other financial liabilities	333	178
Positive fair values of hedges of recorded transactions	(454)	(426)
Financial debt	16,193	12,432
Cash and cash equivalents*	(2,037)	(2,725)
Current financial assets	(4)	(16)
Net financial debt	14,152	9,691

* after deducting €0 million (December 31, 2008: €57 million) of the liquidity in escrow accounts

Net financial debt of the Bayer Group declined by €4.5 billion and amounted to €9.7 billion on December 31, 2009. Of this amount, €2.3 billion resulted from the conversion of the mandatory convertible bond, issued in 2006, into new shares. As of December 31, 2009 the Group had cash and cash equivalents of €2.7 billion. Financial debt on the closing date amounted to €12.4 billion, including the €1.3 billion subordinated hybrid bond issued in July 2005. Net financial debt should be viewed against the fact that Moody's and Standard & Poor's treat 75% and 50%, respectively, of the hybrid bond as equity. Unlike conventional borrowings, the hybrid bond thus only has a limited effect on the Group's rating-specific indicators. Our noncurrent financial liabilities as of December 31, 2009 amounted to €11.5 billion.

4.6 Asset and Capital Structure of the Bayer Group

Bayer Group Summary Statements of Financial Position

[Table 3.22]

	Dec. 31, 2008	Dec. 31, 2009	Change
	€ million	€ million	%
Noncurrent assets	35,351	34,049	-3.7
Current assets	17,152	16,993	-0.9
Assets held for sale and discontinued operations	8	0	•
Total current assets	17,160	16,993	-1.0
Total assets	52,511	51,042	-2.8
Equity	16,340	18,951	+16.0
Noncurrent liabilities	22,336	23,118	+3.5
Current liabilities	13,822	8,973	-35.1
Liabilities directly related to assets held for sale and discontinued operations	13	0	•
Total current liabilities	13,835	8,973	-35.1
Liabilities	36,171	32,091	-11.3
Total equity and liabilities	52,511	51,042	-2.8

Total assets decreased by €1.5 billion compared with December 31, 2008, to €51.0 billion.

Noncurrent assets declined by €1.3 billion to €34.0 billion, mainly due to the amortization of intangible assets. Noncurrent assets included goodwill of €8.7 billion (2008: €8.6 billion) resulting primarily from the acquisition of Schering, Berlin, Germany. Current assets declined by €0.2 billion compared with the previous year, to €17.0 billion.

Equity rose by €2.6 billion to €19.0 billion. The main positive effects came from a €2.3 billion increase in the capital stock through conversion of the mandatory convertible bond, the net income of €1.4 billion and positive currency effects of €0.3 billion. Equity was diminished by the dividend payment of €1.1 billion made in 2009 and a €0.3 billion after-tax increase in pension obligations recognized outside profit or loss. Our equity ratio (equity coverage of total assets) was 37.1% as of December 31, 2009 (2008: 31.1%).

Liabilities decreased by €4.1 billion compared with December 31, 2008, to €32.1 billion, largely because of a decline in financial liabilities. Current and noncurrent financial liabilities declined by a substantial €4.0 billion – including €2.3 billion from the conversion of the mandatory convertible bond – to €12.9 billion.

Net Pension Liability

Net Pension Liability

[Table 3.23]

	Dec. 31, 2008	Dec. 31, 2009
	€ million	€ million
Provisions for pensions and other post-employment benefits	6,347	6,517
Prepaid benefit assets	(351)	(100)
Net pension liability	5,996	6,417

The net pension liability increased from €6.0 billion to €6.4 billion in 2009, due especially to lower long-term capital market interest rates. Provisions for pensions and other post-employment benefits rose from €6.3 billion to €6.5 billion. Benefit plan assets in excess of obligations, reflected in the statement of financial position as other receivables, came to €0.1 billion (2008: €0.4 billion).

Ratios

[Table 3.24]

		2008	2009
Cost of sales ratio (%)	$\frac{\text{Cost of goods sold}}{\text{Sales}}$	50.0	48.6
R&D expense ratio (%)	$\frac{\text{Research and development expenses}}{\text{Sales}}$	8.1	8.8
Inventory turnover	$\frac{\text{Cost of goods sold}}{\text{Inventories}}$	2.5	2.5
Receivables turnover	$\frac{\text{Sales}}{\text{Trade accounts receivable}}$	5.5	5.1
EBIT margin before special items (%)	$\frac{\text{EBIT before special items}}{\text{Sales}}$	13.2	12.1
EBITDA margin before special items (%)	$\frac{\text{EBITDA before special items}}{\text{Sales}}$	21.1	20.8
Asset intensity (%)	$\frac{\text{Property, plant and equipment} + \text{intangible assets}}{\text{Total assets (continuing operations)}^1}$	61.1	60.6
D&A/capex ratio (%)	$\frac{\text{Depreciation and amortization}^2}{\text{Capital expenditures}^2}$	129.7	159.4
Liability structure ³ (%)	$\frac{\text{Current liabilities}}{\text{Liabilities}}$	38.2	28.0
Gearing	$\frac{\text{Net debt} + \text{pension provisions}}{\text{Equity}}$	1.3	0.9
Free operating cash flow (€ million)	Net operating cash flow less capital expenditures	1,849	3,800
Equity ratio ³ (%)	$\frac{\text{Equity}}{\text{Total assets}}$	31.1	37.1
Return on equity ³ (%)	$\frac{\text{Income after taxes}}{\text{Average equity}}$	10.4	7.7
Return on assets (%)	$\frac{\text{Income before taxes and interest expense}}{\text{Average total assets for the year based on segment table}}$	7.0	6.1

¹ total assets (continuing operations) = noncurrent and current assets minus the item "Assets held for sale and discontinued operations" in the statement of financial position

² property, plant and equipment + intangible assets

³ Ratio refers to the total of continuing and discontinued operations.