Science For A Better Life

Q2

Interim Report

Second Quarter of 2017

Bayer Group Key Data

€ million	Q2 2016	Q2 2017	Change %	H1 2016	H1 2017	Change %	Full Year 2016
Sales	**11,833**	**12,193**	**+3.0**	**23,687**	**25,437**	**+7.4**	**46,769**
Change (adjusted for currency and portfolio effects)[1]			+1.9			+5.7	+3.5%
Change in sales[1]							
Volume	+4.4%	−1.9%		+4.8%	+2.0%		+4.2%
Price	−2.1%	+3.8%		−2.0%	+3.7%		−0.7%
Currency	−3.8%	+1.0%		−3.3%	+1.7%		−2.0%
Portfolio	+0.1%	+0.1%		0.0%	0.0%		0.0%
EBITDA[1]	**2,952**	**2,983**	**+1.1**	**6,311**	**6,829**	**+8.2**	**10,785**
Special items[1]	(102)	(73)		(130)	(120)		(517)
EBITDA before special items[1]	**3,054**	**3,056**	**+0.1**	**6,441**	**6,949**	**+7.9**	**11,302**
EBITDA margin before special items[1]	25.8%	25.1%		27.2%	27.3%		24.2%
EBIT[1]	**2,138**	**2,151**	**+0.6**	**4,458**	**5,267**	**+18.1**	**7,042**
Special items[1]	(104)	(205)		(376)	(290)		(1,088)
EBIT before special items[1]	**2,242**	**2,356**	**+5.1**	**4,834**	**5,557**	**+15.0**	**8,130**
Financial result	**(314)**	**(405)**	**−29.0**	**(629)**	**(754)**	**−19.9**	**(1,155)**
Net income (from continuing and discontinued operations)	**1,380**	**1,224**	**−11.3**	**2,891**	**3,307**	**+14.4**	**4,531**
Earnings per share (from continuing and discontinued operations) (€)[1]	1.67	1.40	−16.2	3.50	3.79	+8.3	5.44
Core earnings per share (from continuing operations) (€)[1]	2.07	1.81	−12.6	4.42	4.44	+0.5	7.32
Net cash provided by operating activities (from continuing and discontinued operations)	**1,982**	**2,313**	**+16.7**	**3,304**	**3,154**	**−4.5**	**9,089**
Cash outflows for capital expenditures	**589**	**476**	**−19.2**	**952**	**891**	**−6.4**	**2,578**
Research and development expenses	**1,122**	**1,165**	**+3.8**	**2,231**	**2,323**	**+4.1**	**4,666**
Depreciation, amortization and impairments	**814**	**832**	**+2.2**	**1,853**	**1,562**	**−15.7**	**3,743**
Number of employees at end of period[2]	**115,576**	**115,680**	**+0.1**	**115,576**	**115,680**	**+0.1**	**115,200**
Personnel expenses (including pension expenses)	2,789	2,826	+1.3	5,621	5,950	+5.9	11,357

2016 figures restated

[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

[2] Employees calculated as full-time equivalents (FTEs)

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Reporting Principles

The Bayer Interim Report complies with the requirements made of a half-year financial report in accordance with the applicable provisions of the German Securities Trading Act (WpHG) and, pursuant to Section 37w of the WpHG, comprises condensed consolidated interim financial statements and an interim group management report, as well as a responsibility statement. Bayer has prepared the condensed consolidated interim financial statements according to the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union (E.U.). The condensed consolidated interim financial statements also comply with the IFRS published by the IASB. The interim group management report should be read in conjunction with our Annual Report 2016, which contains a detailed description of our business operations.

Second quarter of 2017

Bayer: Group performance matches prior year despite declines at Crop Science

> Group sales increase by 1.9% (Fx & portfolio adj.) to €12.2 billion

> EBITDA before special items level with the prior year, at €3.1 billion (+ 0.1%)

> Pharmaceuticals posts strong increase in earnings and margins

> Brazil business weighs on Crop Science

> Consumer Health encounters difficult market environment in the United States

> Significant increase in sales and earnings at Covestro

> Net income €1.2 billion (–11.3%)

> Core earnings per share €1.81 (–12.6%)

> Monsanto acquisition on track

> Group outlook for 2017 adjusted

Economic Position of the Bayer Group

The Bayer Group increased sales by 1.9% (Fx & portfolio adj.) to €12.2 billion in the second quarter of 2017. EBITDA before special items matched the prior-year period, coming in at €3.1 billion (+0.1%). We achieved encouraging growth in earnings and margins at Pharmaceuticals and Animal Health. Business declined at Consumer Health, in particular due to the difficult market environment in the United States. Against the backdrop of high inventories in Brazil, the world's second-largest agriculture market, we posted substantial declines in sales and earnings at Crop Science. As such, sales and earnings of our Life Science businesses were down. Covestro once again posted substantial growth in sales and earnings.

Key Events

On June 7, 2017, Bayer reduced its directly held interest in Covestro from 53.3% to 44.9%, by placing 17.25 million shares at a price of €62.25 per share. Bayer AG's interest in Covestro was reduced by a further 4 percentage points through the contribution of Covestro shares to the Bayer Pension Trust e. V. In addition, Bayer has issued €1 billion in bonds maturing in 2020 that can be redeemed in cash, Covestro shares or a combination of the two. Covestro continues to be fully consolidated in Bayer's financial statements, as, even with these transactions having been completed, Bayer will still hold the de facto majority at a Covestro stockholders' meeting.

On June 30, 2017, Bayer filed an application with the European Commission seeking approval for the planned acquisition of Monsanto, representing a further significant milestone in the transaction.

Bayer also announced on June 30, 2017, that it was revising its annual guidance.

1. Overview of Sales, Earnings and Financial Position

1.1 Earnings Performance of the Bayer Group[1]

Second quarter of 2017

Group sales

Sales of the Bayer Group increased by 1.9% (Fx & portfolio adj.) to €12,193 million in the second quarter of 2017 (reported: +3.0%). Germany accounted for €1,216 million of this figure. Sales of the Life Science businesses declined by 2.8% (Fx & portfolio adj.) to €8,714 million.

Pharmaceuticals posted sales growth of 4.4% (Fx & portfolio adj.) to €4,304 million, mainly due to our key growth products continuing to deliver strong performance. Sales at Consumer Health declined year on year, falling by 2.2% (Fx. & portfolio adj.) to €1,542 million. Sales at Crop Science fell by a significant 15.8% (Fx & portfolio adj.) to €2,163 million, primarily due to its Brazil business. Excluding Brazil, sales matched the prior-year level. Animal Health achieved growth of 2.1% (Fx & portfolio adj.), with sales rising to €450 million. Sales at Covestro improved considerably, increasing by 15.8% (Fx & portfolio adj.) to €3,479 million.

EBITDA before special items

At €3,056 million, EBITDA before special items of the Bayer Group matched the prior-year level (+0.1%). EBITDA before special items at Pharmaceuticals improved by a very encouraging 9.5% to €1,481 million. At Consumer Health, EBITDA before special items declined by 4.3% to €314 million. EBITDA before special items at Crop Science decreased by a significant 52.2% to €317 million, mainly due to provisions for product returns in Brazil. EBITDA before special items of Animal Health climbed by 16.0% to €116 million. Overall, EBITDA before special items of our Life Science businesses declined by 10.5% to €2,247 million. Covestro raised EBITDA before special items by a considerable 49.0% to €809 million.

[1] For a definition of alternative performance measures, see the Annual Report 2016, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

Depreciation, amortization and special items

Depreciation, amortization and impairment losses were 2.2% higher in the second quarter of 2017, at €832 million (Q2 2016: €814 million), comprising €422 million (Q2 2016: €447 million) in amortization and impairments on intangible assets and €410 million (Q2 2016: €367 million) in depreciation and impairments on property, plant and equipment. Impairment losses and impairment loss reversals amounted to €126 million, of which €122 million (Q2 2016: €0 million) constituted special items. In addition, an amount of €10 million was included in special items as accelerated depreciation.

EBIT

EBIT of the Bayer Group came to €2,151 million, matching the prior-year period (Q2 2016: €2,138 million; + 0.6%). This figure reflected net special charges of €205 million (Q2 2016: €104 million). These mainly comprised €118 million in value adjustments in the Pharmaceuticals segment, €47 million in charges in conjunction with the agreed acquisition of Monsanto, and €37 million in charges related to efficiency improvement programs. EBIT before special items moved forward by 5.1% to €2,356 million (Q2 2016: €2,242 million).

In the second quarter of 2017, the following special effects were taken into account in calculating EBIT and EBITDA:

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Special Items Reconciliation[1]

€ million	EBIT Q2 2016	EBIT Q2 2017	EBIT H1 2016	EBIT H1 2017	EBITDA Q2 2016	EBITDA Q2 2017	EBITDA H1 2016	EBITDA H1 2017
Before special items	**2,242**	**2,356**	**4,834**	**5,557**	**3,054**	**3,056**	**6,441**	**6,949**
Pharmaceuticals	**(11)**	**(120)**	**(242)**	**(156)**	**(10)**	**(7)**	**(10)**	**(10)**
Consumer Health	**(32)**	**(15)**	**(64)**	**(24)**	**(31)**	**(7)**	**(50)**	**(15)**
Crop Science	**(30)**	**(95)**	**(33)**	**(132)**	**(30)**	**(84)**	**(33)**	**(108)**
Animal Health	**–**	**–**	**(1)**	**–**	**–**	**–**	**(1)**	**–**
Reconciliation	**(31)**	**(14)**	**(36)**	**(34)**	**(31)**	**(14)**	**(36)**	**(34)**
Restructuring	(26)	(14)	(31)	(29)	(26)	(14)	(31)	(29)
Litigations	(5)	–	(5)	(5)	(5)	–	(5)	(5)
Total special items Life Sciences	**(104)**	**(244)**	**(376)**	**(346)**	**(102)**	**(112)**	**(130)**	**(167)**
Covestro	**–**	**39**	**–**	**56**	**–**	**39**	**–**	**47**
Total special items	**(104)**	**(205)**	**(376)**	**(290)**	**(102)**	**(73)**	**(130)**	**(120)**
of which cost of goods sold	(16)	(66)	(199)	(74)	(14)	(42)	(22)	(44)
of which selling expenses	(30)	(40)	(71)	(41)	(30)	(8)	(35)	(9)
of which research and development expenses	(18)	(77)	(53)	(113)	(18)	(3)	(20)	(6)
of which general administration expenses	(31)	(58)	(44)	(93)	(31)	(58)	(44)	(93)
of which other operating income / expenses	(9)	36	(9)	31	(9)	38	(9)	32
After special items	**2,138**	**2,151**	**4,458**	**5,267**	**2,952**	**2,983**	**6,311**	**6,829**

[1] For definition see Annual Report 2016, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

Net income

Including a financial result of minus €405 million (Q2 2016: minus €314 million), income before income taxes was €1,746 million (Q2 2016: €1,824 million). After income tax expense of €417 million (Q2 2016: €431 million) and adjusting for income from discontinued operations after income taxes and noncontrolling interest, net income for the second quarter of 2017 amounted to €1,224 million (Q2 2016: €1,380 million).

Core earnings per share

Earnings per share (total) declined by 16.2% in the second quarter of 2017, to €1.40 (Q2 2016: €1.67), while core earnings per share from continuing operations fell by 12.6% to €1.81 (Q2 2016: €2.07). Material effects included the reduction of our interest in Covestro and the increased number of shares following the issuance of the mandatory convertible notes.

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Core Earnings per Share[1]

€ million	Q2 2016	Q2 2017	H1 2016	H1 2017
EBIT (as per income statements)	**2,138**	**2,151**	**4,458**	**5,267**
Amortization and impairment losses / loss reversals on intangible assets	447	422	1,114	771
Impairment losses / loss reversals on property, plant and equipment, and accelerated depreciation included in special items	(1)	33	17	39
Special items (other than amortization and impairment losses / loss reversals)	102	73	130	120
Core EBIT	**2,686**	**2,679**	**5,719**	**6,197**
Financial result (as per income statements)	(314)	(405)	(629)	(754)
Special items in the financial result	–	164	(10)	199
Income taxes (as per income statements)	(431)	(417)	(905)	(1,012)
Special items in income taxes	–	–	–	–
Tax effects related to amortization, impairment losses / loss reversals and special items	(156)	(195)	(374)	(332)
Income after income taxes attributable to noncontrolling interest (as per income statements)	(68)	(253)	(138)	(441)
Above-mentioned adjustments attributable to noncontrolling interest	(5)	9	(7)	12
Core net income from continuing operations	**1,712**	**1,582**	**3,656**	**3,869**
Shares				
Weighted average number of shares	**826,947,808**	**872,107,808**	**826,947,808**	**871,747,808**
€				
Core earnings per share from continuing operations	**2.07**	**1.81**	**4.42**	**4.44**
Core earnings per share from discontinued operations	0.13	0.17	0.20	0.28
Core earnings per share from continuing and discontinued operations	2.20	1.98	4.62	4.72

[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

In calculating net income and core earnings per share, the sale of a further 17.25 million shares in Covestro AG to institutional investors in the second quarter, at a price of €62.25 per share, was taken into consideration. In addition, 8 million shares of Covestro AG were deposited in Bayer Pension Trust e.V. at a price of €63.04 per share. Bayer thus reduced its interest from 53.3% to 40.9% of the issued stock.

As of June 30, 2017, personnel expenses rose by 1.3% compared with June 30, 2016, to €2,826 million (Q2 2016: €2,789 million). As of the closing date, the number of employees in the Bayer Group was largely unchanged year on year, at 115,680 (June 30, 2016: 115,576; +0.1%).

First half of 2017

Group sales

Sales of the Bayer Group in the first half of 2017 increased by 5.7% (Fx & portfolio adj.) to €25,437 million (reported: +7.4%), with Germany accounting for €2,610 million of this figure. Our Life Science businesses grew sales by 1.1% (Fx & portfolio adj.) to €18,394 million.

Sales of Pharmaceuticals advanced by 5.8% (Fx & portfolio adj.) to €8,567 million. At Consumer Health, sales were flat year on year at €3,143 million (Fx & portfolio adj.: +0.2%). Crop Science sales declined by 5.4% (Fx & portfolio adj.) to €5,283 million. Animal Health posted a 2.5% increase (Fx & portfolio adj.) in sales to €890 million. At Covestro, sales improved by a substantial 19.6% (Fx & portfolio adj.) to €7,043 million.

EBITDA before special items

EBITDA before special items of the Bayer Group advanced by 7.9% to €6,949 million (H1 2016: €6,441 million). Pharmaceuticals increased EBITDA before special items by a substantial 14.2% to €2,983 million. EBITDA before special items of Consumer Health came to €706 million, matching the prior-year period (–0.7%). EBITDA before special items at Crop Science declined by a substantial 18.3% to €1,432 million, while Animal Health registered a significant earnings increase of 13.1% to €251 million. Overall, EBITDA before special items of the Life Science businesses declined slightly by 1.7% compared with the prior-year period, to €5,301 million. Covestro raised EBITDA before special items by a considerable 57.4% to €1,648 million.

Depreciation, amortization and special items

In the first half of 2017, depreciation, amortization and impairments amounted to €1,562 million (H1 2016: €1,853 million), comprising €771 million (H1 2016: €1,114 million) in amortization and impairments on intangible assets and €791 million (H1 2016: €739 million) in depreciation and impairments on property, plant and equipment. Impairment losses and impairment loss reversals amounted to €166 million (H1 2016: €298 million). Impairment losses and impairment loss reversals in the amount of €160 million (H1 2016: €244 million) as well as accelerated depreciation in the amount of €10 million constituted special items.

EBIT

EBIT of the Bayer Group rose by a substantial 18.1% to €5,267 million (H1 2016: €4,458 million), after net special charges of €290 million (H1 2016: €376 million). These mainly comprised €151 million in value adjustments, €68 million in charges in conjunction with the agreed acquisition of Monsanto, and €63 million in charges related to efficiency improvement programs. EBIT before special items moved forward by a significant 15.0% to €5,557 million (H1 2016: €4,834 million).

Net income

Including a financial result of minus €754 million (H1 2016: minus €629 million), income before income taxes amounted to €4,513 million (H1 2016: €3,829 million). The financial result comprised in particular a net interest expense of €268 million (H1 2016: €260 million), currency hedging costs in the amount of €233 million (H1 2016: €177 million), and interest cost of €115 million (H1 2016: €143 million) for pension and other provisions. After tax expense of €1,012 million (H1 2016: €905 million), income after income taxes was €3,501 million (H1 2016: €2,924 million). Adjusted for income from discontinued operations after income taxes and noncontrolling interest, net income came to €3,307 million (H1 2016: €2,891 million).

Core earnings per share

Earnings per share (total) increased to €3.79 (H1 2016: €3.50), while core earnings per share from continuing operations amounted to €4.44, in line with the prior-year period (H1 2016: €4.42).

1.2 Business Development by Segment

Pharmaceuticals

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Key Data – Pharmaceuticals

€ million	Q2 2016	Q2 2017	Change % Reported	Change % Fx & p adj.	H1 2016	H1 2017	Change % Reported	Change % Fx & p adj.
Sales	**4,104**	**4,304**	**+4.9**	**+4.4**	**7,993**	**8,567**	**+7.2**	**+5.8**
Change in sales[1]								
Volume	+9.6%	+4.7%			+11.1%	+6.2%		
Price	−1.2%	−0.3%			−0.9%	−0.4%		
Currency	−2.9%	+0.5%			−2.9%	+1.4%		
Portfolio	0.0%	0.0%			0.0%	0.0%		
			Reported	Fx adj.			Reported	Fx adj.
Sales by region								
Europe / Middle East / Africa	1,602	1,647	+2.8	+3.3	3,144	3,253	+3.5	+3.6
North America	1,027	1,101	+7.2	+5.3	2,016	2,174	+7.8	+5.1
Asia / Pacific	1,219	1,290	+5.8	+5.7	2,349	2,602	+10.8	+9.5
Latin America	256	266	+3.9	+1.6	484	538	+11.2	+5.8
EBITDA[1]	**1,342**	**1,474**	**+9.8**		**2,603**	**2,973**	**+14.2**	
Special items[1]	(10)	(7)			(10)	(10)		
EBITDA before special items[1]	**1,352**	**1,481**	**+9.5**		**2,613**	**2,983**	**+14.2**	
EBITDA margin before special items[1]	32.9%	34.4%			32.7%	34.8%		
EBIT[1]	**988**	**1,102**	**+11.5**		**1,686**	**2,321**	**+37.7**	
Special items[1]	(11)	(120)			(242)	(156)		
EBIT before special items[1]	**999**	**1,222**	**+22.3**		**1,928**	**2,477**	**+28.5**	
Net cash provided by operating activities	**310**	**528**	**+70.3**		**1,044**	**1,501**	**+43.8**	

2016 figures restated; Fx & p adj. = currency- and portfolio-adjusted; Fx adj. = currency-adjusted

[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

Second quarter of 2017

Sales

Sales of Pharmaceuticals increased by 4.4% (Fx & portfolio adj.) to €4,304 million in the second quarter of 2017. Our key growth products Xarelto™, Eylea™, Xofigo™, Stivarga™ and Adempas™ once again delivered strong performance, with their combined sales rising by 16.6% (Fx adj.) to €1,555 million (Q2 2016: €1,332 million). Combined sales of the 15 best-selling Pharmaceuticals products advanced by 7.7% (Fx adj.). Our Pharmaceuticals business expanded in all regions.

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Best-Selling Pharmaceuticals Products

€ million	Q2 2016	Q2 2017	Change % Reported	Change % Fx adj.[1]	H1 2016	H1 2017	Change % Reported	Change % Fx adj.[1]
Xarelto™	703	834	+ 18.6	+ 18.4	1,320	1,585	+ 20.1	+ 19.0
of which U.S.A.[2]	103	117	+ 13.6	+ 13.1	189	203	+ 7.4	+ 7.2
Eylea™	418	458	+ 9.6	+ 10.6	790	904	+ 14.4	+ 14.7
of which U.S.A.[3]	0	0	.	.	0	0	.	.
Xofigo™	81	105	+ 29.6	+ 28.0	156	205	+ 31.4	+ 29.2
of which U.S.A.	56	62	+ 10.7	+ 7.6	106	124	+ 17.0	+ 12.8
Stivarga™	67	83	+ 23.9	+ 20.8	134	158	+ 17.9	+ 14.9
of which U.S.A.	33	46	+ 39.4	+ 35.9	68	85	+ 25.0	+ 21.0
Adempas™	63	75	+ 19.0	+ 17.9	119	148	+ 24.4	+ 22.2
of which U.S.A.	30	38	+ 26.7	+ 24.1	56	76	+ 35.7	+ 31.8
Total key growth products	**1,332**	**1,555**	**+ 16.7**	**+ 16.6**	**2,519**	**3,000**	**+ 19.1**	**+ 18.2**
Mirena™ product family	258	276	+ 7.0	+ 4.5	506	591	+ 16.8	+ 13.4
of which U.S.A.	168	176	+ 4.8	+ 2.2	337	395	+ 17.2	+ 13.6
Kogenate™ / Kovaltry™	280	260	– 7.1	– 7.7	576	535	– 7.1	– 8.1
of which U.S.A.	87	91	+ 4.6	+ 2.8	183	185	+ 1.1	– 1.3
Nexavar™	221	229	+ 3.6	+ 2.1	434	436	+ 0.5	– 1.7
of which U.S.A.	78	86	+ 10.3	+ 5.9	159	161	+ 1.3	– 2.2
Betaferon™ / Betaseron™	196	185	– 5.6	– 6.4	386	356	– 7.8	– 9.2
of which U.S.A.	111	108	– 2.7	– 4.1	211	202	– 4.3	– 6.6
Adalat™	161	171	+ 6.2	+ 7.3	321	345	+ 7.5	+ 7.9
of which U.S.A.	0	0	.	.	1	0	.	.
YAZ™ / Yasmin™ / Yasminelle™	166	158	– 4.8	– 6.3	338	328	– 3.0	– 6.8
of which U.S.A.	31	25	– 19.4	– 20.7	71	45	– 36.6	– 38.3
Aspirin™ Cardio	138	148	+ 7.2	+ 8.0	275	305	+ 10.9	+ 10.9
of which U.S.A.	0	0	.	.	0	0	.	.
Glucobay™	128	139	+ 8.6	+ 10.5	267	297	+ 11.2	+ 12.6
of which U.S.A.	1	0	.	.	2	1	.	.
Avalox™ / Avelox™	88	87	– 1.1	+ 0.1	186	187	+ 0.5	+ 1.2
of which U.S.A.	0	2	.	.	0	5	.	.
Gadavist™ / Gadovist™	89	97	+ 9.0	+ 7.9	171	186	+ 8.8	+ 7.1
of which U.S.A.	27	34	+ 25.9	+ 23.7	54	61	+ 13.0	+ 10.4
Total best-selling products	**3,057**	**3,305**	**+ 8.1**	**+ 7.7**	**5,979**	**6,566**	**+ 9.8**	**+ 8.6**
Proportion of Pharmaceuticals sales	74%	77%			75%	77%		
Total best-selling products in U.S.A.	**725**	**785**			**1,437**	**1,543**		

[1] Fx adj. = currency-adjusted; for definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”
[2] Marketing rights owned by an affiliate of Johnson & Johnson, U.S.A.
[3] Marketing rights owned by Regeneron Pharmaceuticals Inc., U.S.A.

Sales by product

> Our oral anticoagulant **Xarelto™** once again achieved strong sales growth, primarily due to an expansion of volumes in Europe and China. Our license revenues – recognized as sales – in the United States, where Xarelto™ is marketed by a subsidiary of Johnson & Johnson, also developed positively.

> We achieved a significant increase in sales of our eye medicine **Eylea™**, largely due to higher volumes in Europe and encouraging sales growth in Canada and Australia.

> We once again recorded substantial sales gains for our cancer drug **Xofigo™**, with business benefiting from a successful market launch in Japan and growth in the United States and Europe.

> Sales of our cancer drug **Stivarga™** increased substantially, primarily in the United States, where, among other things, we obtained approval for the drug as a second-line treatment for patients with hepatocellular carcinoma.
> Sales of the pulmonary hypertension treatment **Adempas™** advanced significantly on a currency-adjusted basis, and, as in the past, reflected the proportionate recognition of the one-time payment resulting from the sGC collaboration with Merck & Co., United States. Business continued to benefit mainly from positive performance in the United States.
> We expanded our business with the hormone-releasing intrauterine devices of the **Mirena™** product family (Mirena™, Kyleena™ and Jaydess™ / Skyla™), including in the United States, where we continued to benefit from the successful market launch of the Kyleena™ intrauterine device.
> Sales of our **Kogenate™ / Kovaltry™** blood-clotting medicines were lower than in the year-earlier quarter, due to order volumes placed by our distribution partner remaining significantly lower.
> Sales of our cancer drug **Nexavar™** edged higher, mainly as a result of positive performance in the United States and China.
> As expected, business with our multiple sclerosis product **Betaferon™ / Betaseron™** declined. This development was triggered in particular by lower demand in the United States and Latin America.
> **Adalat™**, our product for the treatment of hypertension and coronary heart disease, once again achieved encouraging sales gains, particularly as a result of higher volumes in China.
> Sales of our **YAZ™ / Yasmin™ / Yasminelle™** line of oral contraceptives were down, primarily due to falling demand in Europe and generic competition in the United States. Positive business development in Asia was insufficient to offset this effect.
> Sales of our diabetes treatment **Glucobay™** and our **Aspirin™ Cardio** product for the secondary prevention of heart attacks advanced significantly as a result of a persistently favorable market environment in China.
> We achieved an encouraging increase in sales of our MRI contrast agent **Gadovist™**, primarily due to the good development of business in the United States.

Earnings

EBITDA before special items of Pharmaceuticals improved by a very encouraging 9.5% to €1,481 million in the second quarter of 2017 (Q2 2016: €1,352 million). Positive earnings effects resulted primarily from higher volumes, while the cost of goods sold and expenses for research and development were lower.

EBIT increased by a substantial 11.5% to €1,102 million, and included special charges of €120 million (Q2 2016: €11 million). These largely comprised €69 million in impairments on intangible assets in the area of oncology (OncoMed), and €49 million in value adjustments in the area of women's health.

A 5

Special Items[1] Pharmaceuticals

€ million	EBIT Q2 2016	EBIT Q2 2017	EBIT H1 2016	EBIT H1 2017	EBITDA Q2 2016	EBITDA Q2 2017	EBITDA H1 2016	EBITDA H1 2017
Restructuring	(10)	(2)	(12)	(5)	(9)	(1)	(11)	(4)
Litigations	(1)	–	1	–	(1)	–	1	–
Value adjustments	–	(118)	(231)	(151)	–	(6)	–	(6)
Total special items	**(11)**	**(120)**	**(242)**	**(156)**	**(10)**	**(7)**	**(10)**	**(10)**

[1] For definition see Annual Report 2016, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

First half of 2017

Sales

Sales of Pharmaceuticals rose by 5.8% (Fx & portfolio adj.) to €8,567 million in the first half of 2017. Our key growth products Xarelto™, Eylea™, Stivarga™, Xofigo™ and Adempas™ delivered strong performance, with their combined sales rising by 18.2% (Fx adj.) to €3,000 million (H1 2016: €2,519 million). Pharmaceuticals sales developed positively in all regions.

Earnings

EBITDA before special items improved by a substantial 14.2% in the first half of 2017, to €2,983 million. This positive earnings performance was the result of the good development of business, while the cost of goods sold and expenses for research and development were lower. In addition, selling expenses increased at a slower rate than sales.

EBIT increased substantially, rising by 37.7% to €2,321 million. Special charges amounted to €156 million (H1 2016: €242 million) and were primarily the result of value adjustments.

Consumer Health

A 6

Key Data – Consumer Health

			Change %				Change %	
€ million	Q2 2016	Q2 2017	Reported	Fx & p adj.	H1 2016	H1 2017	Reported	Fx & p adj.
Sales	**1,553**	**1,542**	**−0.7**	**−2.2**	**3,073**	**3,143**	**+2.3**	**+0.2**
Changes in sales[1]								
Volume	+1.2%	−4.6%			−0.1%	−2.2%		
Price	+2.8%	+2.4%			+3.2%	+2.4%		
Currency	−6.3%	+1.5%			−5.4%	+2.1%		
Portfolio	0.0%	0.0%			0.0%	0.0%		
			Reported	Fx adj.			Reported	Fx adj.
Sales by region								
Europe / Middle East / Africa	480	503	+4.8	+2.7	962	1,041	+8.2	+5.8
North America	701	661	−5.7	−7.8	1,378	1,362	−1.2	−4.1
Asia / Pacific	201	195	−3.0	−3.0	402	415	+3.2	+1.7
Latin America	171	183	+7.0	+8.8	331	325	−1.8	0.0
EBITDA[1]	**297**	**307**	**+3.4**		**661**	**691**	**+4.5**	
Special items[1]	(31)	(7)			(50)	(15)		
EBITDA before special items[1]	**328**	**314**	**−4.3**		**711**	**706**	**−0.7**	
EBITDA margin before special items[1]	21.1%	20.4%			23.1%	22.5%		
EBIT[1]	**190**	**195**	**+2.6**		**433**	**473**	**+9.2**	
Special items[1]	(32)	(15)			(64)	(24)		
EBIT before special items[1]	**222**	**210**	**−5.4**		**497**	**497**	**0.0**	
Net cash provided by operating activities	**241**	**297**	**+23.2**		**438**	**562**	**+28.3**	

2016 figures restated; Fx & p adj. = currency- and portfolio-adjusted; Fx adj. = currency-adjusted
[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

Second quarter of 2017

Sales

Sales of Consumer Health in the second quarter of 2017 fell by 2.2% (Fx & portfolio adj.) to €1,542 million. We recorded substantial declines in sales in North America, particularly in the United States, due to the difficult market environment. In contrast, we expanded our business in Latin America and Europe / Middle East / Africa.

A 7

Best-Selling Consumer Health Products

€ million	Q2 2016	Q2 2017	Change % Reported	Change % Fx adj.[1]	H1 2016	H1 2017	Change % Reported	Change % Fx adj.[1]
Claritin™	178	159	– 10.7	– 12.3	365	349	– 4.4	– 6.9
Aspirin™	102	104	+ 2.0	+ 0.7	218	221	+ 1.4	+ 0.1
Bepanthen™ / Bepanthol™	95	100	+ 5.3	+ 4.9	187	195	+ 4.3	+ 3.6
Aleve™	110	101	– 8.2	– 10.5	200	183	– 8.5	– 11.1
Coppertone™ [2]	94	80	– 14.9	– 16.7	175	182	+ 4.0	+ 0.8
Canesten™	75	74	– 1.3	+ 3.1	139	144	+ 3.6	+ 7.0
Alka-Seltzer™ product family	45	44	– 2.2	– 4.8	102	114	+ 11.8	+ 8.7
One A Day™	55	55	0.0	+ 0.2	99	110	+ 11.1	+ 8.7
Dr Scholl's™ [2]	65	65	0.0	– 3.2	125	106	– 15.2	– 17.8
Elevit™	40	44	+ 10.0	+ 9.9	83	96	+ 15.7	+ 11.7
Total	**859**	**826**	**– 3.8**	**– 4.9**	**1,693**	**1,700**	**+ 0.4**	**– 1.5**
Proportion of Consumer Health sales	55%	54%			55%	54%		

[1] Fx adj. = currency-adjusted; for definition see Annual Report 2016, A 2.4 "Alternative Performance Measures Used by the Bayer Group."
[2] Trademark rights and distribution only in certain countries outside the European Union

Sales by product

- Sales of our antihistamine **Claritin™** declined substantially compared with a strong prior-year quarter, primarily in the United States and in China. In the United States, business was impacted by a weaker allergy season, among other factors. We had also benefited from the market launch of ClariSpray™ in 2016.
- Sales of our analgesic **Aspirin™** matched the strong prior-year quarter. Including business with Aspirin™ Cardio, which is reported under Pharmaceuticals, sales advanced by 4.9% (Fx adj.) to €252 million (Q2 2016: €240 million).
- We increased sales of our **Bepanthen™ / Bepanthol™** wound and skin care products, primarily in Asia / Pacific and Latin America.
- Sales of our analgesic **Aleve™** came in much lower than in the prior-year quarter, largely as a result of increased competitive pressure in the United States.
- We recorded a substantial decline in sales of our sunscreen product **Coppertone**™, mainly due to increased competitive pressure and a weak season to date in the United States.
- Sales of our **Canesten™** skin and intimate health products advanced on a currency-adjusted basis, particularly in China.
- Business with our **Alka-Seltzer™** family of products to treat gastric complaints and cold symptoms declined, primarily in the United States.
- Sales of our **One A Day™** vitamin product matched the level of the strong prior-year quarter, with gains in Latin America offsetting declines in North America.
- Sales of our **Dr. Scholl's™** foot care products were down slightly from the prior-year quarter on a currency-adjusted basis. Gains in the United States only partly offset declines in Latin America.
- The considerable increase in sales of our prenatal vitamin **Elevit™** was largely the result of demand remaining strong in Asia / Pacific, primarily in China.

Earnings

EBITDA before special items of Consumer Health declined by 4.3% to €314 million in the second quarter of 2017 (Q2 2016: €328 million). The fall in earnings is mainly attributable to lower volumes and the higher cost of goods sold, which resulted in part from inventory write-offs.

EBIT increased by 2.6% to €195 million, and included special charges of €15 million (Q2 2016: €32 million).

A 8

Special Items[1] Consumer Health

€ million	EBIT Q2 2016	EBIT Q2 2017	EBIT H1 2016	EBIT H1 2017	EBITDA Q2 2016	EBITDA Q2 2017	EBITDA H1 2016	EBITDA H1 2017
Restructuring	(3)	(15)	(17)	(24)	(2)	(7)	(3)	(15)
Integration costs	(29)	–	(47)	–	(29)	–	(47)	–
Total special items	**(32)**	**(15)**	**(64)**	**(24)**	**(31)**	**(7)**	**(50)**	**(15)**

[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

First half of 2017

Sales

In the first half of 2017, Consumer Health posted sales of €3,143 million (Fx & portfolio adj. + 0.2%). Business developed positively in Europe in particular, while sales fell in North America due to a difficult market environment in the United States.

Earnings

EBITDA before special items decreased by 0.7% in the first half of 2017, to €706 million (H1 2016: €711 million). Earnings contributions from the development of business stood against the higher cost of goods sold, which was due in part to inventory write-offs.

EBIT moved ahead by a clear 9.2% to €473 million (H1 2016: €433 million). Special charges amounted to €24 million (H1 2016: €64 million).

Crop Science

A 9

Key Data – Crop Science

€ million	Q2 2016	Q2 2017	Change % Reported	Change % Fx & p adj.	H1 2016	H1 2017	Change % Reported	Change % Fx & p adj.
Sales	**2,518**	**2,163**	**−14.1**	**−15.8**	**5,454**	**5,283**	**−3.1**	**−5.4**
Change in sales[1]								
Volume	−1.0%	−13.7%			−0.8%	−4.3%		
Price	+1.4%	−2.1%			+1.6%	−1.1%		
Currency	−5.2%	+1.7%			−4.3%	+2.3%		
Portfolio	+0.3%	0.0%			+0.2%	0.0%		
			Reported	Fx adj.			Reported	Fx adj.
Sales by region								
Europe/Middle East/Africa	897	908	+1.2	−0.2	2,317	2,370	+2.3	+1.4
North America	812	865	+6.5	+5.0	1,721	1,907	+10.8	+7.1
Asia/Pacific	455	459	+0.9	−2.0	797	825	+3.5	+0.3
Latin America	354	(69)	.	.	619	181	−70.8	−73.5
EBITDA[1]	**633**	**233**	**−63.2**		**1,719**	**1,324**	**−23.0**	
Special items[1]	(30)	(84)			(33)	(108)		
EBITDA before special items[1]	**663**	**317**	**−52.2**		**1,752**	**1,432**	**−18.3**	
EBITDA margin before special items[1]	26.3%	14.7%			32.1%	27.1%		
EBIT[1]	**512**	**117**	**−77.1**		**1,467**	**1,087**	**−25.9**	
Special items[1]	(30)	(95)			(33)	(132)		
EBIT before special items[1]	**542**	**212**	**−60.9**		**1,500**	**1,219**	**−18.7**	
Net cash provided by operating activities	**1,088**	**1,170**	**+7.5**		**422**	**491**	**+16.4**	

2016 figures restated; Fx & p adj. = currency- and portfolio-adjusted; Fx adj. = currency-adjusted
[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

Second quarter of 2017

Sales

Sales of Crop Science in the second quarter of 2017 fell by 15.8% (Fx & portfolio adj.) to €2,163 million. This decline is mainly due to significantly higher provisions for product returns – specifically crop-protection products – in Brazil. At the end of the harvest season, regular stocktaking revealed high channel inventories in the Brazilian market, requiring measures to be taken to normalize the situation. Excluding the €428 million decline in sales in Brazil, business at Crop Science was up slightly year on year on a currency-adjusted basis. Environmental Science delivered positive performance, in part due to the delivery of products to the company that acquired our consumer business.

A 10

Sales by Business Unit

€ million	Q2 2016	Q2 2017	Change % Reported	Change % Fx & p adj.	H1 2016	H1 2017	Change % Reported	Change % Fx & p adj.
Crop Protection / Seeds	**2,363**	**1,971**	**– 16.6**	**– 18.2**	**5,182**	**4,944**	**– 4.6**	**– 6.8**
Crop Protection	2,055	1,637	– 20.3	– 21.6	4,237	3,888	– 8.2	– 9.8
Herbicides	769	742	– 3.5	– 6.0	1,614	1,654	+ 2.5	+ 0.2
Fungicides	840	502	– 40.2	– 40.2	1,667	1,289	– 22.7	– 23.3
Insecticides	302	256	– 15.2	– 16.9	586	557	– 4.9	– 6.7
SeedGrowth	144	137	– 4.9	– 6.3	370	388	+ 4.9	+ 1.9
Seeds	308	334	+ 8.4	+ 4.6	945	1,056	+ 11.7	+ 6.8
Environmental Science	**155**	**192**	**+ 23.9**	**+ 20.6**	**272**	**339**	**+ 24.6**	**+ 21.0**

Fx & p adj. = currency- and portfolio-adjusted;
for definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

Sales by region

> Sales in Europe / Middle East / Africa matched the prior-year level at €908 million (Fx adj. – 0.2%). The Insecticides business delivered very positive performance due to higher pest pressure. This development stood against substantial declines at Fungicides due to lower infestation levels as a result of drought in western Europe, as well as increased competitive pressure. The Seeds business developed positively.

> Sales in North America advanced by 5.0% (Fx adj.) to €865 million. We recorded strong gains at SeedGrowth, particularly with products to treat soybean seed in the United States and cereal seed in Canada. We also achieved growth in the Seeds business due to expanded oilseed rape / canola acreages in Canada, as well as at Fungicides. This was partly offset by a substantial decline at Insecticides in the United States.

> Sales in the Asia / Pacific region fell by 2.0% (Fx adj.) to €459 million. Business at Insecticides declined noticeably, due to sales declines in China and restrained demand in India. In contrast, business at Fungicides and Herbicides expanded.

> Sales in the Latin America region amounted to minus €69 million. This negative development is largely due to significantly higher provisions, primarily for product returns, as well as lower sell-in to the distribution channel in Brazil. At the end of the harvest season, regular stocktaking revealed high channel inventories of crop protection products in the Brazilian market. This situation was caused by weaker demand due to significantly lower insect and fungal infestation levels, while the level of inventory-building among distributors was high. We slightly increased sales in the other countries in the Latin America region overall.

Earnings

EBITDA before special items of Crop Science declined by 52.2% to €317 million in the second quarter of 2017 (Q2 2016: €663 million), in particular due to the situation in Brazil, where we recorded a substantial negative impact on earnings in the amount of €355 million in total. This included provisions for product returns in the amount of €173 million, impairment losses recognized on receivables in the amount of €53 million, inventory write-offs in the amount of €56 million, and other effects totaling €73 million. Excluding our business in Brazil, earnings were up slightly year on year.

EBIT decreased by 77.1% to €117 million, and included special charges in the amount of €95 million (Q2 2016: €30 million) related mainly to the agreed acquisition of Monsanto and the completion of a divestiture project.

A 11

Special Items[1] Crop Science

€ million	EBIT Q2 2016	EBIT Q2 2017	EBIT H1 2016	EBIT H1 2017	EBITDA Q2 2016	EBITDA Q2 2017	EBITDA H1 2016	EBITDA H1 2017
Restructuring	(28)	(6)	(28)	(22)	(28)	(5)	(28)	(8)
Litigations	(2)	(2)	(5)	(2)	(2)	(2)	(5)	(2)
Acquisition costs	–	(47)	–	(68)	–	(47)	–	(68)
Divestments	–	(40)	–	(40)	–	(30)	–	(30)
Total special items	**(30)**	**(95)**	**(33)**	**(132)**	**(30)**	**(84)**	**(33)**	**(108)**

[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

First half of 2017

Sales

Sales of Crop Science in the first half of 2017 declined by 5.4% (Fx & portfolio adj.) to €5,283 million. Sales fell at Fungicides and Insecticides in particular due to the aforementioned adjustments made to provisions for product returns and weak business in Brazil. In contrast, we achieved gains at Seeds and Environmental Science. Higher sales in North America and Europe / Middle East / Africa were insufficient to offset the substantial decline in business in Latin America. Sales in Asia / Pacific came in at the prior-year level. Excluding Brazil, sales increased slightly overall.

Earnings

EBITDA before special items of Crop Science declined by 18.3% to €1,432 million (H1 2016: €1,752 million) in the first half of 2017, significantly weighed down by the aforementioned effects in Brazil. Excluding Brazil, earnings were higher than in the prior-year period.

EBIT declined by 25.9% to €1,087 million. Earnings were held back by special charges of €132 million (H1 2016: €33 million) largely related to the agreed acquisition of Monsanto, the completion of a divestiture project and efficiency improvement programs.

Animal Health

A 12

Key Data – Animal Health

€ million	Q2 2016	Q2 2017	Change % Reported	Change % Fx & p adj.	H1 2016	H1 2017	Change % Reported	Change % Fx & p adj.
Sales	**426**	**450**	**+5.6**	**+2.1**	**834**	**890**	**+6.7**	**+2.5**
Change in sales[1]								
Volume	+1.4%	−0.7%			+4.7%	−0.5%		
Price	+2.8%	+2.8%			+1.7%	+3.0%		
Currency	−4.7%	+1.6%			−3.9%	+2.3%		
Portfolio	0.0%	+1.9%			0.0%	+1.9%		
			Reported	Fx adj.			Reported	Fx adj.
Sales by region								
Europe/Middle East/Africa	123	122	−0.8	+2.4	261	266	+1.9	+2.3
North America	193	208	+7.8	+4.7	355	385	+8.5	+5.1
Asia/Pacific	71	80	+12.7	+9.9	138	156	+13.0	+9.4
Latin America	39	40	+2.6	−2.6	80	83	+3.8	−1.3
EBITDA[1]	**100**	**116**	**+16.0**		**221**	**251**	**+13.6**	
Special items[1]	–	–			(1)	–		
EBITDA before special items[1]	**100**	**116**	**+16.0**		**222**	**251**	**+13.1**	
EBITDA margin before special items[1]	23.5%	25.8%			26.6%	28.2%		
EBIT[1]	**93**	**107**	**+15.1**		**207**	**233**	**+12.6**	
Special items[1]	–	–			(1)	–		
EBIT before special items[1]	**93**	**107**	**+15.1**		**208**	**233**	**+12.0**	
Net cash provided by operating activities	**48**	**97**	**+102.1**		**28**	**66**	**+135.7**	

2016 figures restated; Fx & p adj. = currency- and portfolio-adjusted; Fx adj. = currency-adjusted
[1] For definition see Annual Report 2016, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

Second quarter of 2017

Sales

Sales of Animal Health in the second quarter of 2017 moved ahead by 2.1% (Fx & portfolio adj.) to €450 million. The development of business in the Asia/Pacific region was encouraging. In North America, the Cydectin™ product portfolio that was acquired in January 2017 contributed to sales growth on a currency-adjusted basis. We recorded a slight increase in sales in Europe/Middle East/Africa on a currency-adjusted basis, while the performance of our Latin America business matched the prior-year period.

A 13

Best-Selling Animal Health Products

€ million	Q2 2016	Q2 2017	Change % Reported	Change % Fx adj.[1]	H1 2016	H1 2017	Change % Reported	Change % Fx adj.[1]
Advantage™ product family	157	146	−7.0	−7.7	305	282	−7.5	−8.8
Seresto™	67	81	+20.9	+17.4	121	157	+29.8	+26.6
Drontal™ product family	32	33	+3.1	+4.8	64	68	+6.3	+5.4
Baytril™	24	31	+29.2	+25.8	52	58	+11.5	+8.9
Total	**280**	**291**	**+3.9**	**+2.6**	**542**	**565**	**+4.2**	**+2.5**
Proportion of Animal Health sales	66%	65%			65%	63%		

[1] Fx adj. = currency-adjusted; for definition see Annual Report 2016, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

Sales by product

- Sales of our **Advantage™** family of flea, tick and worm control products declined overall, primarily due to lower than expected demand in the United States.
- We once again achieved double-digit percentage sales gains year on year with our **Seresto™** flea and tick collar, thanks largely to strong demand in the United States and Europe.
- Sales of our **Drontal™** line of wormers increased again, buoyed by the good development of business in the United Kingdom, United States, China and elsewhere.
- The strong sales gains recorded for our antibiotic **Baytril™**, primarily in the United States, were largely the result of a one-time effect due to changes in the distribution model. Intensified marketing activities also had a positive impact.

Earnings

EBITDA before special items of Animal Health increased by 16.0% to €116 million in the second quarter of 2017 (Q2 2016: €100 million). Positive earnings contributions resulted from price increases, the lower cost of goods sold as well as the Cydectin™ business that Bayer acquired. These more than offset a decline in volumes and slightly higher expenses for research and development.

EBIT climbed by 15.1% to €107 million, with no special items (Q2 2016: €0 million) recorded.

A 14

Special Items[1] Animal Health

€ million	EBIT Q2 2016	EBIT Q2 2017	EBIT H1 2016	EBIT H1 2017	EBITDA Q2 2016	EBITDA Q2 2017	EBITDA H1 2016	EBITDA H1 2017
Restructuring	–	–	(1)	–	–	–	(1)	–
Total special items	**–**	**-**	**(1)**	**–**	**–**	**–**	**(1)**	**–**

[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

First half of 2017

Sales

Sales of Animal Health rose by 2.5% (Fx & portfolio adj.) to €890 million in the first half of 2017. Development in the Asia / Pacific region was especially positive. We also recorded sales gains in North America and Europe / Middle East / Africa, while business in Latin America declined slightly on a currency-adjusted basis.

Earnings

EBITDA before special items increased by 13.1% to €251 million in the first half of 2017. Performance was driven by positive price effects and the newly acquired Cydectin™ business. This development stood against higher expenses for research and development.

EBIT improved by 12.6% to €233 million, with no special items (Q2 2016: special charges of €1 million) recorded.

Covestro

A 15

Key Data – Covestro

€ million	Q2 2016	Q2 2017	Change % Reported	Change % Fx & p adj.	H1 2016	H1 2017	Change % Reported	Change % Fx & p adj.
Sales	**2,975**	**3,479**	**+16.9**	**+15.8**	**5,825**	**7,043**	**+20.9**	**+19.6**
Change in sales [1]								
Volume	+5.0%	+0.6%			+5.4%	+5.3%		
Price	−8.9%	+15.2%			−9.7%	+14.3%		
Currency	−2.7%	+1.1%			−1.7%	+1.3%		
Portfolio	0.0%	0.0%			0.0%	0.0%		
			Reported	Fx adj.			Reported	Fx adj.
Sales by region								
Europe / Middle East / Africa	1,254	1,380	+10.0	+9.9	2,464	2,793	+13.4	+13.2
North America	686	756	+10.2	+7.3	1,369	1,517	+10.8	+7.5
Asia / Pacific	866	1,129	+30.4	+29.8	1,659	2,311	+39.3	+38.2
Latin America	169	214	+26.6	+23.1	333	422	+26.7	+24.6
EBITDA [1]	**543**	**848**	**+56.2**		**1,047**	**1,695**	**+61.9**	
Special items [1]	–	39			–	47		
EBITDA before special items [1]	**543**	**809**	**+49.0**		**1,047**	**1,648**	**+57.4**	
EBITDA margin before special items [1]	18.3%	23.3%			18.0%	23.4%		
EBIT [1]	**367**	**688**	**+87.5**		**703**	**1,377**	**+95.9**	
Special items [1]	–	39			–	56		
EBIT before special items [1]	**367**	**649**	**+76.8**		**703**	**1,321**	**+87.9**	
Net cash provided by operating activities	**309**	**415**	**+34.3**		**478**	**690**	**+44.4**	

2016 figures restated; Fx & p adj. = currency- and portfolio-adjusted; Fx adj. = currency-adjusted
[1] For definition see Annual Report 2016, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

Second quarter of 2017

Sales

Sales of Covestro in the second quarter of 2017 increased by 15.8% (Fx & portfolio adj.) to €3,479 million. Selling prices were much higher overall, especially at Polyurethanes, while volumes matched the prior-year period overall.

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Sales by Business Unit

€ million	Q2 2016	Q2 2017	Change % Reported	Change % Fx & p adj.	H1 2016	H1 2017	Change % Reported	Change % Fx & p adj.
Polyurethanes	1,482	1,889	+27.5	+26.1	2,883	3,783	+31.2	+29.7
Polycarbonates	831	912	+9.7	+8.7	1,617	1,866	+15.4	+14.2
Coatings, Adhesives, Specialties	532	532	–	−0.8	1,044	1,096	+5.0	+3.9
Other Covestro business	130	146	+12.3	+12.4	281	298	+6.0	+5.7
Total	**2,975**	**3,479**	**+16.9**	**+15.8**	**5,825**	**7,043**	**+20.9**	**+19.6**

Fx & p adj. = currency- and portfolio-adjusted;
for definition see Annual Report 2016, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

Sales by business unit

- Sales at **Polyurethanes** increased by 26.1% (Fx & portfolio adj.) to €1,889 million, bolstered by significantly higher selling prices, while volumes remained stable.
- **Polycarbonates** saw sales advance by 8.7% (Fx & portfolio adj.) to €912 million due to higher selling prices and slightly expanded volumes.
- Sales at **Coatings, Adhesives, Specialties** were flat year on year at €532 million (Fx & portfolio adj. −0.8%). A slight decline in volumes stood against stable selling prices.

Earnings

EBITDA before special items of Covestro improved by 49.0% to €809 million in the second quarter of 2017 (Q2 2016: €543 million). Substantially higher selling prices more than offset the effect of increased raw material prices.

EBIT increased by 87.5% to €688 million, and included a special gain in the amount of €39 million (Q2 2016: €0 million) resulting from the sale of the segment's North American spray polyurethane foam system house.

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Special Items[1] Covestro

€ million	EBIT Q2 2016	EBIT Q2 2017	EBIT H1 2016	EBIT H1 2017	EBITDA Q2 2016	EBITDA Q2 2017	EBITDA H1 2016	EBITDA H1 2017
Divestitures	–	39	–	39	–	39	–	39
Restructuring	–	–	–	17	–	–	–	8
Total special items	**–**	**39**	**–**	**56**	**–**	**39**	**–**	**47**

[1] For definition see Annual Report 2016, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

First half of 2017

Sales

Sales of Covestro increased by 19.6% (Fx & portfolio adj.) in the first half of 2017 compared with the prior-year period, to €7,043 million, due to significantly higher selling prices, especially at Polyurethanes. All business units reported higher volumes.

Earnings

EBITDA before special items of Covestro improved by 57.4% to €1,648 million in the first half of 2017 (H1 2016: €1,047 million). A significant increase in selling prices and higher volumes more than offset higher raw material costs.

EBIT climbed by 95.9% to €1,377 million, and included special gains of €56 million (H1 2016: €0 million) related to the aforementioned sale and the decision made in the first quarter of 2017 to postpone the closure of a production facility until further notice.

1.3 Asset and Financial Position of the Bayer Group

Statement of Cash Flows

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Bayer Group Summary Statements of Cash Flows

€ million	Q2 2016	Q2 2017	Change %	H1 2016	H1 2017	Change %
Net cash provided by (used in) operating activities, continuing operations	**1,992**	**2,316**	**+16.3**	**2,544**	**3,142**	**+23.5**
Net cash provided by (used in) operating activities, discontinued operations	(10)	(3)	+70.0	760	12	–98.4
Net cash provided by (used in) operating activities (total)	**1,982**	**2,313**	**+16.7**	**3,304**	**3,154**	**–4.5**
Net cash provided by (used in) investing activities (total)	**(1,245)**	**(1,178)**	**+5.4**	**(1,707)**	**(2,314)**	**–35.6**
Net cash provided by (used in) financing activities (total)	**(3,235)**	**(549)**	**+83.0**	**(2,412)**	**62**	**.**
Change in cash and cash equivalents due to business activities	**(2,498)**	**586**	**.**	**(815)**	**902**	**.**
Cash and cash equivalents at beginning of period	**3,552**	**2,224**	**–37.4**	**1,859**	**1,899**	**+2.2**
Change due to exchange rate movements and to changes in scope of consolidation	1	(37)	.	11	(28)	.
Cash and cash equivalents at end of period	**1,055**	**2,773**	**+162.8**	**1,055**	**2,773**	**+162.8**

2016 figures restated

Net cash provided by operating activities

- In the second quarter of 2017, the net cash provided by operating activities (total) increased by 16.7% to €2,313 million. The net cash provided by operating activities in continuing operations rose by 16.3% to €2,316 million due to a less significant increase in cash tied up in working capital. This figure included the components of the payments received from Dow Chemical as part of a patent dispute that fall under operating activities.
- The contribution of Covestro shares to Bayer Pension Trust e. V. in the amount of €504 million was a noncash transaction and, as such, did not result in on operating cash outflow.
- In the first half of 2017, the net cash provided by operating activities (total) declined by 4.5% to €3,154 million. The prior-year figure included inflows from the divestiture of Diabetes Care. The net cash provided by operating activities in continuing operations climbed by a substantial 23.5% to €3,142 million, due mainly to the improvement in EBITDA.

Net cash used in investing activities

- In the second quarter of 2017, cash outflows for property, plant and equipment and intangible assets were 19.2% lower at €476 million (Q2 2016: €589 million), and included €142 million (Q2 2016: €236 million) at Pharmaceuticals, €31 million (Q2 2016: €48 million) at Consumer Health, €135 million (Q2 2016: €164 million) at Crop Science, €5 million (Q2 2016: €6 million) at Animal Health and €92 million (Q2 2016: €80 million) at Covestro.
- In total we invested €818 million in primarily current financial assets (Q2 2016: €697 million in noncurrent and current financial assets).
- In the first half of 2017, cash outflows for property, plant and equipment and intangible assets fell by 6.4% to €891 million (H1 2016: €952 million), and included €294 million (H1 2016: €377 million) at Pharmaceuticals, €55 million (H1 2016: €87 million) at Consumer Health, €234 million (H1 2016: €261 million) at Crop Science, €11 million (H1 2016: €11 million) at Animal Health and €166 million (H1 2016: €126 million) at Covestro.
- Cash outflows for acquisitions in the amount of €158 million related to the acquisition of the Cydectin™ product portfolio in the United States in the Animal Health segment.
- Overall we invested €1,455 million in primarily current financial assets (H1 2016: €841 million particularly in noncurrent financial assets).

Net cash provided by (used in) financing activities

- In the second quarter of 2017, the net cash outflow for financing activities amounted to €549 million, with inflows of €1,045 million from the sale of Covestro shares and net borrowings of €1,014 million (Q2 2016: net loan repayments of €950 million) standing against dividend payments of €2,361 million (Q2 2016: €2,120 million).
- Net interest expense was €82 million higher at €247 million.
- The contribution of Covestro shares to Bayer Pension Trust e. V., in the amount of €504 million, was a noncash transaction and therefore did not result in a financing cash inflow.
- In the first half of 2017, there was a net cash inflow of €62 million for financing activities. There was a net inflow of €2,505 million from the sale of Covestro shares, while net borrowings came to €270 million (H1 2016: net loan repayments of €41 million). Cash outflows for dividend payments amounted to €2,361 million (H1 2016: €2,120 million).
- Net interest expense rose by €101 million to €352 million.

Liquid assets and net financial debt

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Net Financial Debt[1]

€ million	Dec. 31, 2016	March 31, 2017	June 30, 2017	Change vs. March 31, 2017 (%)
Bonds and notes / promissory notes	15,991	15,421	15,871	+ 2.9
of which hybrid bonds[2]	4,529	4,530	4,531	.
Liabilities to banks	1,837	1,846	1,756	– 4.9
Liabilities under finance leases	436	435	412	– 5.3
Liabilities from derivatives[3]	587	534	369	– 30.9
Other financial liabilities	730	751	797	+ 6.1
Receivables from derivatives[3]	(313)	(235)	(299)	+ 27.2
Financial liabilities	**19,268**	**18,752**	**18,906**	**+ 0.8**
Cash and cash equivalents	(1,899)	(2,224)	(2,773)	+ 24.7
Current financial assets[4]	(5,591)	(6,128)	(6,691)	+ 9.2
Net financial debt	**11,778**	**10,400**	**9,442**	**– 9.2**

[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”
[2] Classified as debt according to IFRS
[3] These include the market values of interest-rate and currency hedges of recorded transactions.
[4] These include short-term loans and receivables with maturities between 3 and 12 months outstanding from banks and other companies as well as available-for-sale financial assets that were recorded as current on initial recognition.

- Net financial debt of the Bayer Group decreased by €1.0 billion between March 31, 2017, and the end of the second quarter. Cash inflows from operating activities and positive currency effects offset the outflow for the dividend payment. The Group generated proceeds of approximately €1.0 billion from the sale of Covestro shares.
- Net financial debt includes three subordinated hybrid bonds with a total volume of €4.5 billion, 50% of which is treated as equity by Moody’s and S & P Global Ratings. The hybrid bonds thus have a more limited effect on the Group’s rating-specific debt indicators than senior debt.
- In April and June 2017, Bayer Holding Ltd., Japan, redeemed at maturity two bonds with nominal volumes of JPY 30 billion and JPY 10 billion issued under its debt issuance program. That company also issued two bonds with volumes of JPY 10 billion each in May 2017.
- In June 2017, Bayer AG issued debt instruments with a nominal value of €1.0 billion that will mature in 2020. These bonds can be redeemed in cash, Covestro shares or a combination of the two. The annual interest rate is 0.05%.

- Other financial liabilities as of June 30, 2017, included €657 million in connection with the mandatory convertible notes issued in November 2016.
- S & P Global Ratings and Moody's give Bayer long-term issuer ratings of A– and A3, respectively. The short-term ratings are A–2 (S & P Global Ratings) and P–2 (Moody's). These investment-grade ratings document good creditworthiness. In connection with the agreed acquisition of Monsanto, both rating agencies are currently reviewing the long-term issuer ratings with regard to a potential downgrade. In addition, Moody's is currently reviewing its short-term P–2 rating.

Asset and capital structure

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Bayer Group Summary Statements of Financial Position

€ million	Dec. 31, 2016	March 31, 2017	June 30, 2017	Change vs. March 31, 2017 (%)
Noncurrent assets	**51,791**	**51,664**	**49,988**	**−3.2**
Current assets	30,437	33,362	32,649	−2.1
Assets held for sale	10	28	3	−89.3
Total current assets	**30,447**	**33,390**	**32,652**	**−2.2**
Total assets	**82,238**	**85,054**	**82,640**	**−2.8**
Equity	**31,897**	**35,857**	**35,483**	**−1.0**
Noncurrent liabilities	31,804	29,625	28,397	−4.1
Current liabilities	18,537	19,572	18,760	−4.1
Liabilities	**50,341**	**49,197**	**47,157**	**−4.1**
Total equity and liabilities	**82,238**	**85,054**	**82,640**	**−2.8**

- Between March 31, 2017, and June 30, 2017, total assets decreased by €2.4 billion to €82.6 billion.
- Noncurrent assets decreased by €1.7 billion to €50.0 billion due particularly to currency effects. Total current assets declined by €0.7 billion to €32.7 billion.
- Equity decreased by €0.4 billion compared with March 31, 2017, to €35.5 billion. Income after income taxes of €1.5 billion was a positive factor here. The contribution of further Covestro AG shares to Bayer Pension Trust e. V. and the divestment of further Covestro AG shares had a total positive equity effect of €1.6 billion. On the other hand, the dividend payment reduced equity by €2.4 billion. Exchange rate differences – recognized outside profit or loss – reduced equity by €1.2 billion. The equity ratio (equity coverage of total assets) increased slightly to 42.9% as of June 30, 2017 (March 31, 2017: 42.2%).
- Liabilities decreased by €2.0 billion to €47.2 billion in the second quarter of 2017. Provisions for pensions and other post-employment benefits fell by €0.9 billion to €9.6 billion. The contribution of further Covestro AG shares to Bayer Pension Trust e. V. led to a €0.5 billion reduction in provisions. There were also actuarial gains of €0.3 billion due to higher discounting factors that were mainly attributable to a slight increase in long-term capital market interest rates for high-quality corporate bonds in Germany.

2. Research, Development, Innovation

Bayer Group expenses for research and development rose by 3.0% (Fx adj.) to €1,165 million in the second quarter of 2017, with the Life Science businesses accounting for €1,097 million (Fx adj. +2,6%) of this figure.

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Research and Development Expenses

	R&D expenses						R&D expenses before special items					
€ million	Q2 2016	Q2 2017	Change % Fx. adj.	H1 2016	H1 2017	Change % Fx. adj.	Q2 2016	Q2 2017	Change % Fx. adj.	H1 2016	H1 2017	Change % Fx. adj.
Pharmaceuticals	679	707	+3.5	1,379	1,419	+1.9	679	638	−6.6	1,346	1,317	−3.1
Consumer Health	71	65	−8.6	129	124	−5.5	60	59	−3.3	116	116	−2.1
Crop Science	272	275	−0.4	533	558	+2.6	265	273	+1.5	526	555	+3.5
Animal Health	34	38	+10.3	64	71	+9.2	34	38	+10.3	64	71	+9.2
Reconciliation	4	12	.	0	19	.	4	12	.	0	19	.
Total Life Sciences[1]	**1,060**	**1,097**	**+2.6**	**2,105**	**2,191**	**+2.8**	**1,042**	**1,020**	**−3.0**	**2,052**	**2,078**	**.**
Covestro	62	68	+9.7	126	132	+4.0	62	68	+9.7	126	132	+4.0
Total Group	**1,122**	**1,165**	**+3.0**	**2,231**	**2,323**	**+2.8**	**1,104**	**1,088**	**−2.4**	**2,178**	**2,210**	**+0.2**

Pharmaceuticals

We are conducting clinical trials with a number of drug candidates from our research and development pipeline.

The following table shows our most important drug candidates currently in Phase II of clinical testing:

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Research and Development Projects (Phase II)[1]

Projects	Indication
Anetumab ravtansine (mesothelin ADC)	Cancer
BAY 1142524 (chymase inhibitor)	Heart failure
BAY 1193397 (AR alpha 2c Rec Ant.)	Peripheral artery disease (PAD)
BAY 2306001 (IONIS-FXIRx)	Prevention of thrombosis[2]
Copanlisib (PI3K inhibitor)	Relapsed / refractory diffuse large B-cell lymphoma
Molidustat (HIF-PH inhibitor)	Renal anemia
Neladenoson bialanate (BAY 1067197)	Chronic heart failure
Nesvacumab (previously: Ang2 antibody) + aflibercept	Serious eye diseases[3]
Radium-223 dichloride	Breast cancer with bone metastases
Radium-223 dichloride	Cancer, various studies
Regorafenib	Cancer
Riociguat	Diffuse systemic sclerosis
Riociguat	Cystic fibrosis
Vilaprisan (S-PRM)	Endometriosis

[1] As of July 3, 2017
[2] Sponsored by Ionis Pharmaceuticals, Inc.
[3] Sponsored by Regeneron Pharmaceuticals, Inc.
The nature of drug discovery and development is such that not all compounds can be expected to meet the predefined project goals. It is possible that any or all of the projects listed above may have to be discontinued due to scientific and / or commercial reasons and will not result in commercialized products. It is also possible that the requisite U.S. Food and Drug Administration (FDA), European Medicines Agency (EMA) or other regulatory approvals will not be granted for these compounds. Moreover, we regularly review our research and development pipeline so that we can give priority to advancing the most promising pharmaceuticals projects.

Based on the results of the GEMINI trial conducted by Janssen Research & Development, LLC, which had investigated rivaroxaban (tradename: Xarelto™) used in connection with a single antiplatelet therapy (SAPT) for the secondary prophylaxis of acute coronary syndrome (ACS), the decision was made to no longer pursue the development of rivaroxaban in this indication.

The following table shows our most important drug candidates currently in Phase III of clinical testing:

A 23

Research and Development Projects (Phase III) [1]

Projects	Indication
Amikacin Inhale	Pulmonary infection
Ciprofloxacin DPI	Non-cystic fibrosis bronchiectasis
Copanlisib (PI3K inhibitor)	Various forms of non-Hodgkin lymphoma (NHL)
Damoctocog alfa pegol (BAY 94-9027, long-acting rFVIII)	Hemophilia A
Darolutamide (previously: ODM-201, AR antagonist)	Nonmetastatic castration-resistant prostate cancer
Darolutamide (previously: ODM-201, AR antagonist)	Metastatic hormone-sensitive prostate cancer
Finerenone (MR antagonist)	Diabetic kidney disease
Radium-223 dichloride	Combination treatment of castration-resistant prostate cancer
Regorafenib	Colon cancer, adjuvant therapy
Rivaroxaban	Prevention of major adverse cardiac events (MACE)
Rivaroxaban	Anticoagulation in patients with chronic heart failure [2]
Rivaroxaban	Prevention of venous thromboembolism in high-risk patients after discharge from hospital [2]
Rivaroxaban	Embolic stroke of undetermined source (ESUS)
Rivaroxaban	Peripheral artery disease (PAD)
Tedizolid	Pulmonary infection
Vericiguat (BAY 1021189, sGC stimulator)	Chronic heart failure [3]
Vilaprisan (S-PRM)	Symptomatic uterine fibroids

[1] As of July 03, 2017
[2] Sponsored by Janssen Research & Development, LLC
[3] Sponsored by Merck & Co., Inc., USA
The nature of drug discovery and development is such that not all compounds can be expected to meet the predefined project goals. It is possible that any or all of the projects listed above may have to be discontinued due to scientific and / or commercial reasons and will not result in commercialized products. It is also possible that the requisite U.S. Food and Drug Administration (FDA), European Medicines Agency (EMA) or other regulatory approvals will not be granted for these compounds. Moreover, we regularly review our research and development pipeline so that we can give priority to advancing the most promising pharmaceuticals projects.

In July 2017, Bayer initiated the Phase III clinical trial program ASTEROID, which is investigating the development candidate vilaprisan in women with symptomatic uterine fibroids. The product of Bayer's research efforts, vilaprisan is a novel oral and selective progesterone receptor modulator that is aimed at treating uterine fibroids long term.

The most important drug candidates in the approval process are:

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Main Products Submitted for Approval[1]

Projects	Indication
Copanlisib (PI3K inhibitor)	USA: Recurrent / resistant non-Hodgkin lymphoma (NHL)
Regorafenib	Europe: second-line treatment for unresectable liver cancer
Rivaroxaban	Europe, U.S.A.: long-term prevention of venous thromboembolic events
Rivaroxaban[2]	U.S.A.: secondary prophylaxis of acute coronary syndrome (ACS), Rivaroxaban in combination with dual antiplatelet therapy (DAPT); ATLAS trial

[1] As of July 3, 2017
[2] Submitted by Janssen Research & Development, LLC

In April 2017, Bayer and its development partner Janssen Research & Development submitted an additional dose option for the oral Factor Xa inhibitor rivaroxaban (tradename: Xarelto™) to the U.S. Food and Drug Administration (FDA), seeking an expansion of indications. The application is supported by data from the EINSTEIN CHOICE trial. The new dose of 10mg of rivaroxaban once a day is to supplement the current therapy of 20mg once a day and is intended for use as an anticoagulation therapy to reduce the risk of recurrent venous thromboembolism after at least six months of standard therapy with anticoagulants.

In May 2017, the FDA granted priority review status to the development candidate copanlisib in the registration process, based on the Phase II data presented in the first quarter of 2017. The substance is being reviewed for the treatment of relapsed or refractory follicular lymphoma.

In April and June 2017, Bayer received approvals from the FDA and Japanese Ministry of Health, Labour and Welfare (MHLW) for the use of its oral multikinase inhibitor Stivagra™ (active ingredient: regorafenib) for the second-line treatment of patients with hepatocellular carcinoma who previously had been treated with Nexavar™ (active ingredient: sorafenib). Stivarga™ is the first drug product to show a significant improvement in overall survival in the second-line treatment of patients with hepatocellular carcinoma.

In June 2017, the European Committee for Medicinal Products for Human Use recommended the approval of Bayer's cancer drug Stivarga™ (active ingredient: regorafenib) for the treatment of adult patients with hepatocellular carcinoma in the European Union who had previously been treated with Nexavar™ (active ingredient: sorafenib). The European Commission is expected to make a decision in the third quarter of 2017.

Collaborations

On April 6, 2017, Bayer decided to not exercise its option to further develop and market Wnt signaling pathway inhibitors, a class of biologics, as part of its collaboration with OncoMed Pharmaceuticals Inc., United States.

Crop Science

In April 2017, we received regulatory approval for the biological nematicide BioAct™ Prime DC in Greece. The new substance is intended for use in a variety of fruit and vegetables and directly targets eggs and larvae from nematode pests. The product is scheduled to be launched in Greece in 2017 and there are plans to gain approvals in other European countries, too.

In June 2017, Bayer and KWS SAAT SE, Germany – in line with their research cooperation which began in 2012 – granted a long-term license to the Belgian company SESVanderHave for their new CONVISO™SMART sugar beet cultivation system. The technology, which is based on conventionally cultivated sugar beet varieties that are tolerant to certain herbicides, makes weed management easier. It will initially be made available to farmers in 2018, mainly in Eastern and Northern Europe, and is to be introduced in the following years in Germany, France and Poland, among other countries.

We also signed a two-year research agreement with the Shanghai Institutes for Biological Sciences (SIBS) of the Chinese Academy of Sciences in June 2017. The purpose of the agreement is to increase wheat yields using new mathematical models and computer simulations for more efficient photosynthesis. The improvement in photosynthesis is considered to be a promising approach to considerably increasing plant productivity.

In June 2017, Bayer also signed an agreement with the Sumitomo Chemical Company, which is headquartered in Tokyo, Japan, for fungicide mixes used to control soybean diseases in Brazil. The companies plan to develop an effective substance to control widespread plant diseases such as soybean rust by combining a new fungicide produced by Sumitomo Chemical with established Bayer fungicides. Both companies expect to file a product registration application at the end of 2017.

Covestro

Covestro and its partners have developed a new procedure for producing the basic chemical aniline using industrial sugar. The chemical is used in the production of plastics. This means that benzene, a raw material derived from crude oil, can be replaced by biomass. The laboratory-tested procedure is now to be transferred to a larger pilot facility with the goal of manufacturing aniline on an industrial scale using renewable raw materials.

3. Report on Future Perspectives and on Opportunities and Risks

3.1 Future Perspectives

3.1.1 Economic Outlook

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Economic Outlook[1]

	Growth 2016	Growth forecast 2017
World	+ 2.5%	+ 3.0%
European Union	+ 1.8%	+ 1.9%
of which Germany	+ 1.8%	+ 2.0%
United States	+ 1.6%	+ 2.3%
Emerging Markets[2]	+ 3.8%	+ 4.5%

2016 figures restated
[1] Real growth of gross domestic product, source: IHS Global Insight
[2] Including about 50 countries defined by IHS Global Insight as emerging markets in line with the World Bank
As of June 2017

The economic prospects further improved in the first half of 2017, and the global economy is likely to expand at a faster pace than in the previous year. In the United States, particularly, we expect more favorable economic development. We now expect a slightly faster pace of growth in the European Union despite uncertainty surrounding future political development there. Economic output in the Emerging Markets will probably pick up considerably overall compared with the previous year. We continue to expect strong growth in China but at a slightly slower pace.

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Economic Outlook for the Segments[1]

	Growth 2016	Growth forecast 2017
Pharmaceuticals market	+ 5%	+ 4%
Consumer health market	+ 4%	+ 3 – 4%
Seed and crop protection market	0%	+ 1%
Animal health market	+ 5%	+ 5%

2016 figures restated
[1] Bayer's estimate, except pharmaceuticals; source for pharmaceuticals market: 2017-2021 IMS Market Prognosis, Latest Update May 2017; all rights reserved; currency-adjusted
As of June 2017

In 2017, Covestro expects a continuation of the growth trend in its main customer industries – construction, electrical engineering and electronics, and furniture. Growth in the automotive industry is still expected to be weaker than in the previous year.

3.1.2 Corporate Outlook

Due to the current business and currency development, we are adjusting our forecast for the fiscal year 2017.

The forecast for the second half is based on the exchange rates as of June 30, 2017, including a rate of US$1.14 (previously: US$1.07) to the euro. A 1% appreciation (depreciation) of the euro against all other currencies would decrease (increase) sales on an annual basis by €300 million and EBITDA before special items by €80 million.

This results in the following changes overall for the Bayer Group: Sales are now expected to increase to more than €49 billion (previously: around €51 billion). This now corresponds to a mid-single-digit (previously: mid- to high-single-digit) percentage increase on a currency- and portfolio-adjusted basis. EBITDA before special items is now targeted to increase by a high-single-digit percentage (previously: low-teens percentage). We now aim to grow core earnings per share from continuing operations by a low- to mid-single-digit percentage (previously: mid- to high-single-digit percentage). Here it must be noted that Bayer's interest in Covestro amounts to only 41% as of June 2017 (previously: 53%). Excluding capital and portfolio measures, net financial debt is targeted to be around €7 billion at the end of 2017 (previously: around €8 billion).

We are now budgeting for sales of between €35 billion and €36 billion (previously: approximately €37 billion) for our Life Science businesses. This corresponds to a low-single-digit percentage (previously: mid-single-digit percentage) increase on a currency- and portfolio-adjusted basis. We expect EBITDA before special items to come in slightly above the level of the previous year (previously: rise by a mid- to high-single-digit percentage).

Despite negative currency development, we confirm the forecast we published in February for Pharmaceuticals and continue to expect sales of more than €17 billion. This corresponds to a mid-single-digit percentage increase on a currency- and portfolio-adjusted basis. As before, we plan to raise sales of our key growth products to more than €6 billion. We continue to expect a high-single-digit percentage increase in EBITDA before special items. There is no change in our expectation of further improving the EBITDA margin before special items.

For Consumer Health, we forecast a weak second half of the year and now expect to generate full-year sales of about €6 billion (previously: more than €6 billion). This would be in line with the prior-year level on both a reported and a currency- and portfolio-adjusted basis (previously: low- to mid-single-digit percentage increase on a currency- and portfolio-adjusted basis). We now expect EBITDA before special items to decline by a high-single-digit percentage (previously: increase by a low- to mid-single-digit percentage).

We are now budgeting for sales of below €10 billion (previously: more than €10 billion) for Crop Science. This corresponds to low-single-digit-percentage decline on a currency- and portfolio-adjusted basis (previously: low-single-digit percentage increase). We now expect EBITDA before special items to decline by a mid-teens percentage (previously: at the prior-year level).

We confirm the forecasts published in February and April 2017 for Animal Health, the Reconciliation and Covestro. This also applies to the forecasts for the other key data.

3.2 Opportunities and risks

As a global enterprise with a diversified portfolio, the Bayer Group is exposed to a wide range of internal or external developments and events that could significantly impact the achievement of our financial and nonfinancial objectives.

Bayer regards opportunity and risk management as an integral part of corporate governance. Our risk management process and the opportunities / risks are outlined in detail in the Annual Report 2016 (Combined Management Report, A 3.2 "Opportunity and Risk Report"). For risks related to the acquisition of Monsanto Company, United States, we refer specifically to A 3.2.3 "Planned Acquisition of Monsanto." There have been no material changes to Bayer's overall risk situation.

From the current perspective, no risks have been identified that could endanger the Bayer Group's continued existence. There are also no risks with mutually reinforcing dependencies that could combine to endanger the Group's continued existence.

Significant developments that have occurred in respect of the legal risks since publication of the Bayer Annual Report 2016 (Note [32] to the Consolidated Financial Statements) are described in the Notes to the Condensed Consolidated Interim Financial Statements under "Legal Risks."

Condensed Consolidated Interim Financial Statements as of June 30, 2017

Bayer Group Consolidated Income Statements

B 1

€ million	Q2 2016	Q2 2017	H1 2016	H1 2017
Net sales	**11,833**	**12,193**	**23,687**	**25,437**
Cost of goods sold	(5,028)	(5,119)	(10,072)	(10,464)
Gross profit	**6,805**	**7,074**	**13,615**	**14,973**
Selling expenses	(3,092)	(3,175)	(5,980)	(6,188)
Research and development expenses	(1,122)	(1,165)	(2,231)	(2,323)
General administration expenses	(489)	(608)	(984)	(1,180)
Other operating income	159	271	362	446
Other operating expenses	(123)	(246)	(324)	(461)
EBIT [1]	**2,138**	**2,151**	**4,458**	**5,267**
Equity-method loss	(6)	(11)	(11)	(24)
Financial income	42	101	79	136
Financial expenses	(350)	(495)	(697)	(866)
Financial result	**(314)**	**(405)**	**(629)**	**(754)**
Income before income taxes	**1,824**	**1,746**	**3,829**	**4,513**
Income taxes	(431)	(417)	(905)	(1,012)
Income from continuing operations after income taxes	**1,393**	**1,329**	**2,924**	**3,501**
Income from discontinued operations after income taxes	**55**	**148**	**105**	**247**
Income after income taxes	**1,448**	**1,477**	**3,029**	**3,748**
of which attributable to noncontrolling interest	68	253	138	441
of which attributable to Bayer AG stockholders (net income)	**1,380**	**1,224**	**2,891**	**3,307**

€				
Earnings per share				
From continuing operations				
Basic	1.60	1.23	3.37	3.51
Diluted	1.60	1.23	3.37	3.51
From discontinued operations				
Basic	0.07	0.17	0.13	0.28
Diluted	0.07	0.17	0.13	0.28
From continuing and discontinued operations				
Basic	1.67	1.40	3.50	3.79
Diluted	1.67	1.40	3.50	3.79

[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

Bayer Group Consolidated Statements of Comprehensive Income

B 2

€ million	Q2 2016	Q2 2017	H1 2016	H1 2017
Income after income taxes	**1,448**	**1,477**	**3,029**	**3,748**
of which attributable to noncontrolling interest	68	253	138	441
of which attributable to Bayer AG stockholders	1,380	1,224	2,891	3,307
Remeasurements of the net defined benefit liability for post-employment benefit plans	(844)	300	(3,407)	905
Income taxes	235	(132)	991	(327)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**(609)**	**168**	**(2,416)**	**578**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**(609)**	**168**	**(2,416)**	**578**
Changes in fair values of derivatives designated as cash flow hedges	(129)	10	(76)	(78)
Reclassified to profit or loss	(19)	(27)	(35)	27
Income taxes	49	8	49	23
Other comprehensive income from cash flow hedges	**(99)**	**(9)**	**(62)**	**(28)**
Changes in fair values of available-for-sale financial assets	14	(27)	26	(34)
Reclassified to profit or loss	–	–	–	–
Income taxes	(5)	(1)	(9)	8
Other comprehensive income from available-for-sale financial assets	**9**	**(28)**	**17**	**(26)**
Changes in exchange differences recognized on translation of operations outside the eurozone	301	(1,213)	(208)	(1,384)
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	**301**	**(1,213)**	**(208)**	**(1,384)**
Other comprehensive income relating to associates accounted for using the equity method	**(6)**	**40**	**12**	**47**
Other comprehensive income that may be reclassified subsequently to profit or loss	**205**	**(1,210)**	**(241)**	**(1,391)**
Total other comprehensive income [1]	**(404)**	**(1,042)**	**(2,657)**	**(813)**
of which attributable to noncontrolling interest	(9)	(86)	(110)	(63)
of which attributable to Bayer AG stockholders	(395)	(956)	(2,547)	(750)
Total comprehensive income	**1,044**	**435**	**372**	**2,935**
of which attributable to noncontrolling interest	59	167	28	378
of which attributable to Bayer AG stockholders	985	268	344	2,557

[1] Total changes recognized outside profit or loss

Bayer Group Consolidated Statements of Financial Position

B 3

€ million	June 30, 2016	June 30, 2017	Dec. 31, 2016
Noncurrent assets			
Goodwill	15,982	15,823	16,312
Other intangible assets	14,167	12,685	13,567
Property, plant and equipment	12,275	12,672	13,114
Investments accounted for using the equity method	505	548	584
Other financial assets	1,246	1,402	1,281
Other receivables	398	526	583
Deferred taxes	6,238	6,332	6,350
	50,811	**49,988**	**51,791**
Current assets			
Inventories	8,334	8,459	8,408
Trade accounts receivable	11,792	12,077	10,969
Other financial assets	913	7,233	6,275
Other receivables	2,074	1,652	2,210
Claims for income tax refunds	495	455	676
Cash and cash equivalents	1,055	2,773	1,899
Assets held for sale	–	3	10
	24,663	**32,652**	**30,447**
Total assets	**75,474**	**82,640**	**82,238**
Equity			
Capital stock	2,117	2,117	2,117
Capital reserves	6,167	9,658	9,658
Other reserves	14,435	20,875	18,558
Equity attributable to Bayer AG stockholders	**22,719**	**32,650**	**30,333**
Equity attributable to noncontrolling interest	1,316	2,833	1,564
	24,035	**35,483**	**31,897**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	13,838	9,618	11,134
Other provisions	1,586	1,631	1,780
Financial liabilities	16,488	14,168	16,180
Income tax liabilities	387	505	423
Other liabilities	1,095	985	957
Deferred taxes	989	1,490	1,330
	34,383	**28,397**	**31,804**
Current liabilities			
Other provisions	5,243	5,631	5,421
Financial liabilities	3,220	5,037	3,401
Trade accounts payable	5,055	5,211	6,410
Income tax liabilities	983	935	884
Other liabilities	2,537	1,946	2,421
Liabilities directly related to assets held for sale	18	–	–
	17,056	**18,760**	**18,537**
Total equity and liabilities	**75,474**	**82,640**	**82,238**

Bayer Group Consolidated Statements of Cash Flows

B 4

€ million	Q2 2016	Q2 2017	H1 2016	H1 2017
Income from continuing operations after income taxes	1,393	1,329	2,924	3,501
Income taxes	431	417	905	1,012
Financial result	314	405	629	754
Income taxes paid	(621)	(524)	(1,099)	(1,046)
Depreciation, amortization and impairments	814	832	1,853	1,562
Change in pension provisions	(112)	(65)	(211)	(119)
(Gains) losses on retirements of noncurrent assets	(3)	(24)	(5)	(81)
Decrease (increase) in inventories	190	(12)	71	(269)
Decrease (increase) in trade accounts receivable	170	280	(1,498)	(1,690)
(Decrease) increase in trade accounts payable	39	(290)	(854)	(984)
Changes in other working capital, other noncash items	(623)	(32)	(171)	502
Net cash provided by (used in) operating activities from continuing operations	**1,992**	**2,316**	**2,544**	**3,142**
Net cash provided by (used in) operating activities from discontinued operations	(10)	(3)	760	12
Net cash provided by (used in) operating activities (total)	**1,982**	**2,313**	**3,304**	**3,154**
Cash outflows for additions to property, plant, equipment and intangible assets	(589)	(476)	(952)	(891)
Cash inflows from the sale of property, plant, equipment and other assets	18	19	39	73
Cash inflows from divestitures	8	54	8	54
Cash inflows from (outflows for) noncurrent financial assets	(356)	(42)	(608)	(96)
Cash outflows for acquisitions less acquired cash	–	–	2	(158)
Interest and dividends received	15	43	37	63
Cash inflows from (outflows for) current financial assets	(341)	(776)	(233)	(1,359)
Net cash provided by (used in) investing activities (total)	**(1,245)**	**(1,178)**	**(1,707)**	**(2,314)**
Proceeds from shares of Covestro AG	–	1,045	–	2,505
Dividend payments	(2,120)	(2,361)	(2,120)	(2,361)
Issuances of debt	3,346	1,424	7,668	1,716
Retirements of debt	(4,296)	(410)	(7,709)	(1,446)
Interest paid including interest-rate swaps	(199)	(275)	(300)	(389)
Interest received from interest-rate swaps	34	28	49	37
Cash outflows for the purchase of additional interests in subsidiaries	–	–	–	–
Net cash provided by (used in) financing activities (total)	**(3,235)**	**(549)**	**(2,412)**	**62**
Change in cash and cash equivalents due to business activities (total)	**(2,498)**	**586**	**(815)**	**902**
Cash and cash equivalents at beginning of period	**3,552**	**2,224**	**1,859**	**1,899**
Change in cash and cash equivalents due to changes in scope of consolidation	(1)	–	(2)	–
Change in cash and cash equivalents due to exchange rate movements	2	(37)	13	(28)
Cash and cash equivalents at end of period	**1,055**	**2,773**	**1,055**	**2,773**

2016 figures restated

Bayer Group Consolidated Statements of Changes in Equity

B 5

€ million	Capital stock	Capital reserves	Other reserves	Equity attributable to Bayer AG stockholders	Equity attributable to non-controlling interest	Equity
Dec. 31, 2015	**2,117**	**6,167**	**15,981**	**24,265**	**1,180**	**25,445**
Equity transactions with owners						
Capital increase / decrease						
Dividend payments			(2,067)	(2,067)	(52)	(2,119)
Other changes			177	177	160	337
Total comprehensive income			344	344	28	372
June 30, 2016	**2,117**	**6,167**	**14,435**	**22,719**	**1,316**	**24,035**
Dec. 31, 2016	**2,117**	**9,658**	**18,558**	**30,333**	**1,564**	**31,897**
Equity transactions with owners						
Capital increase / decrease						
Dividend payments			(2,233)	(2,233)	(129)	(2,362)
Other changes			1,993	1,993	1,020	3,013
Total comprehensive income			2,557	2,557	378	2,935
June 30, 2017	**2,117**	**9,658**	**20,875**	**32,650**	**2,833**	**35,483**

Notes to the Condensed Consolidated Interim Financial Statements of the Bayer Group as of June 30, 2017

Key Data by Segment and Region

B 6

Key Data by Segment

	Pharmaceuticals		Consumer Health		Crop Science		Animal Health	
€ million	Q2 2016	Q2 2017	Q2 2016	Q2 2017	Q2 2016	Q2 2017	Q2 2016	Q2 2017
Net sales (external)	4,104	4,304	1,553	1,542	2,518	2,163	426	450
Change [1]	+5.5%	+4.9%	−2.3%	−0.7%	−4.5%	−14.1%	−0.5%	+5.6%
Currency-adjusted change [1]	+8.4%	+4.4%	+4.0%	−2.2%	+0.7%	−15.8%	+4.2%	+4.0%
Intersegment sales	8	11	3	4	8	8	1	1
Net sales (total)	4,112	4,315	1,556	1,546	2,526	2,171	427	451
EBIT [1]	988	1,102	190	195	512	117	93	107
EBIT before special items [1]	999	1,222	222	210	542	212	93	107
EBITDA before special items [1]	1,352	1,481	328	314	663	317	100	116
Net cash provided by operating activities	310	528	241	297	1,088	1,170	48	97
Depreciation, amortization, impairment losses / loss reversals	354	372	107	112	121	116	7	9

[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

B 6 continued

Key Data by Segment

	All Other Segments		Reconciliation: Corporate Functions and Consolidation		Life Sciences		Covestro		Group	
€ million	Q2 2016	Q2 2017	Q2 2016	Q2 2017	Q2 2016	Q2 2017	Q2 2016	Q2 2017	Q2 2016	Q2 2017
Net sales (external)	256	252	1	3	8,858	8,714	2,975	3,479	11,833	12,193
Change [1]	−6.2%	−1.6%	–	–	+0.5%	−1.6%	−6.6%	+16.9%	−1.4%	+3.0%
Currency-adjusted change [1]	−5.5%	−0.8%	–	–	+4.7%	−2.7%	−3.9%	+15.8%	+2.4%	+2.0%
Intersegment sales	478	508	(516)	(551)	–	–	18	19	–	–
Net sales (total)	734	760	(515)	(548)	–	–	2,993	3,498	11,833	12,193
EBIT [1]	18	45	(30)	(103)	1,771	1,463	367	688	2,138	2,151
EBIT before special items [1]	40	58	(21)	(102)	1,875	1,707	367	649	2,242	2,356
EBITDA before special items [1]	88	118	(20)	(99)	2,511	2,247	543	809	3,054	3,056
Net cash provided by operating activities	170	(74)	(174)	(117)	1,683	1,901	309	415	1,992	2,316
Depreciation, amortization, impairment losses / loss reversals	48	60	1	3	638	672	176	160	814	832

[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

B 7

Key Data by Segment

	Pharmaceuticals		Consumer Health		Crop Science		Animal Health	
€ million	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017
Net sales (external)	7,993	8,567	3,073	3,143	5,454	5,283	834	890
Change [1]	+7.3%	+7.2%	–2.3%	+2.3%	–3.3%	–3.1%	+2.5%	+6.7%
Currency-adjusted change [1]	+10.2%	+5.8%	+3.1%	+0.2%	+1.0%	–5.4%	+6.4%	+4.4%
Intersegment sales	15	21	4	9	17	16	2	2
Net sales (total)	8,008	8,588	3,077	3,152	5,471	5,299	836	892
EBIT [1]	1,686	2,321	433	473	1,467	1,087	207	233
EBIT before special items [1]	1,928	2,477	497	497	1,500	1,219	208	233
EBITDA before special items [1]	2,613	2,983	711	706	1,752	1,432	222	251
Net cash provided by operating activities	1,044	1,501	438	562	422	491	28	66
Depreciation, amortization, impairment losses/loss reversals	917	652	228	218	252	237	14	18
Number of employees (as of June 30) [2]	40,197	37,999	13,085	11,898	22,839	20,969	3,859	3,621

[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”
[2] Full-time equivalents

B 7 continued

Key Data by Segment

	Reconciliation									
	All Other Segments		Corporate Functions and Consolidation		Life Sciences		Covestro		Group	
€ million	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017
Net sales (external)	506	504	2	7	17,862	18,394	5,825	7,043	23,687	25,437
Change [1]	–6.5%	–0.4%	–	–	+1.5%	+3.0%	–6.0%	+20.9%	–0.5%	+7.4%
Currency-adjusted change [1]	–5.9%	+0.6%	–	–	+5.3%	+1.2%	–4.3%	+19.6%	+2.8%	+5.7%
Intersegment sales	903	1,218	(980)	(1,307)	–	–	39	41	–	–
Net sales (total)	1,409	1,722	(978)	(1,300)	–	–	5,864	7,084	23,687	25,437
EBIT [1]	21	19	(59)	(243)	3,755	3,890	703	1,377	4,458	5,267
EBIT before special items [1]	46	50	(48)	(240)	4,131	4,236	703	1,321	4,834	5,557
EBITDA before special items [1]	141	163	(45)	(234)	5,394	5,301	1,047	1,648	6,441	6,949
Net cash provided by operating activities	167	(241)	(33)	73	2,066	2,452	478	690	2,544	3,142
Depreciation, amortization, impairment losses/loss reversals	95	113	3	6	1,509	1,244	344	318	1,853	1,562
Number of employees (as of June 30) [2]	19,114	24,640	752	593	99,846	99,720	15,730	15,960	115,576	115,680

[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”
[2] Full-time equivalents

B 8

Key Data by Region

€ million	Europe / Middle East / Africa Q2 2016	Europe / Middle East / Africa Q2 2017	North America Q2 2016	North America Q2 2017	Asia / Pacific Q2 2016	Asia / Pacific Q2 2017
Net sales (external) – by market	4,599	4,806	3,417	3,591	2,816	3,156
Change [1]	+0.0%	+4.5%	−4.8%	+5.1%	+3.1%	+12.1%
Currency-adjusted change [1]	+3.2%	+4.2%	−2.0%	+3.0%	+6.6%	+11.3%
Net sales (external) – by point of origin	4,811	5,059	3,332	3,477	2,758	3,101
Change [1]	+0.5%	+5.2%	−5.9%	+4.4%	+3.2%	+12.4%
Currency-adjusted change [1]	+3.5%	+4.9%	−3.1%	+2.1%	+6.8%	+11.6%
Interregional sales	2,712	2,699	1,078	1,105	229	296
EBIT [1]	1,391	1,601	431	408	336	530

2016 figures restated
[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

B 8 continued

Key Data by Region

€ million	Latin America Q2 2016	Latin America Q2 2017	Reconciliation Q2 2016	Reconciliation Q2 2017	Total Q2 2016	Total Q2 2017
Net sales (external) – by market	1,001	640	–	–	11,833	12,193
Change [1]	−7.7%	−36.1%	–	–	−1.4%	+3.0%
Currency-adjusted change [1]	+2.9%	−37.9%	–	–	+2.4%	+2.0%
Net sales (external) – by point of origin	932	556	–	–	11,833	12,193
Change [1]	−6.9%	−40.3%	–	–	−1.4%	+3.0%
Currency-adjusted change [1]	+4.7%	−42.1%	–	–	+2.4%	+2.0%
Interregional sales	128	129	(4,147)	(4,229)	–	–
EBIT [1]	10	(285)	(30)	(103)	2,138	2,151

2016 figures restated
[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

B 9

Key Data by Region

€ million	Europe / Middle East / Africa H1 2016	Europe / Middle East / Africa H1 2017	North America H1 2016	North America H1 2017	Asia / Pacific H1 2016	Asia / Pacific H1 2017
Net sales (external) – by market	9,627	10,219	6,839	7,346	5,352	6,312
Change [1]	+ 1.0%	+ 6.1%	− 1.3%	+ 7.4%	+ 2.5%	+ 17.9%
Currency-adjusted change [1]	+ 3.6%	+ 5.8%	0.0%	+ 4.3%	+ 4.9%	+ 16.3%
Net sales (external) – by point of origin	10,014	10,714	6,690	7,141	5,244	6,181
Change [1]	+ 1.2%	+ 7.0%	− 2.1%	+ 6.7%	+ 3.0%	+ 17.9%
Currency-adjusted change [1]	+ 3.8%	+ 6.6%	− 0.8%	+ 3.5%	+ 5.4%	+ 16.2%
Interregional sales	5,377	5,552	2,122	2,213	427	545
EBIT [1]	2,977	3,643	920	1,077	568	1,126
Number of employees (as of June 30) [2]	59,213	60,638	16,106	15,719	27,697	27,239

2016 figures restated
[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”
[2] Full-time equivalents

B 9 continued

Key Data by Region

€ million	Latin America H1 2016	Latin America H1 2017	Reconciliation H1 2016	Reconciliation H1 2017	Total H1 2016	Total H1 2017
Net sales (external) – by market	1,869	1,560	–	–	23,687	25,437
Change [1]	− 11.5%	− 16.5%	–	–	− 0.5%	+ 7.4%
Currency-adjusted change [1]	+ 3.1%	− 19.2%	–	–	+ 2.8%	+ 5.7%
Net sales (external) – by point of origin	1,739	1,401	–	–	23,687	25,437
Change [1]	− 12.1%	− 19.4%	–	–	− 0.5%	+ 7.4%
Currency-adjusted change [1]	+ 3.7%	− 22.1%	–	–	+ 2.8%	+ 5.7%
Interregional sales	199	217	(8,125)	(8,527)	–	–
EBIT [1]	52	(336)	(59)	(243)	4,458	5,267
Number of employees (as of June 30) [2]	12,560	12,084	–	–	115,576	115,680

2016 figures restated
[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”
[2] Full-time equivalents

Explanatory Notes

Accounting policies

The consolidated interim financial statements as of June 30, 2017, were prepared in condensed form in compliance with IAS 34 according to the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, which are endorsed by the European Union, and the Interpretations of the IFRS Interpretations Committee in effect at the closing date.

Reference should be made as appropriate to the Notes to the Consolidated Financial Statements for the 2016 fiscal year, particularly with regard to the main recognition and valuation principles.

Published financial reporting standards that have not yet been applied

IFRS 15 (Revenue from Contracts with Customers) is the new standard for revenue recognition that is to be applied for annual reporting periods beginning on or after January 1, 2018.

Bayer will implement IFRS 15 on the basis of the modified retrospective method, accounting for the aggregate amount of any transition effects by way of an adjustment to retained earnings as of January 1, 2018, and presenting the comparative period in line with previous rules. All of the established business models for the Bayer Group's Life Science divisions were examined in the course of the implementation project. The previous assessment that the new standard is not expected to materially affect the timing of revenue recognition for the transactions concerned or their components has been confirmed for companies examined since then. The analysis has not yet been completed in a number of material consolidated companies. Possible but currently not quantifiable effects in the Covestro segment can result with regard to the timing of revenue recognition for certain storage agreements, a number of customer-specific products and the provision of services such as transport or freight services. Furthermore, the evaluation of certain individual licensing agreements has not yet been completed for Bayer. With regard to total Group sales, there are indications of immaterial transition effects due to the different accounting of milestone payments in connection with right-to-access licenses that would result in an increase in retained earnings on the transition date. IFRS 15 clarifies the allocation of individual topics to (new) line items in the statement of financial position and to functional cost items in the income statement, and whether gross or net amounts are to be presented. Determination of the effects on the level of sales or selling expenses has not yet been completed. Based on current knowledge, however, we do not anticipate any material effects on these items. Overall, based on current knowledge, we do not anticipate any material effects on the presentation of the Life Science businesses' financial position or results of operations, or on earnings per share. A similar statement concerning the Covestro segment cannot yet be made at the present point in time.

Changes in underlying parameters

Changes in the underlying parameters relate primarily to currency exchange rates and the interest rates used to calculate pension obligations.

The exchange rates for major currencies against the euro varied as follows:

B 10

Exchange Rates for Major Currencies

		Closing rate			Average rate	
€1		Dec. 31, 2016	June 30, 2016	June 30, 2017	H1 2016	H1 2017
BRL	Brazil	3.43	3.59	3.76	4.13	3.43
CAD	Canada	1.42	1.44	1.48	1.48	1.44
CHF	Switzerland	1.07	1.09	1.09	1.10	1.08
CNY	China	7.35	7.40	7.73	7.30	7.42
GBP	United Kingdom	0.86	0.83	0.88	0.78	0.86
JPY	Japan	123.36	114.05	127.72	124.50	121.60
MXN	Mexico	21.78	20.63	20.57	20.12	20.99
RUB	Russia	64.30	71.52	67.47	78.07	62.69
USD	United States	1.05	1.11	1.14	1.12	1.08

The most important interest rates used to calculate the present value of pension obligations are given below:

B 11

Discount Rate for Pension Obligations

%	Dec. 31, 2016	March 31, 2017	June 30, 2017
Germany	1.80	1.90	2.00
United Kingdom	2.65	2.55	2.60
United States	3.70	3.80	3.50

Segment reporting

Since January 1, 2016, the Bayer Group has comprised the five reportable segments Pharmaceuticals, Consumer Health, Crop Science, Animal Health and Covestro.

The following table shows the reconciliation of EBITDA before special items of the above-mentioned segments and the reconciliation to income before income taxes of the Group:

B 12

Reconciliation of Segments' EBITDA Before Special Items to Group Income Before Income Taxes

€ million	Q2 2016	Q2 2017	H1 2016	H1 2017
EBITDA before special items of segments	3,074	3,155	6,486	7,183
EBITDA before special items of Corporate Functions and Consolidation	(20)	(99)	(45)	(234)
EBITDA before special items [1]	**3,054**	**3,056**	**6,441**	**6,949**
Depreciation, amortization and impairment losses before special items of segments	(811)	(697)	(1,604)	(1,386)
Depreciation, amortization and impairment losses before special items of Corporate Functions and Consolidation	(1)	(3)	(3)	(6)
Depreciation, amortization and impairment losses before special items	**(812)**	**(700)**	**(1,607)**	**(1,392)**
EBIT before special items of segments	2,263	2,458	4,882	5,797
EBIT before special items of Corporate Functions and Consolidation	(21)	(102)	(48)	(240)
EBIT before special items [1]	**2,242**	**2,356**	**4,834**	**5,557**
Special items of segments	(95)	(204)	(365)	(287)
Special items of Corporate Functions and Consolidation	(9)	(1)	(11)	(3)
Special items [1]	**(104)**	**(205)**	**(376)**	**(290)**
EBIT of segments	2,168	2,254	4,517	5,510
EBIT of Corporate Functions and Consolidation	(30)	(103)	(59)	(243)
EBIT [1]	**2,138**	**2,151**	**4,458**	**5,267**
Financial result	(314)	(405)	(629)	(754)
Income before income taxes	**1,824**	**1,746**	**3,829**	**4,513**

[1] For definition see Annual Report 2016, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

Scope of consolidation

Changes in the scope of consolidation

The consolidated financial statements as of June 30, 2017, included 293 companies (December 31, 2016: 301 companies). As in the statements as of December 31, 2016, one of these companies was accounted for as a joint operation in line with Bayer's interest in its assets, liabilities, revenues and expenses in accordance with IFRS 11 (Joint Arrangements). Six (December 31, 2016: six) joint ventures and five (December 31, 2016: five) associates were accounted for in the consolidated financial statements using the equity method according to IAS 28 (Investments in Associates and Joint Ventures).

Acquisitions, divestitures and discontinued operations

Acquisitions

On January 3, 2017, Bayer acquired the Cydectin™ portfolio in the United States from Boehringer Ingelheim Vetmedica Inc., St. Joseph, United States. The acquisition comprises the CYDECTIN Pour-On, CYDECTIN Injectable and CYDECTIN Oral Drench endectocides for cattle and sheep. The acquisition is intended to strengthen the antiparasitics portfolio in the United States, and will see endectocides added to the portfolio. A purchase price of €158 million was agreed, which is subject to the usual price adjustment mechanisms. The purchase price was provisionally allocated mainly to trademarks and goodwill. The purchase price allocation currently remains incomplete pending compilation and review of the relevant financial information. It is therefore possible that changes will be made in the allocation of the purchase prices to the individual assets.

The effects of this transaction – as of the acquisition date – on the Group's assets and liabilities in the first half of 2017 are shown in the following table. The transaction resulted in the following cash outflow:

B 13

Acquired Assets, Assumed Liabilities and Adjustments (Fair Values at the Respective Acquisition Dates)

€ million	H1 2017
Goodwill	51
Trademarks	85
Production rights	4
Inventories	18
Net assets	**158**
Changes in noncontrolling interest	–
Purchase price	**158**
Net cash outflow for acquisitions	**158**

Planned acquisitions

Details of the planned acquisition of Monsanto are given in our Annual Report 2016.

Divestments

On April 3, 2017, Covestro completed the sale of a North American spray polyurethane foam system house to Accella Polyurethane Systems LLC, Maryland Heights, United States. A purchase price of €47 million was agreed. Income of €39 million was reported in special items.

On April 1, 2017, Consumer Health completed the sale of a production facility in Pointe-Claire, Canada, to Famar Montréal Inc., Montréal, Canada. The base sale price was CAD1 million.

The effects of these divestments made in the first half of 2017 were as follows:

B 14

Divested Assets and Liabilities

€ million	H1 2017
Goodwill	2
Property, plant and equipment	3
Inventories	12
Other liabilities	(3)
Divested net assets	**14**

The divested assets were reported in previous quarters as assets held for sale.

Discontinued operations

The sale of the Diabetes Care business to Panasonic Healthcare Holdings Co., Ltd., Tokyo, Japan, for around €1 billion was completed on January 4, 2016. The sale includes the leading Contour™ portfolio of blood glucose monitoring meters and strips, as well as other products such as Breeze™2, Elite™ and Microlet™ lancing devices.

The sale of the Diabetes Care business also comprises further significant obligations by Bayer that will be fulfilled over a period of up to two years subsequent to the date of divestment. The sale proceeds will be recognized accordingly over this period and reported as income from discontinued operations. Deferred income has been recognized in the statement of financial position and will be dissolved as the obligations are fulfilled. An amount of €287 million was recognized in sales in the first half of 2017.

The obligations to be fulfilled over a period of up to two years after the divestment of the Diabetes Care business are also reported as discontinued operations in the income statement and the statement of cash flows. They resulted in sales of €25 million in the first half of 2017.

The items in the statement of financial position pertaining to the Diabetes Care business are shown in the segment reporting under "All Other Segments." In addition to the aforementioned deferred income (€177 million), the statement of financial position includes other receivables (net: €60 million), deferred tax assets (net: €29 million), income tax liabilities (€56 million) and other provisions (€4 million).

The sale of the Consumer business (CS Consumer) of Bayer's Environmental Science unit to SBM Développement SAS, Lyon, France, was completed on October 4, 2016. These activities have been reported as discontinued operations since the second quarter of 2016.

The income statements of the discontinued operations for the second quarter of 2017 are given below:

B 15

Income Statements for Discontinued Operations

	Diabetes Care		CS Consumer		Total	
€ million	Q2 2016	Q2 2017	Q2 2016	Q2 2017	Q2 2016	Q2 2017
Net sales	**146**	**184**	**79**	**–**	**225**	**184**
Cost of goods sold	(25)	(7)	(40)	–	(65)	(7)
Gross profit	**121**	**177**	**39**	**–**	**160**	**177**
Selling expenses	(5)	(1)	(31)	–	(36)	(1)
Research and development expenses	–	–	(3)	–	(3)	–
General administration expenses	(3)	(3)	(2)	–	(5)	(3)
Other operating income / expenses	(7)	–	(54)	–	(61)	–
EBIT [1]	**106**	**173**	**(51)**	**–**	**55**	**173**
Financial result	**–**	**–**	**–**	**–**	**–**	**–**
Income before income taxes	**106**	**173**	**(51)**	**–**	**55**	**173**
Income taxes	(16)	(25)	16	–	–	(25)
Income after income taxes	**90**	**148**	**(35)**	**–**	**55**	**148**

[1] EBIT = income after income taxes, plus income taxes, plus financial result

The income statements of the discontinued operations for the first half of 2017 are given below:

B 16

Income Statements for Discontinued Operations

	Diabetes Care		CS Consumer		Total	
€ million	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017
Net sales	**295**	**312**	**166**	**–**	**461**	**312**
Cost of goods sold	(121)	(14)	(82)	–	(203)	(14)
Gross profit	**174**	**298**	**84**	**–**	**258**	**298**
Selling expenses	(8)	(2)	(57)	–	(65)	(2)
Research and development expenses	(2)	–	(4)	–	(6)	–
General administration expenses	(10)	(5)	(4)	–	(14)	(5)
Other operating income / expenses	(5)	5	(55)	–	(60)	5
EBIT[1]	**149**	**296**	**(36)**	**–**	**113**	**296**
Financial result	**–**	**–**	**–**	**–**	**–**	**–**
Income before income taxes	**149**	**296**	**(36)**	**–**	**113**	**296**
Income taxes	(20)	(49)	12	–	(8)	(49)
Income after income taxes	**129**	**247**	**(24)**	**–**	**105**	**247**

[1] EBIT = income after income taxes, plus income taxes, plus financial result

In the second quarter of 2017, the discontinued operations affected the Bayer Group statement of cash flows as follows:

B 17

Statements of Cash Flows for Discontinued Operations

	Diabetes Care		CS Consumer		Total	
€ million	Q2 2016	Q2 2017	Q2 2016	Q2 2017	Q2 2016	Q2 2017
Net cash provided by (used in) operating activities (net cash flow)	(41)	(3)	31	–	(10)	(3)
Net cash provided by (used in) investing activities	–	–	–	–	–	–
Net cash provided by (used in) financing activities	41	3	(31)	–	10	3
Change in cash and cash equivalents	**–**	**–**	**–**	**–**	**–**	**–**

In the first half of 2017, the discontinued operations affected the Bayer Group statement of cash flows as follows:

B 18

Statements of Cash Flows for Discontinued Operations

	Diabetes Care		CS Consumer		Total	
€ million	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017
Net cash provided by (used in) operating activities (net cash flow)	778	12	(18)	–	760	12
Net cash provided by (used in) investing activities	–	–	–	–	–	–
Net cash provided by (used in) financing activities	(778)	(12)	18	–	(760)	(12)
Change in cash and cash equivalents	**–**	**–**	**–**	**–**	**–**	**–**

As no cash is assigned to discontinued operations, the balance of the cash provided is deducted again in financing activities.

Financial instruments

B 19

Carrying Amounts and Fair Values of Financial Instruments

	June 30, 2017					
	Carried at amortized cost	Carried at fair value [Fair value for information [1]]			Nonfinancial assets / liabilities	
		Based on quoted prices in active markets (Level 1)	Based on observable market data (Level 2)	Based on unobservable inputs (Level 3)		
€ million	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount in the statement of financial position**
Trade accounts receivable	12,077					12,077
Loans and receivables	12,077					12,077
Other financial assets	5,195	379	2,271	790		8,635
Loans and receivables	5,097		[5,089]	[15]		5,097
Available-for-sale financial assets	33	376	1,626	779		2,814
Held-to-maturity financial assets	65		[67]			65
Derivatives		3	645	11		659
Other receivables	602			64	1,512	2,178
Loans and receivables	602		[602]			602
Available-for-sale financial assets				64		64
Nonfinancial assets					1,512	1,512
Cash and cash equivalents	2,773					2,773
Loans and receivables	2,773		[2,773]			2,773
Total financial assets	**20,647**	**379**	**2,271**	**854**		**24,151**
of which loans and receivables	20,549					20,549
of which available-for-sale financial assets	33	376	1,626	843		2,878
Financial liabilities	17,781	1,055	369			19,205
Carried at amortized cost	17,781	[14,950]	[3,478]			17,781
Carried at fair value (nonderivative)		1,055				1,055
Derivatives			369			369
Trade accounts payable	5,153				58	5,211
Carried at amortized cost	5,153					5,153
Nonfinancial liabilities					58	58
Other liabilities	773	2	268	13	1,875	2,931
Carried at amortized cost	773		[773]			773
Carried at fair value (nonderivative)				8		8
Derivatives		2	268	5		275
Nonfinancial liabilities					1,875	1,875
Total financial liabilities	**23,707**	**1,057**	**637**	**13**		**25,414**
of which carried at amortized cost	23,707					23,707
of which carried at fair value (nonderivative)		1,055		8		1,063
of which derivatives		2	637	5		644

[1] Fair value of the financial instruments carried at amortized cost; the exemption provisions under IFRS 7.29(a) were applied for information on specific fair values.

B 20

Carrying Amounts and Fair Values of Financial Instruments

Dec. 31, 2016

	Carried at amortized cost	Carried at fair value [Fair value for information [1]]			Nonfinancial assets/ liabilities	
		Based on quoted prices in active markets (Level 1)	Based on observable market data (Level 2)	Based on unobservable inputs (Level 3)		
€ million	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount in the statement of financial position**
Trade accounts receivable	10,969					10,969
Loans and receivables	10,969					10,969
Other financial assets	2,245	523	3,985	803		7,556
Loans and receivables	2,148		[2,145]	[16]		2,148
Available-for-sale financial assets	32	520	3,283	794		4,629
Held-to-maturity financial assets	65		[68]			65
Derivatives		3	702	9		714
Other receivables	633			57	2,103	2,793
Loans and receivables	633		[633]			633
Available-for-sale financial assets				57		57
Nonfinancial assets					2,103	2,103
Cash and cash equivalents	1,899					1,899
Loans and receivables	1,899		[1,899]			1,899
Total financial assets	**15,746**	**523**	**3,985**	**860**		**21,114**
of which loans and receivables	15,649					15,649
of which available-for-sale financial assets	32	520	3,283	851		4,686
Financial liabilities	18,994		587			19,581
Carried at amortized cost	18,994	[16,040]	[3,362]			18,994
Carried at fair value (nonderivative)						
Derivatives			587			587
Trade accounts payable	6,035				375	6,410
Carried at amortized cost	6,035					6,035
Nonfinancial liabilities					375	375
Other liabilities	840	2	252	25	2,259	3,378
Carried at amortized cost	840		[840]			840
Carried at fair value (nonderivative)				8		8
Derivatives		2	252	17		271
Nonfinancial liabilities					2,259	2,259
Total financial liabilities	**25,869**	**2**	**839**	**25**		**26,735**
of which carried at amortized cost	25,869					25,869
of which carried at fair value (nonderivative)				8		8
of which derivatives		2	839	17		858

[1] Fair value of the financial instruments carried at amortized cost; the exemption provisions under IFRS 7.29(a) were applied for information on specific fair values.

The preceding two tables show the carrying amounts and fair values of financial assets and liabilities for each financial instrument category and a reconciliation to the corresponding line items in the statements of financial position. Since the line items “Other receivables,” “Trade accounts payable” and “Other liabilities” contain both financial instruments and nonfinancial assets or liabilities (such as other tax receivables or advance payments for services to be received in the future), the reconciliation is shown in the column headed “Nonfinancial assets / liabilities.”

The loans and receivables reflected in other financial assets and the liabilities measured at amortized cost also include receivables and liabilities under finance leases in which Bayer is the lessor or lessee and which are therefore measured in accordance with IAS 17.

Because of the short maturities of most trade accounts receivable and payable, other receivables and liabilities and cash and cash equivalents, their carrying amounts at the closing date do not significantly differ from the fair values.

The fair values of loans and receivables, held-to-maturity financial investments and of financial liabilities carried at amortized cost that are given for information are the present values of the respective future cash flows. The present values are determined by discounting the cash flows at a closing-date interest rate, taking into account the term of the assets or liabilities and the creditworthiness of the counterparty. Where a market price is available, however, this is deemed to be the fair value.

The fair values of available-for-sale financial assets correspond to quoted prices in active markets (Level 1), are determined using valuation techniques based on observable market data as of the end of the reporting period (Level 2) or are the present values of the respective future cash flows, determined on the basis of unobservable inputs (Level 3).

The fair values of derivatives for which no publicly quoted prices exist in active markets (Level 1) are determined using valuation techniques based on observable market data as of the end of the reporting period (Level 2). In applying valuation techniques, credit value adjustments are determined to allow for the contracting party’s credit risk.

Currency and commodity forward contracts are measured individually at their forward rates or forward prices on the closing date. These depend on spot rates or prices, including time spreads. The fair values of interest-rate hedging instruments and cross-currency interest-rate swaps were determined by discounting future cash flows over the remaining terms of the instruments at market rates of interest, taking into account any foreign currency translation as of the closing date.

Fair values measured using unobservable inputs are categorized within Level 3 of the fair value hierarchy. This applies to certain available-for-sale debt or equity instruments, in some cases to the fair values of embedded derivatives, and to obligations for contingent consideration in business combinations. Credit risk is frequently the principal unobservable input used to determine the fair values of debt instruments classified as available-for-sale financial assets by the discounted cash flow method. Here the credit spreads of comparable issuers are applied. A significant increase in credit risk could result in a lower fair value, whereas a significant decrease could result in a higher fair value. However, a relative change of 10% in the credit spread does not materially affect the fair value.

Embedded derivatives are separated from their respective host contracts. Such host contracts are generally sale or purchase agreements relating to the operational business. The embedded derivatives cause the cash flows from the contracts to vary with exchange-rate or price fluctuations. The internal measurement of embedded derivatives is mainly performed using the discounted cash flow method, which is based on unobservable inputs. These include planned sales and purchase volumes, and prices derived from market data. Regular monitoring is carried out based on these fair values as part of quarterly reporting.

Within the financial liabilities, use was made of the fair value option according to IAS 39.11A for the debt instruments (exchangeable bond) issued in June 2017 that can be converted into Covestro shares. This exchangeable bond is a hybrid financial instrument containing a debt instrument as a nonderivative host contract and several embedded derivatives. Due to the application of the fair value option, the bond was designated as a financial liability at fair value through profit or loss at its initial recognition including the embedded derivatives.

The changes in the amounts of financial assets and liabilities recognized at fair value based on unobservable inputs (Level 3) for each financial instrument category were as follows:

B 21

Development of Financial Assets and Liabilities (Level 3)

				2017
€ million	Available-for-sale financial assets	Derivatives (net)	Liabilities carried at fair value (non-derivative)	Total
Carrying amounts of net assets (net liabilities), January 1	**851**	**(8)**	**(8)**	**835**
Gains (losses) recognized in profit or loss	8	14	–	22
of which related to assets/liabilities recognized in the statements of financial position	8	14	–	22
Gains (losses) recognized outside profit or loss	(20)	–	–	(20)
Additions of assets (liabilities)	4	–	–	4
Settlements of (assets) liabilities	–	–	–	–
Carrying amounts of net assets (net liabilities), June 30	**843**	**6**	**(8)**	**841**

B 22

Development of Financial Assets and Liabilities (Level 3)

€ million				2016
	Available-for-sale financial assets	Derivatives (net)	Liabilities carried at fair value (non-derivative)	Total
Carrying amounts of net assets (net liabilities), January 1	**833**	**9**	**(37)**	**805**
Gains (losses) recognized in profit or loss	9	(3)	–	6
of which related to assets/liabilities recognized in the statements of financial position	9	(3)	–	6
Gains (losses) recognized outside profit or loss	14	–	–	14
Additions of assets (liabilities)	38	–	–	38
Settlements of (assets) liabilities	(3)	–	5	2
Carrying amounts of net assets (net liabilities), June 30	**891**	**6**	**(32)**	**865**

The changes recognized in profit or loss were included in other operating income/expenses, interest income or exchange gains/losses.

Interest held in Covestro reduced to 40.9%

In the first quarter, Bayer sold 22 million shares of Covestro AG to institutional investors at a price of €66.50 per share. In the second quarter, Bayer sold a further 17.25 million shares of Covestro AG to institutional investors at a price of €62.25 per share. In addition, 8 million shares of Covestro AG were deposited in Bayer Pension Trust e. V. at a price of €63.04, thus reducing the pension provisions of Bayer AG by €504 million.

The transactions had a €3.0 billion positive effect on Bayer Group equity, with €2.0 billion attributable to shareholders of Bayer AG and €1.0 billion to noncontolling interest. Bayer reduced its interest in Covestro AG from 64.2% to 40.9% of the issued shares.

Legal risks

To find out more about the Bayer Group's legal risks, please see Note 32 to the consolidated financial statements in the Bayer Annual Report 2016, which can be downloaded free of charge at www.bayer.com. Since the Bayer Annual Report 2016, the following significant changes have occurred in respect of the legal risks:

Mirena™: As of July 13, 2017, lawsuits from approximately 3,000 users of Mirena™, an intrauterine system providing long-term contraception, had been served upon Bayer in the United States. Plaintiffs allege personal injuries resulting from the use of Mirena™, including perforation of the uterus, ectopic pregnancy or idiopathic intracranial hypertension, and seek compensatory and punitive damages. Additional lawsuits are anticipated. In April 2017, most of the cases pending in U.S. federal courts in which plaintiffs allege idiopathic intracranial hypertension were consolidated in a second multidistrict litigation proceeding for common pre-trial management. The first multidistrict litigation proceeding concerns perforation cases.

Xarelto™: As of July 13, 2017, U.S. lawsuits from approximately 19,900 recipients of Xarelto™, an oral anticoagulant for the treatment and prevention of blood clots, had been served upon Bayer. Plaintiffs allege that users have suffered personal injuries from the use of Xarelto™, including cerebral, gastrointestinal or other bleeding and death, and seek compensatory and punitive damages. Additional lawsuits are anticipated. In May and June 2017, the first two cases set for trial in the federal multidistrict litigation resulted in complete defense verdicts. Two further trials have been scheduled this year (one in the federal multi district litigation, one in the Pennsylvania state court). Bayer anticipates that additional trials will be scheduled. As of July 13, 2017, ten Canadian lawsuits relating to Xarelto™ seeking class action certification had been served upon Bayer.

Essure™: As of July 13, 2017, U.S. lawsuits from approximately 5,700 users of Essure™, a medical device offering permanent birth control with a nonsurgical procedure, had been served upon Bayer. Plaintiffs allege personal injuries from the use of Essure™, including hysterectomy, perforation, pain, bleeding, weight gain, nickel sensitivity, depression and unwanted pregnancy, and seek compensatory and punitive damages. Additional lawsuits are anticipated. As of July 13, 2017, two Canadian lawsuits relating to Essure™ seeking class action certification had been served upon Bayer.

Related parties

Related parties as defined in IAS 24 (Related Party Disclosures) are those legal entities and natural persons that are able to exert influence on Bayer AG and its subsidiaries or over which Bayer AG or its subsidiaries exercise control or joint control or have a significant influence. They include, in particular, nonconsolidated subsidiaries, joint ventures and associates included in the consolidated financial statements at cost of acquisition or using the equity method, post-employment benefit plans and the corporate officers of Bayer AG.

In the second quarter, Bayer AG increased the coverage of Bayer Pension Trust e.V. with the deposit of 8 million of the shares it held in Covestro AG. The number of shares deposited amounted to 4.0% of the issued shares of Covestro AG and had a value of €504 million.

Sales to related parties were not material from the viewpoint of the Bayer Group. Goods and services in the amount of €0.3 billion were procured from the associate PO JV, LP, Wilmington, United States, mainly in the course of day-to-day business operations. There was no significant change in receivables vis-à-vis related parties compared with December 31, 2016. Liabilities declined by €0.1 billion to €0.2 billion, with the greater part of the decrease pertaining to Casebia Therapeutics Limited Liability Partnership, Ascot, United Kingdom, the newly established joint venture with CRISPR Therapeutics AG, Basel, Switzerland.

Other information

The Annual Stockholders’ Meeting on April 28, 2017, approved the proposal by the Board of Management and the Supervisory Board that a dividend of €2.70 per share be paid for the 2016 fiscal year.

The actions of the members of the Board of Management and the Supervisory Board in office in 2016 were ratified in accordance with the proposals by the Board of Management and the Supervisory Board.

Six stockholder representatives were elected to the Supervisory Board in accordance with the nominations submitted by the Supervisory Board.

Furthermore, in accordance with the proposal by the Board of Management and the Supervisory Board, the Annual Stockholders’ Meeting approved the amendment to the Articles of Incorporation with regard to the compensation of the members of the Supervisory Board.

The Annual Stockholders’ Meeting also approved the control agreement between Bayer AG and Bayer CropScience Aktiengesellschaft of February 21, 2017, as proposed by the Board of Management and the Supervisory Board.

In accordance with the proposal by the Supervisory Board, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, was elected as the auditor of the annual and consolidated financial statements for the fiscal year 2017 and to review the condensed financial statements and interim management reports as of June 30, 2017, September 30, 2017 and March 31, 2018.

Leverkusen, July 25, 2017
Bayer Aktiengesellschaft

The Board of Management

Werner Baumann

Liam Condon   Johannes Dietsch   Dr. Hartmut Klusik

Kemal Malik   Erica Mann   Dieter Weinand

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bayer Group, and the interim management report includes a fair review of the development and performance of the business and the position of the Bayer Group, together with a description of the principal opportunities and risks associated with the expected development of the Bayer Group for the remaining months of the financial year.

Leverkusen, July 25, 2017
Bayer Aktiengesellschaft

The Board of Management

Werner Baumann

Liam Condon Johannes Dietsch Dr. Hartmut Klusik

Kemal Malik Erica Mann Dieter Weinand

Review Report

To Bayer Aktiengesellschaft, Leverkusen, Germany

We have reviewed the condensed interim consolidated financial statements – comprising the income statement and the statement of comprehensive income, the statement of financial position, the statement of cash flows, the condensed statement of changes in equity as well as selected explanatory notes to the financial statements – and the interim group management report for the period from 1 January 2017 until 30 June 2017 of Bayer AG, which are components of the half-year financial report under § 37w WpHG (Wertpapierhandelsgesetz: German Securities Trading Act).

Review Report on the Condensed Interim Consolidated Financial Statements

Management Board's Responsibility for the Condensed Interim Consolidated Financial Statements

The preparation of the condensed interim consolidated financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU is the responsibility of the entity's Management Board. The Management Board is also responsible for such internal control as the Management Board determines is necessary to enable the preparation of condensed interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility for the Review of the Condensed Interim Consolidated Financial Statements

Our responsibility is to express a conclusion on the condensed interim consolidated financial statements based on our review. We conducted our review in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as in supplementary compliance with the International Standard on Review Engagements "*Engagements to Review Historical Financial Statements*" (ISRE 2400 (revised)). Those standards require that we plan and perform the review in compliance with professional standards such that we can preclude through critical evaluation, with limited assurance, that the condensed interim consolidated financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU.

A review of the condensed interim consolidated financial statements in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as in supplementary compliance with ISRE 2400 (revised) is a limited assurance engagement. A review is limited primarily to inquiries of personnel of the entity and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Conclusion on the Condensed Interim Consolidated Financial Statements

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU.

Other Legal and Regulatory Requirements

Review Report on the Interim Group Management Report

Management Board’s Responsibility for the Interim Group Management Report

The preparation of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the entity’s Management Board. The Management Board is also responsible for such internal control as the Management Board determines is necessary to enable the preparation of an interim group management report that is free from material misstatement, whether due to fraud or error.

Practitioner’s Responsibility for the Review of the Interim Group Management Report

Our responsibility is to express a conclusion on the interim group management report based on our review. We conducted our review in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as in supplementary compliance with the International Standard on Review Engagements “*Engagements to Review Historical Financial Statements”* (ISRE 2400 (revised)). Those standards require that we plan and perform the review in compliance with professional standards such that we can preclude through critical evaluation, with limited assurance, that the interim group management report has not been prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

A review of the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as in supplementary compliance with ISRE 2400 (revised) is a limited assurance engagement. A review is limited primarily to inquiries of personnel of the entity and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor‘s report.

Conclusion on the Interim Group Management Report

Based on our review, no matters have come to our attention that cause us to presume that the interim group management report has not been prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Munich, Germany, 26 July 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Heiner Kompenhans	Prof. Dr. Frank Beine
Wirtschaftsprüfer (German Public Auditor)	Wirtschaftsprüfer (German Public Auditor)

Financial Calendar[1]

Q3 2017 Interim Report	**October 26, 2017**
Annual Report 2017	**February 28, 2018**
Q1 2018 Interim Report	**May 3, 2018**
Annual Stockholders' Meeting 2018	**May 25, 2018**
Q2 2018 Interim Report	**July 31, 2018**
Q3 2018 Interim Report	**October 30, 2018**

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Forward-Looking Statements
Certain statements contained in this report may constitute “forward-looking statements.” Actual results could differ materially from those projected or forecast in the forward-looking statements. The factors that could cause actual results to differ materially include the following: uncertainties as to the timing of the transaction; the possibility that the parties may be unable to achieve expected synergies and operating efficiencies in the merger within the expected time-frames or at all and to successfully integrate Monsanto’s operations into those of Bayer; such integration may be more difficult, time-consuming or costly than expected; revenues following the transaction may be lower than expected; operating costs, customer loss and business disruption (including, without limitation, difficulties in maintaining relationships with employees, customers, clients or suppliers) may be greater than expected following the announcement of the transaction; the retention of certain key employees at Monsanto; risks associated with the disruption of management’s attention from ongoing business operations due to the transaction; the conditions to the completion of the transaction may not be satisfied, or the regulatory approvals required for the transaction may not be obtained on the terms expected or on the anticipated schedule; the parties’ ability to meet expectations regarding the timing, completion and accounting and tax treatments of the merger; the impact of the refinancing of the loans taken out for the transaction, the impact of indebtedness incurred by Bayer in connection with the transaction and the potential impact on the rating of indebtedness of Bayer; the effects of the business combination of Bayer and Monsanto, including the combined company’s future financial condition, operating results, strategy and plans; other factors detailed in Monsanto’s Annual Report on Form 10-K filed with the SEC for the fiscal year ended August 31, 2016 and Monsanto’s other filings with the SEC, which are available at http://www.sec.gov and on Monsanto’s website at www.monsanto.com; and other factors discussed in Bayer’s public reports which are available on the Bayer website at www.bayer.com. Bayer and Monsanto assume no obligation to update the information in this communication, except as otherwise required by law. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date.

[1] As currently planned