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Investor News

Second quarter of 2014:

Bayer continues positive business development

- Sales growth in all subgroups
- Group sales EUR 10,458 million (plus 0.9 percent; Fx & portfolio adj. plus 6.3 percent)
- EBIT improves by 14.5 percent to EUR 1,473 million
- EBITDA before special items increases by 1.0 percent to EUR 2,217 million – despite negative currency effects of 7 percent
- Net income advances by 13.3 percent to EUR 953 million
- Core earnings per share level with prior year at EUR 1.53 (minus 0.6 percent)
- Group outlook for 2014 confirmed

Leverkusen, Germany, July 30, 2014 – The Bayer Group was again successful in the second quarter of 2014. "Our Life Science businesses, in particular, saw unabated growth momentum, with very encouraging sales gains for our recently launched pharmaceutical products and our North and Latin American CropScience business," said Management Board Chairman Dr. Marijn Dekkers when the interim report was published on Wednesday. Although earnings growth was again held back by substantial negative currency effects, these were offset by the good business development. EBITDA before special items and core earnings per share were at the previous year's level. The Chairman confirmed the Bayer Group's forecast for the current year. Dekkers said Bayer made progress in the second quarter from a strategic point of view as well with the planned acquisition of the consumer care activities of U.S. company Merck & Co., Inc. "This acquisition will greatly strengthen our Consumer Health business," he explained.

Sales of the Bayer Group rose by 0.9 percent in the second quarter of 2014 to EUR 10,458 million (Q2 2013: EUR 10,360 million). Adjusted for currency and portfolio effects (Fx & portfolio adj.), sales advanced by 6.3 percent. EBIT rose by 14.5 percent to EUR 1,473 million (Q2 2013: EUR 1,287 million). The Group took special charges of EUR 48 million (Q2 2013: EUR 256 million). EBIT before special items was down by just 1.4 percent to EUR 1,521 million (Q2 2013: EUR 1,543 million). Despite negative currency effects of about EUR 160 million or approximately 7 percent, EBITDA before special items improved by 1.0 percent to EUR 2,217 million (Q2 2013: EUR 2,195 million) after additional research and development expenses of roughly EUR 70 million. Net income climbed by 13.3 percent to EUR 953 million (Q2 2013: EUR 841 million). Core earnings per share were flat with the prior-year quarter at EUR 1.53 (Q2 2013: EUR 1.54).

Gross cash flow in the second quarter of 2014 advanced by 1.5 percent to EUR 1,705 million (Q2 2013: EUR 1,680 million) due to the improvement in EBITDA, while net cash flow moved ahead by 4.2 percent to EUR 1,601 million (Q2 2013: EUR 1,536 million). Net financial debt increased from EUR 9.1 billion on March 31, 2014, to EUR 9.9 billion on June 30, 2014.

Growth at HealthCare mainly from recently launched pharmaceutical products

Sales of HealthCare rose in the second quarter by 0.9 percent (Fx & portfolio adj. 6.3 percent) to EUR 4,845 million (Q2 2013: EUR 4,800 million). "This growth continued to be driven by our recently launched pharmaceutical products, while sales at Consumer Health were only slightly above the prior-year period," Dekkers commented. Sales showed above-average development in the Emerging Markets.

Sales of the Pharmaceuticals segment advanced by 10.0 percent (Fx & portfolio adj.) to EUR 2,960 million. This pleasing performance was driven by the recently launched products: the anticoagulant Xarelto™, the eye medicine Eylea™, the cancer drugs Stivarga™ and Xofigo™, and Adempas™ to treat pulmonary hypertension, which posted combined sales of EUR 702 million (Q2 2013: EUR 339 million). Xarelto™ alone achieved currency-adjusted (Fx adj.) sales growth of 79.3 percent.

Among the established pharmaceutical products, sales of the hormone-releasing intrauterine device Mirena™ increased by 13.1 percent (Fx adj.), and business with Aspirin™ Cardio for secondary prevention of heart attacks improved by 8.9 percent (Fx adj.). Sales of the cancer drug Nexavar™ rose by 3.4 percent (Fx adj.). Sales of the blood-clotting medicine Kogenate™, however, receded by 16.8 percent (Fx adj.), mainly due to shortages caused by the use of production capacities to develop the next-generation hemophilia medicines. Business with the multiple sclerosis drug Betaferon™/Betaseron™ declined by 15.8 percent (Fx adj.), again held back mainly by increased competition in the United States. Sales increases in the U.S. for the YAZ™/ Yasmin™/Yasminelle™ line of oral contraceptives only partly offset the declines in Western Europe, which were attributable to generic competition. Sales of these products were down by 3.3 percent (Fx adj.) overall.

Sales of the Consumer Health segment in the second quarter were slightly ahead of the prior-year period (Fx & portfolio adj.) at EUR 1,885 million (plus 1.1 percent). The skincare product Bepanthen™/Bepanthol™ and the dietary supplement Supradyn™ posted particularly good sales gains of 22.4 percent (Fx adj.) and 7.8 percent (Fx adj.), respectively, while sales of the analgesic Aspirin™ were down by 9.0 percent (Fx adj.), mainly due to a weak cold season in Europe. In the Medical Care Division, the U.S. Diabetes Care business continued to be held back by price declines. Sales of the Contour™ line of blood glucose meters receded by 13.9 percent (Fx adj.). Sales of contrast agents and medical equipment in the Radiology & Interventional business were flat with the prior-year period (Fx & portfolio adj.). The Animal Health business, however, developed positively.

EBITDA before special items at HealthCare moved ahead by 2.0 percent to EUR 1,355 million (Q2 2013: EUR 1,328 million) – despite substantial negative exchange rate effects of about EUR 120 million or approximately 9 percent. Earnings growth was driven by the very good business development at Pharmaceuticals and efficiency improvements at Medical Care.

CropScience posts clear increases in all units

Sales of the agriculture business (CropScience) increased by 3.3 percent (Fx & portfolio adj. 10.5 percent) to EUR 2,470 million (Q2 2013: EUR 2,392 million). "Both Crop Protection/Seeds and Environmental Science contributed to this encouraging growth," said Dekkers. The subgroup mainly benefited from strong sales in North and Latin America. Sales gained 20.7 percent (Fx adj.) in the Latin America/Africa/Middle East region and 18.5 percent (Fx adj.) in North America. Clear increases were also recorded in Asia/Pacific (Fx adj. plus 8.2 percent), while sales in Europe were at the level of the prior-year period (Fx adj. plus 0.7 percent).

Crop Protection saw positive development in all units, with the new products launched since 2006 again accounting for a major share of the increase. The Fungicides (Fx & portfolio adj. 11.2 percent), Insecticides (Fx & portfolio adj. 11.5 percent) and SeedGrowth (Fx & portfolio adj. 20.5 percent) units all posted double-digit sales gains.

Herbicides sales showed steady growth of 6.0 percent (Fx & portfolio adj.). Business in the Seeds unit also grew substantially (Fx & portfolio adj. plus 15.9 percent). The Environmental Science unit also remained on a successful path with an increase of 7.8 percent (Fx & portfolio adj.), mainly due to strong gains in the consumer business.

EBITDA before special items of CropScience came in just 1.4 percent below the prior-year quarter at EUR 615 million (Q2 2013: EUR 624 million). Earnings benefited from the favorable business development, with significantly higher volumes and selling prices. However, this did not fully offset the negative currency effects of roughly EUR 40 million, or about 6 percent, and increases in marketing costs and research and development expenses.

MaterialScience raises volumes

Second-quarter sales in the high-tech polymers business (MaterialScience), at EUR 2,864 million, were at the level of the prior-year period (Q2 2013: EUR 2,875 million). Adjusted for currency and portfolio effects, sales rose by 3.6 percent. "This growth was due to significantly higher volumes for Polycarbonates; Polyurethanes; and Coatings, Adhesives, Specialties," Dekkers explained. Higher volumes in North America, Europe and Asia/Pacific more than offset volume declines in Latin America/Africa/Middle East. Selling prices were below the prior-year period in all regions.

Sales of foam raw materials (Polyurethanes) grew by 3.0 percent (Fx & portfolio adj.), thanks to improved demand in all the main customer industries. Sales of the high-tech plastics business (Polycarbonates) rose by a substantial 8.3 percent (Fx & portfolio adj.), mainly in light of increased demand from customers in the automotive and electrical/electronics industries. Sales in the Coatings, Adhesives, Specialties unit advanced by 3.7 percent (Fx & portfolio adj.), thanks to higher volumes in nearly all regions.

EBITDA before special items of MaterialScience came in just 1.5 percent below the prior-year quarter at EUR 270 million (Q2 2013: EUR 274 million). Earnings were helped by higher volumes, lower raw material prices and efficiency improvements. Negative factors were a drop in selling prices and costs for scheduled maintenance shutdowns in Asia and North America. Earnings were also held back by negative currency effects of around EUR 10 million or 3 percent.

First-half earnings considerably improved

The Bayer Group grew both sales and EBITA before special items in the first half of 2014. All subgroups contributed to the increases. Sales advanced by 1.9 percent (Fx & portfolio adj. 7.3 percent) to EUR 21,013 million (H1 2013: EUR 20,626 million). EBIT improved by 16.7 percent to EUR 3,569 million (H1 2013: EUR 3,058 million). EBITDA before special items rose by 6.6 percent to EUR 4,955 million (H1 2013: EUR 4,648 million), reflecting negative currency effects of about EUR 360 million and additional R&D expenses of roughly EUR 170 million. Net income improved by a substantial 18.7 percent to EUR 2,376 million (H1 2013: EUR 2,001 million). Core earnings per share advanced by 7.4 percent to EUR 3.48 (H1 2013: EUR 3.24).

Exchange rate assumptions for 2014 adjusted

"We are upholding the previous guidance for the Group in light of our good operational performance," said Dekkers. The exchange rate assumptions have been adjusted to reflect current developments. With respect to the second half of 2014, Bayer is now using the exchange rates prevailing on June 30, 2014 (previously: average exchange rates for the fourth quarter of 2013). The negative currency impact on sales and earnings therefore increases. This forecast does not take into account the planned acquisitions of Merck & Co., Inc.'s OTC business and Dihon Pharmaceutical Group Co., Ltd. or the divestiture of the Interventional devices business. Bayer expects these transactions to close in the second half of 2014.

The Group now plans to grow sales (Fx & portfolio adj.) by about 6 percent (previously: about 5 percent). Allowing for negative currency effects of about 4 percent (previously: about 2 percent) compared to the prior year, Bayer currently predicts Group sales of approximately EUR 41 billion (previously: approximately EUR 41 billion to EUR 42 billion). As before, it is planned to raise EBITDA before special items by a low- to mid-single-digit percentage, allowing for expected negative currency effects of about EUR 550 million or roughly 6 percent (previously: about EUR 450 million or roughly 5 percent). Bayer continues to aim to increase core earnings per share by a mid-single-digit percentage, allowing for expected negative currency effects of around 9 percent (previously: around 6 percent). As before, the Group's net financial debt at year end is predicted to be less than EUR 9 billion. Taking into account the planned acquisitions, net financial debt at year end would be around EUR 19 billion.

HealthCare sales are expected to advance (Fx & portfolio adj.) by a mid-single-digit percentage. Allowing for expected negative currency effects of around 4 percent (previously: around 2 percent), sales would be approximately EUR 19.5 billion (previously: approximately EUR 19.5 billion to EUR 20 billion). The subgroup predicts EBITDA before special items to slightly exceed the prior-year level, allowing for negative currency effects of roughly EUR 380 million (previously: roughly EUR 250 million).

In the Pharmaceuticals segment, sales are expected to move ahead (Fx & portfolio adj.) by about 10 percent (previously: a high-single-digit percentage), allowing for negative currency effects of around 4 percent (previously: around 2 percent). Pharmaceuticals plans to raise sales of its recently launched products to EUR 2.8 billion. Bayer expects additional marketing and R&D expenditures in Pharmaceuticals to amount to some EUR 0.5 billion in 2014. Against this background, Pharmaceuticals continues to predict a low- to mid-single-digit percentage increase in EBITDA before special items, allowing for negative currency effects of about EUR 310 million (previously: about EUR 150 million). As before, this segment's EBITDA margin before special items is expected to be level with the previous year.

In the Consumer Health segment, the company is planning for a low-single-digit (previously: low- to mid-single-digit) sales increase (Fx & portfolio adj.). Negative currency effects of around 4 percent (previously: around 3 percent) are expected compared to 2013. Mainly in view of the weak market environment for Diabetes Care, EBITDA before special items is anticipated to come in below (previously: slightly below) the level of the prior year, allowing for negative currency effects of about EUR 70 million (previously: about EUR 100 million).

CropScience expects to grow faster than the market and raise sales by a high-single-digit (previously: mid- to high-single-digit) percentage (Fx & portfolio adj.). The subgroup anticipates negative currency effects of about 5 percent (previously: about 3 percent) compared to 2013. EBITDA before special items is still expected to increase by a low-single-digit percentage, allowing as before for negative currency effects of approximately EUR 150 million.

MaterialScience continues to expect sales to increase in 2014 by a mid-single-digit percentage (Fx & portfolio adj.), allowing for negative currency effects of about 2 percent compared to 2013. This subgroup also continues to anticipate an increase in EBITDA before special items, allowing for negative currency effects of roughly EUR 30 million (previously: roughly EUR 50 million). In the third quarter of 2014, MaterialScience expects to raise sales and EBITDA before special items compared to the second quarter.

Note:
The tables below contain the key data for the Bayer Group and its subgroups for the second quarter and first half of 2014.

*The full report for the second quarter is available for online viewing and download at **www.investor.bayer.com**.*

*Supplementary features at **www.investor.bayer.com**:*
- presentation charts for the investor conference call at 12:00 noon CEST
- live webcast of the investor conference call from approximately 2:00 p.m. CEST
- recording of the investor conference call from approximately 6:00 p.m. CEST.

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Bayer Key Data, 2nd Quarter and 1st Half of 2014

Bayer Group (EUR million)	Q2 2013	**Q2 2014**	Change in %	H1 2013	**H1 2014**	Change in %
Sales	10,360	**10,458**	+0.9	20,626	**21,013**	+1.9
EBIT	1,287	**1,473**	+14.5	3,058	**3,569**	+16.7
Special items	*(256)*	***(48)***	-	*(301)*	***(41)***	-
EBIT before special items	1,543	**1,521**	-1.4	3,359	**3,610**	+7.5
EBITDA	2,086	**2,176**	+4.3	4,502	**4,921**	+9.3
Special items	*(109)*	***(41)***	-	*(146)*	***(34)***	-
EBITDA before special items	2,195	**2,217**	+1.0	4,648	**4,955**	+6.6
Net income	841	**953**	+13.3	2,001	**2,376**	+18.7
Earnings per share (EUR)	1.02	**1.15**	+12.7	2.42	**2.87**	+18.6
Core earnings per share (EUR)	1.54	**1.53**	-0.6	3.24	**3.48**	+7.4
Number of employees at end of period *	113,033	**115,487**	+2.2	113,033	**115,487**	+2.2

Bayer HealthCare (EUR million)	Q2 2013	**Q2 2014**	Change in %	H1 2013	**H1 2014**	Change in %
Sales	4,800	**4,845**	+0.9	9,243	**9,417**	+1.9
EBIT	729	**966**	+32.5	1,651	**1,928**	+16.8
Special items	*(258)*	***(25)***	-	*(289)*	***(9)***	-
EBIT before special items	987	**991**	+0.4	1,940	**1,937**	-0.2
EBITDA	1,208	**1,334**	+10.4	2,461	**2,651**	+7.7
Special items	*(120)*	***(21)***	-	*(144)*	***(5)***	-
EBITDA before special items	1,328	**1,355**	+2.0	2,605	**2,656**	+2.0

Bayer CropScience (EUR million)	Q2 2013	**Q2 2014**	Change in %	H1 2013	**H1 2014**	Change in %
Sales	2,392	**2,470**	+3.3	5,156	**5,370**	+4.2
EBIT	496	**470**	-5.2	1,460	**1,458**	-0.1
Special items	*(18)*	***0***	-	*(23)*	***0***	-
EBIT before special items	514	**470**	-8.6	1,483	**1,458**	-1.7
EBITDA	607	**615**	+1.3	1,684	**1,713**	+1.7
Special items	*(17)*	***0***	-	*(21)*	***0***	-
EBITDA before special items	624	**615**	-1.4	1,705	**1,713**	+0.5

Bayer MaterialScience (EUR million)	Q2 2013	**Q2 2014**	Change in %	H1 2013	**H1 2014**	Change in %
Sales	2,875	**2,864**	-0.4	5,650	**5,667**	+0.3
EBIT	143	**109**	-23.8	185	**328**	+77.3
Special items	*31*	***(17)***	-	*30*	***(19)***	-
EBIT before special items	112	**126**	+12.5	155	**347**	-
EBITDA	313	**256**	-18.2	516	**620**	+20.2
Special items	*39*	***(14)***	-	*38*	***(16)***	-
EBITDA before special items	274	**270**	-1.5	478	**636**	+33.1

EBITDA, EBIT(DA) 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.

* Full-time equivalents