Q2

Interim Report Second Quarter of 2018

Science for a **better life**

Bayer Group Key Data

€ million	Q2 2017	Q2 2018	Change %	H1 2017	H1 2018	Change %	Full Year 2017
Sales	**8,714**	**9,481**	**+8.8**	**18,394**	**18,619**	**+1.2**	**35,015**
Change (adjusted for currency and portfolio effects) [1]			+8.5			+5.1	+1.5%
Change in sales [1]							
Volume	−2.7%	+9.9%		+1.0%	+6.4%		+2.3%
Price	−0.1%	−1.4%		+0.1%	−1.3%		−0.8%
Currency	+1.1%	−5.8%		+1.8%	−6.7%		−1.4%
Portfolio	+0.1%	+6.1%		+0.1%	+2.8%		+0.1%
EBITDA [1]	**2,135**	**2,017**	**−5.5**	**5,134**	**4,835**	**−5.8**	**8,563**
Special items [1]	(112)	(318)		(167)	(396)		(725)
EBITDA before special items [1]	**2,247**	**2,335**	**+3.9**	**5,301**	**5,231**	**−1.3**	**9,288**
EBITDA margin before special items [1]	25.8%	24.6%		28.8%	28.1%		26.5%
EBIT [1]	**1,463**	**1,351**	**−7.7**	**3,890**	**3,661**	**−5.9**	**5,903**
Special items [1]	(244)	(363)		(346)	(441)		(1,227)
EBIT before special items [1]	**1,707**	**1,714**	**+0.4**	**4,236**	**4,102**	**−3.2**	**7,130**
Financial result	**(369)**	**(322)**	**−12.7**	**(665)**	**(192)**	**+71.1**	**(1,326)**
Net income (from continuing and discontinued operations)	**1,224**	**799**	**−34.7**	**3,307**	**2,753**	**−16.8**	**7,336**
Earnings per share [1] from continuing and discontinued operations (€)	1.38	0.87	−37.0	3.74	3.06	−18.2	8.41
Core earnings per share [1] from continuing operations (€)	1.52	1.54	+1.3	3.80	3.77	−0.8	6.74
Net cash provided by operating activities (from continuing and discontinued operations)	**2,313**	**2,240**	**−3.2**	**3,154**	**2,898**	**−8.1**	**8,134**
Cash outflows for capital expenditures	**476**	**459**	**−3.6**	**891**	**808**	**−9.3**	**2,418**
Research and development expenses	**1,097**	**1,261**	**+14.9**	**2,191**	**2,301**	**+5.0**	**4,504**
Depreciation, amortization and impairments	**672**	**666**	**−0.9**	**1,244**	**1,174**	**−5.6**	**2,660**
Number of employees at end of period [2]	**99,720**	**124,055**	**+24.4**	**99,720**	**124,055**	**+24.4**	**99,820**
Personnel expenses (including pension expenses)	2,345	2,566	+9.4	4,981	5,004	+0.5	9,528

2017 figures restated

[1] For definition see Annual Report 2017, 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 AG Interim Report is a quarterly financial report that includes an interim group management report and condensed consolidated interim financial statements and satisfies the requirements of Section 115, Paragraph 2, No. 1 and No. 2, Paragraph 3 and Paragraph 4 of the German Securities Trading Act (WpHG). 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 interim group management report should be read in conjunction with our Annual Report 2017, which contains a detailed description of our business operations.

Second quarter of 2018

Bayer completes biggest acquisition in its history

// Monsanto business included on prorated basis from June 7

// Group sales €9.5 billion (Fx & portfolio adj. +8.5%)

// EBITDA before special items increases to €2.3 billion (+3.9%) despite unfavorable currency effects

// Pharmaceuticals registers higher sales (Fx & portfolio adj.) but lower earnings – substantial increase in R&D investment

// Consumer Health business weak again

// Crop Science achieves strong increase in sales and earnings after weak prior-year quarter

// Animal Health improves sales (Fx & portfolio adj.) and earnings

// Net income €0.8 billion

// Core earnings per share €1.54 (+1.3%)

// Group outlook for 2018 confirmed, with adjustments to reflect acquisition

Interim Group Management Report as of June 30, 2018

Economic Position of the Bayer Group

Sales of the Bayer Group increased by 8.5% (Fx & portfolio adj.) to €9.5 billion in the second quarter of 2018. Group EBITDA before special items rose by 3.9% to €2.3 billion, and was impacted by negative currency effects of around €130 million.

At Pharmaceuticals we posted growth in sales on a currency- and portfolio-adjusted basis, largely because our key growth products continued to perform very well overall. EBITDA before special items declined, in particular due to higher R&D investment. Sales of Consumer Health came in slightly below the prior-year level after adjusting for currency and portfolio effects, while earnings fell substantially. Crop Science registered a significant increase in sales on a currency- and portfolio-adjusted basis, which was largely attributable to the recognition of significantly higher provisions for crop protection product returns in Brazil in the prior-year quarter due to high inventory levels. Sales of Crop Science increased by 39.2% on a reported basis, thanks mainly to a portfolio effect of 25.0% (€543 million) from the acquisition of Monsanto. EBITDA before special items of Crop Science nearly doubled, due particularly to the aforementioned effect in Brazil and to the newly acquired business. Animal Health posted an encouraging increase in sales and earnings.

We have adjusted our Group outlook to account for the sales and earnings contributions from Monsanto since the date of the acquisition. As the transaction closed later than we had anticipated, 2018 earnings will be lower than we had projected in our February forecast including Monsanto due to the seasonality of the agricultural business. Our outlook takes into account the financing costs for the acquisition of Monsanto shares as well as the higher number of shares of Bayer AG following the capital increases on a pro rata temporis basis. The businesses divested to BASF are no longer taken into account from the date of their respective sale.

Key Events

With the acquisition of 100% of the outstanding shares of Monsanto Company, St. Louis, Missouri, United States (Monsanto), for US$63 billion including debt on June 7, 2018, Bayer completed the biggest acquisition in its history. The acquisition of Monsanto brings together two strong and highly complementary businesses: Bayer's innovative chemical and biological crop protection portfolio and Monsanto's exceptional expertise in the field of seeds and traits. We are now a leader in the agricultural industry with a clear commitment to innovation and sustainability – for the benefit of our customers and society. In addition to leveraging our employees' extensive expertise in agriculture, we also have the strongest portfolio of seed and crop protection products for a wide range of crops and indications, the best research and development platform and the leading digital farming business.

In connection with the conditional approval granted by the European Commission in March 2018[1], Bayer concluded an agreement with BASF SE on April 26, 2018, concerning the sale of Bayer's global vegetable seed business, certain seed treatments and its digital farming activities for approximately €1.7 billion. This agreement expanded on the agreement already concluded between Bayer and BASF in October 2017, which concerned, among other things, the sale of the global glufosinate ammonium business and the related LibertyLink™ technology for herbicide tolerance, as well as a substantial part of the field crop seed business, for a base purchase price of €5.9 billion.

On May 29, 2018, the U.S. Department of Justice conditionally approved Bayer's acquisition of Monsanto. The conditions included a hold separate order that remained in place until all of the divestments to BASF had been completed. These transactions closed on August 1 and 16, 2018, which enabled the final integration of the Monsanto business to commence on August 16, 2018. The total purchase price of €7.6 billion before taxes for the businesses divested to BASF is subject to purchase price adjustments typical for such transactions.

Upon closing of the transaction, an amount of US$128 per share was paid out to the Monsanto stockholders, and trading of Monsanto shares on the New York Stock Exchange ceased. The purchase price of US$63 billion for the acquisition of Monsanto includes net debt of approximately US$6 billion held by that company. In September 2016, Bayer secured bridge financing from a consortium of 26 banks for the remaining amount of US$57 billion. Between September 2016 and the first quarter of 2018[2], the required bridge financing was reduced to approximately US$43 billion through a range of equity and debt measures, such as the placement of mandatory convertible notes, the sale of Covestro shares and the acquisition of a 3.6% interest in Bayer (31 million newly issued Bayer shares) by the investment firm Temasek, Singapore. The bridge financing was drawn on June 7, 2018 to finance the acquisition.

On May 4, 2018, Bayer sold 28.81 million shares, or 14.2%, of Covestro, at a price of €75.50 per share. The proceeds of this sale totaled €2.2 billion. Bayer AG now holds just 6.8% of Covestro shares to repay the exchangeable bond that matures in 2020. Bayer AG acquired these shares, which are recognized at fair value through profit or loss, from Bayer Pension Trust, which no longer holds any Covestro shares.

After the acquisition closed, Bayer undertook further equity and debt measures:

On June 7, 2018, we raised around €6 billion in net proceeds from a capital increase out of authorized capital against cash contributions and with subscription rights for existing Bayer stockholders. The move strengthened the company's equity. As part of the capital increase, Bayer issued approximately 74.6 million new registered (no-par value) shares with entitlement to dividends from January 1, 2018.

In late June 2018, Bayer issued bonds of US$15 billion via its subsidiary Bayer U.S. Finance II LLC, Pittsburgh, United States, and bonds of €5 billion via its subsidiary Bayer Capital Corporation B.V., Mijdrecht, Netherlands. All bonds are guaranteed by Bayer AG.

In addition, Bayer signed an agreement on July 27, 2018, to divest the Consumer Health prescription dermatology business to LEO Pharma A/S, Ballerup, Denmark. The business will be transferred in two steps: on September 4, 2018, for the United States, and during the second half of 2019 for all other markets, subject to the satisfaction of customary closing conditions. The portfolio being divested comprises prescription brands including Advantan™, Skinoren™ and Travocort™. The purchase price amounts to €58 million for the U.S. business and €555 million for the rest of the global business, and is subject to customary purchase price adjustments.

[1] Please see the Q1 2018 interim report for more information.
[2] For details of the financial transactions in previous quarters, please see the 2016 and 2017 Annual Reports and the respective quarterly reports of the Bayer Group.

On August 10, 2018, a state court jury in San Francisco, United States, awarded US$39 million in compensatory and US$250 million in punitive damages to a plaintiff who claimed that a Monsanto product caused his non-Hodgkin lymphoma (NHL). The news impacted Bayer's share price, which declined quite considerably at times. We disagree with the verdict and intend to seek trial court review and appeal, if necessary. More than 800 scientific studies – including an independent study which followed more than 50,000 licensed pesticide applicators and farm workers and their spouses for more than 20 years – and regulatory authorities all over the world confirm that glyphosate and glyphosate-based herbicides do not cause cancer and are safe for use when used according to label instructions. Please see the "Legal Risks" section for further details.

Changes to the Corporate Structure

In connection with the acquisition of Monsanto, the reporting structure of the Crop Science segment was adjusted to reflect the future relative sizes of the various strategic business entities. The figures for previous periods were adjusted accordingly.

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Realignment of Crop Science structure

Previous reporting structure	Reporting structure from Q2 2018
Herbicides	Herbicides
	Corn Seed & Traits
	Soybean Seed & Traits
Fungicides	Fungicides
Insecticides	Insecticides
SeedGrowth	
Environmental Science	Environmental Science
Vegetable Seeds	Vegetable Seeds
Other	Other
Crop Science	**Crop Science**

Due to the relative sizes of Monsanto's "Corn seed and traits" and "Soybean seed and traits" businesses, we will report our corresponding strategic business entities Corn Seed & Traits and Soybean Seed & Traits separately from now on. Monsanto's "Agricultural Productivity" business will be allocated among Herbicides, Environmental Science and Other, while "Cotton seed and traits" and "All other crops seeds and traits" will be reported under Other and the "Vegetable seeds" business will be allocated to our corresponding Vegetable Seeds business entity. Due to its relative size, we will no longer report our SeedGrowth business separately, but under Other. Regional reporting will not be impacted by these changes.

1. Overview of Sales, Earnings and Financial Position

1.1 Earnings Performance of the Bayer Group[3]

Second quarter of 2018

Group sales

Group sales in the second quarter of 2018 rose by 8.5% (Fx & portfolio adj.) to €9,481 million (reported: +8.8%). Germany accounted for €959 million of this figure.

Pharmaceuticals posted a sales gain of 3.1% (Fx & portfolio adj.) to €4,217 million. Sales at Consumer Health came in slightly below the prior-year quarter at €1,413 million (Fx & portfolio adj. –1.4%). At Crop Science, sales climbed by 21.4% (Fx & portfolio adj.) to €3,011 million, which was largely attributable to the recognition of significantly higher provisions for product returns in the prior-year quarter due to high inventory levels in Brazil. On a reported basis, sales increased by 39.2%, thanks mainly to a portfolio effect of 25.0% (€543 million) from the acquisition of Monsanto. Animal Health sales grew by 7.6% (Fx & portfolio adj.) to €453 million.

EBITDA before special items

Group EBITDA before special items rose by 3.9% to €2,335 million. Negative currency effects held back earnings by around €130 million. EBITDA before special items at Pharmaceuticals declined by 8.0% to €1,363 million. At Consumer Health, EBITDA before special items fell by 18.5% to €256 million. Crop Science posted a 99.1% increase in EBITDA before special items to €631 million, which was attributable to the recognition of significantly higher provisions for product returns in Brazil in the prior-year quarter. The newly acquired business contributed €70 million to earnings. EBITDA before special items of Animal Health advanced by 10.3% to €128 million.

Depreciation and amortization

Depreciation, amortization and impairment losses declined by 0.9% in the second quarter of 2018 to €666 million (Q2 2017: €672 million). This figure comprised €416 million (Q2 2017: €416 million) in amortization and impairments on intangible assets and €251 million (Q2 2017: €255 million) in depreciation and impairments on property, plant and equipment. Depreciation and amortization of €55 million was attributable to assets that either resulted from remeasurements or were recognized for the first time in connection with the Monsanto purchase price allocation.

Impairment losses totaled €54 million (Q2 2017: €126 million), including €2 million (Q2 2017: €23 million) on property, plant and equipment. A total of €45 million (Q2 2017: €122 million) in impairment losses and impairment loss reversals constituted special items.

EBIT and special items

EBIT of the Bayer Group fell by 7.7% to €1,351 million (Q2 2017: €1,463 million), after special charges of €363 million (Q2 2017: €244 million). The special charges resulted mainly from expenses of €287 million in connection with the acquisition of Monsanto, including €126 million associated with the sale of acquired inventories remeasured at fair value in connection with the purchase price allocation. There were further special charges of €43 million for impairment losses on intangible assets and of €32 million for efficiency improvement measures. EBIT before special items was up by 0.4% at €1,714 million (Q2 2017: €1,707 million), and thus came in at the level of the prior-year quarter.

[3] For definition of alternative performance measures, see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

The following special effects were taken into account in calculating EBIT and EBITDA:

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Special Items Reconciliation by Segment[1]

€ million	EBIT Q2 2017	EBIT Q2 2018	EBIT H1 2017	EBIT H1 2018	EBITDA Q2 2017	EBITDA Q2 2018	EBITDA H1 2017	EBITDA H1 2018
Before special items	**1,707**	**1,714**	**4,236**	**4,102**	**2,247**	**2,335**	**5,301**	**5,231**
Pharmaceuticals	**(120)**	**(56)**	**(156)**	**(57)**	**(7)**	**(13)**	**(10)**	**(14)**
Consumer Health	**(15)**	**1**	**(24)**	**(4)**	**(7)**	**1**	**(15)**	**(4)**
Crop Science	**(95)**	**(280)**	**(132)**	**(341)**	**(84)**	**(278)**	**(108)**	**(339)**
Animal Health	**–**	**(3)**	**–**	**(3)**	**–**	**(3)**	**–**	**(3)**
Reconciliation	**(14)**	**(25)**	**(34)**	**(36)**	**(14)**	**(25)**	**(34)**	**(36)**
Restructuring	(14)	(13)	(29)	(18)	(14)	(13)	(29)	(18)
Litigations/legal risks	–	–	(5)	(3)	–	–	(5)	(3)
Acquisition costs	–	(12)	–	(15)	–	(12)	–	(15)
Total special items	**(244)**	**(363)**	**(346)**	**(441)**	**(112)**	**(318)**	**(167)**	**(396)**
Impairment losses/reversals	(118)	(43)	(151)	(43)	(6)	–	(6)	–
Litigations/legal risks	(2)	(2)	(7)	(6)	(2)	(2)	(7)	(6)
Acquisition costs	(47)	(287)	(68)	(348)	(47)	(285)	(68)	(346)
Restructuring	(37)	(32)	(80)	(45)	(27)	(32)	(56)	(45)
Divestitures	(40)	1	(40)	1	(30)	1	(30)	1
After special items	**1,463**	**1,351**	**3,890**	**3,661**	**2,135**	**2,017**	**5,134**	**4,835**

2017 figures restated

[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

A 3

Special Items Reconciliation by Functional Costs[1]

€ million	EBIT Q2 2017	EBIT Q2 2018	EBIT H1 2017	EBIT H1 2018	EBITDA Q2 2017	EBITDA Q2 2018	EBITDA H1 2017	EBITDA H1 2018
Total special items	**(244)**	**(363)**	**(346)**	**(441)**	**(112)**	**(318)**	**(167)**	**(396)**
of which cost of goods sold	(66)	(148)	(91)	(158)	(42)	(145)	(53)	(155)
of which selling expenses	(40)	(16)	(41)	(18)	(8)	(16)	(9)	(18)
of which research and development expenses	(77)	(50)	(113)	(53)	(3)	(7)	(6)	(10)
of which general administration expenses	(58)	(149)	(93)	(207)	(58)	(149)	(93)	(207)
of which other operating income/expenses	(3)	–	(8)	(5)	(1)	(1)	(6)	(6)

2017 figures restated

[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

Income after income taxes from discontinued operations

Income after income taxes from discontinued operations was minus €8 million (Q2 2017: €641 million). Covestro was still included in the prior-year period.

Net income

After a financial result of minus €322 million (Q2 2017: minus €369 million), income before income taxes was €1,029 million (Q2 2017: €1,094 million). The financial result primarily consisted of net interest expense of €270 million (Q2 2017: €133 million), as well as special charges of €106 million (Q2 2017: €164 million), mainly in connection with the bridge financing for the Monsanto acquisition. After income tax expense of €216 million (Q2 2017: €258 million) and adjusting for income from discontinued operations after income taxes and noncontrolling interest, net income for the second quarter of 2018 amounted to €799 million (Q2 2017: €1,224 million).

Core earnings per share

Earnings per share (total) were €0.87 in the second quarter of 2018 (Q2 2017: €1.38), while core earnings per share from continuing operations increased by 1.3% to €1.54 (Q2 2017: €1.52).

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Core Earnings per Share[1]

€ million	Q2 2017	Q2 2018	H1 2017	H1 2018
EBIT (as per income statements)	**1,463**	**1,351**	**3,890**	**3,661**
Amortization and impairment losses/loss reversals on intangible assets	416	416	758	713
Impairment losses/loss reversals on property, plant and equipment, and accelerated depreciation included in special items	33	2	46	9
Special items (other than accelerated depreciation, amortization and impairment losses/loss reversals)	112	318	167	396
Core EBIT	**2,024**	**2,087**	**4,861**	**4,779**
Financial result (as per income statements)	(369)	(322)	(665)	(192)
Special items in the financial result	164	106	199	(130)
Income taxes (as per income statements)	(258)	(216)	(682)	(710)
Special items in income taxes	–	–	–	–
Tax effects related to amortization, impairment losses/loss reversals and special items	(214)	(240)	(352)	(347)
Income after income taxes attributable to noncontrolling interest (as per income statements)	(2)	(6)	–	(6)
Above-mentioned adjustments attributable to noncontrolling interest	–	–	–	–
Core net income from continuing operations	**1,345**	**1,409**	**3,361**	**3,394**
Shares				
Weighted average number of shares[2]	**885,186,889**	**915,694,644**	**884,826,889**	**900,704,047**
€				
Core earnings per share from continuing operations	**1.52**	**1.54**	**3.80**	**3.77**

2017 figures restated

[1] For definition see Annual Report 2017, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

[2] The weighted average number of shares (basic and diluted) was restated for all periods prior to June 2018 to reflect the effect of the bonus component of the subscription rights issued as part of the June 2018 capital increase

In April 2018, the Singapore-based investment firm Temasek subscribed to 31 million new Bayer shares, for total gross proceeds of €3 billion. The subscription rights of existing stockholders were excluded from this capital increase.

In June 2018, a capital increase with subscription rights for existing stockholders was implemented, raising around €6.0 billion in net proceeds. Approximately 74.6 million new shares were issued. As the subscription price of the new shares was below the market price of the existing shares, this capital increase contains a bonus component pursuant to IAS 33. The weighted average number of shares was adjusted to reflect the effect of this bonus component for all periods prior to June 2018.

Personnel expenses and employee numbers

Personnel expenses increased by 9.4%, in part due to currency effects and to the Monsanto acquisition, and totaled €2,566 million (Q2 2017: €2,345 million). As of the closing date, the number of employees in the Bayer Group was 124,055 (June 30, 2017: 99,720), up by 24.4%, due largely to the Monsanto acquisition.

First half of 2018

Group sales

Group sales in the first half of 2018 rose by 5.1% (Fx & portfolio adj.) to €18,619 million (reported: + 1.2%). Germany accounted for €1,999 million of this figure.

Sales of Pharmaceuticals advanced by 3.0% (Fx & portfolio adj.) to €8,292 million. Sales at Consumer Health were down slightly against the first half of 2017, declining by 1.8% (Fx & portfolio adj.) to €2,822 million. Sales at Crop Science climbed by 8.1% (Fx & portfolio adj.) to €5,872 million, primarily due to the previously described effect in Brazil. On a reported basis, sales increased by 11.1%, thanks mainly to a portfolio effect of 10.3% (€543 million) from the acquisition of Monsanto. Animal Health posted a 5.4% increase (Fx & portfolio adj.) in sales to €867 million.

EBITDA before special items

EBITDA before special items of the Bayer Group declined slightly year on year, falling by 1.3% to €5,231 million (H1 2017: €5,301 million). EBITDA before special items at Pharmaceuticals decreased by 6.9% to €2,778 million. EBITDA before special items of Consumer Health fell by 19.4% to €569 million. Crop Science posted a considerable increase in EBITDA before special items, which rose by 16.8% to €1,673 million. This was mainly attributable to the aforementioned effects in Brazil and to the earnings contribution of the newly acquired business. Earnings of Animal Health also increased, rising by 6.4% to €267 million.

Depreciation and amortization

Depreciation, amortization and impairment losses amounted to €1,174 million in the first half of 2018 (H1 2017: €1,244 million), comprising €712 million (H1 2017: €758 million) in amortization and impairments on intangible assets and €462 million (H1 2017: €486 million) in depreciation and impairments on property, plant and equipment. An amount of €55 million was related to remeasurements or to assets recognized for the first time in connection with the purchase price allocation of Monsanto.

Impairment losses totaled €75 million (H1 2017: €173 million), including €9 million (H1 2017: €37 million) on property, plant and equipment. A total of €45 million (H1 2017: €168 million) in impairment losses and impairment loss reversals constituted special items.

EBIT

EBIT of the Bayer Group fell by 5.9% to €3,661 million (H1 2017: €3,890 million), after net special charges of €441 million (H1 2017: €346 million). The special charges resulted mainly from expenses of €348 million in connection with the acquisition of Monsanto, including €126 million associated with the sale of acquired inventories remeasured at fair value in connection with the purchase price allocation. Further special charges of €45 million were related to efficiency improvement programs, while charges of €43 million were connected with impairments on intangible assets. EBIT before special items declined by 3.2% to €4,102 million (H1 2017: €4,236 million).

Income after income taxes from discontinued operations

Income after income taxes from discontinued operations was €0 million (H1 2017: €1,205 million). Covestro was still included in the prior-year period.

Net income

After a financial result of minus €192 million (H1 2017: minus €665 million), income before income taxes was €3,469 million (H1 2017: €3,225 million). The financial result comprised income of €341 from the sale of Covestro shares, net interest expense of €362 million (H1 2017: €251 million), an exchange loss of €78 million (H1 2017: €190 million), and interest cost of €86 million (H1 2017: €99 million) for pension and other provisions. The financial result included special gains of €130 million (H1 2017: special charges of €199 million). After tax expense of €710 million (H1 2017: €682 million), income after income taxes was €2,759 million (H1 2017: €2,543 million). After adjusting for income from discontinued operations after income taxes and noncontrolling interest, net income came to €2,753 million (H1 2017: €3,307 million).

Core earnings per share

Earnings per share (total) declined to €3.06 (H1 2017: €3.74), while core earnings per share from continuing operations of the Bayer Group were level with the prior-year period at €3.77 (H1 2017: €3.80; –0.8%).

1.2 Business Development by Segment

Pharmaceuticals

A 5

Key Data – Pharmaceuticals

			Change %[1]				Change %[1]	
€ million	Q2 2017	Q2 2018	Reported	Fx & p adj.	H1 2017	H1 2018	Reported	Fx & p adj.
Sales	**4,304**	**4,217**	**–2.0**	**+3.1**	**8,567**	**8,292**	**–3.2**	**+3.0**
Change in sales[1]								
Volume	+4.7%	+5.8%			+6.2%	+5.7%		
Price	–0.3%	–2.7%			–0.4%	–2.7%		
Currency	+0.5%	–4.9%			+1.4%	–6.0%		
Portfolio	0.0%	–0.2%			0.0%	–0.2%		
Sales by region								
Europe/Middle East/Africa	1,647	1,653	+0.4	+3.2	3,253	3,264	+0.3	+2.9
North America	1,101	992	–9.9	–3.3	2,174	1,915	–11.9	–2.8
Asia/Pacific	1,290	1,323	+2.6	+6.8	2,602	2,626	+0.9	+7.3
Latin America	266	249	–6.4	+10.5	538	487	–9.5	+6.5
EBITDA[1]	**1,474**	**1,350**	**–8.4**		**2,973**	**2,764**	**–7.0**	
Special items[1]	(7)	(13)			(10)	(14)		
EBITDA before special items[1]	**1,481**	**1,363**	**–8.0**		**2,983**	**2,778**	**–6.9**	
EBITDA margin before special items[1]	34.4%	32.3%			34.8%	33.5%		
EBIT[1]	**1,102**	**1,053**	**–4.4**		**2,321**	**2,216**	**–4.5**	
Special items[1]	(120)	(56)			(156)	(57)		
EBIT before special items[1]	**1,222**	**1,109**	**–9.2**		**2,477**	**2,273**	**–8.2**	
Net cash provided by operating activities	**528**	**629**	**+19.1**		**1,501**	**1,861**	**+24.0**	

Fx & p adj. = currency- and portfolio-adjusted

[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

Second quarter of 2018

Sales

Sales of Pharmaceuticals rose by 3.1% (Fx & portfolio adj.) to €4,217 million in the second quarter of 2018. Our key growth products Xarelto™, Eylea™, Xofigo™, Stivarga™ and Adempas™ maintained their strong performance overall, with their combined sales rising by 13.2% (Fx and portfolio adj.) to €1,691 million (Q2 2017: €1,555 million). Combined sales of the 15 best-selling Pharmaceuticals products advanced by 4.8% (Fx & portfolio adj.). Sales of Kogenate™ again declined significantly, impacted by the termination of an agreement with a distribution partner at the end of 2017. After adjusting for this effect, sales of Pharmaceuticals rose by 4.2% (Fx & portfolio adj.). As expected, sales were also held back by temporary supply disruptions for some of our established products, such as Adalat™ and Aspirin™, as was the case in the first quarter.

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Best-Selling Pharmaceuticals Products

			Change %[1]				Change %[1]	
€ million	Q2 2017	Q2 2018	Reported	Fx & p adj.	H1 2017	H1 2018	Reported	Fx & p adj.
Xarelto™	834	891	+6.8	+10.6	1,585	1,705	+7.6	+11.7
of which U.S.A.[2]	117	126	+7.7	+7.2	203	209	+3.0	+3.0
Eylea™	458	540	+17.9	+22.5	904	1,044	+15.5	+20.9
of which U.S.A.[3]	0	0	.	.	0	0	.	.
Xofigo™	105	89	−15.2	−9.2	205	181	−11.7	−3.7
of which U.S.A.	62	52	−16.1	−10.3	124	103	−16.9	−7.1
Adempas™	75	89	+18.7	+23.4	148	170	+14.9	+22.3
of which U.S.A.	38	41	+7.9	+16.2	76	78	+2.6	+15.5
Stivarga™	83	82	−1.2	+7.5	158	152	−3.8	+5.5
of which U.S.A.	46	41	−10.9	−4.8	85	70	−17.6	−8.2
Subtotal key growth products	**1,555**	**1,691**	**+8.7**	**+13.2**	**3,000**	**3,252**	**+8.4**	**+13.6**
Mirena™ product family	276	276	0.0	+7.4	591	593	+0.3	+10.7
of which U.S.A.	176	177	+0.6	+8.2	395	401	+1.5	+13.7
Kogenate™/Kovaltry™	260	213	−18.1	−13.7	535	427	−20.2	−14.9
of which U.S.A.	91	74	−18.7	−11.8	185	154	−16.8	−6.5
Nexavar™	229	193	−15.7	−10.5	436	355	−18.6	−12.3
of which U.S.A.	86	59	−31.4	−24.8	161	102	−36.6	−29.1
Adalat™	171	165	−3.5	−1.2	345	341	−1.2	+3.9
of which U.S.A.	0	0	.	.	0	0	.	.
Glucobay™	139	151	+8.6	+10.3	297	319	+7.4	+12.2
of which U.S.A.	0	1	.	.	1	1	.	.
YAZ™/Yasmin™/Yasminelle™	158	159	+0.6	+8.2	328	311	−5.2	+3.0
of which U.S.A.	25	22	−12.0	−7.6	45	37	−17.8	−10.1
Aspirin™ Cardio	148	139	−6.1	−3.1	305	287	−5.9	−0.9
of which U.S.A.	0	0	.	.	0	0	.	.
Betaferon™/Betaseron™	185	142	−23.2	−18.6	356	272	−23.6	−17.6
of which U.S.A.	108	77	−28.7	−22.3	202	135	−33.2	−25.4
Gadavist™/Gadovist™	97	103	+6.2	+13.0	186	190	+2.2	+9.0
of which U.S.A.	34	38	+11.8	+21.8	61	63	+3.3	+15.2
Avalox™/Avelox™	87	77	−11.5	−6.6	187	174	−7.0	−1.2
of which U.S.A.	2	0	.	.	5	3	.	.
Total best-selling products	**3,305**	**3,309**	**+0.1**	**+4.8**	**6,566**	**6,521**	**−0.7**	**+5.3**
Proportion of Pharmaceuticals sales	77%	78%			77%	79%		
Total best-selling products in U.S.A.	**785**	**708**	**−9.8**	**−4.0**	**1,543**	**1,356**	**−12.1**	**−3.2**

Fx & p adj. = currency- and portfolio-adjusted

[1] For definition see Annual Report 2017, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

[2] Marketing rights owned by an affiliate of Johnson & Johnson, U.S.A.; transactional effects had a negative impact of €10 million.

[3] Marketing rights owned by Regeneron Pharmaceuticals Inc., U.S.A.

Sales by product

// Sales of our oral anticoagulant **Xarelto™** once again rose significantly, driven by higher volumes in Europe, Japan 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 recorded substantial sales gains for our eye medicine **Eylea™**, due primarily to expanded volumes in Europe, Japan and Canada. Among other things, the differentiated clinical profile of Eylea™ had a positive impact.

// Sales of our cancer drug **Xofigo™** declined markedly as a result of lower volumes in the United States, Japan and other countries. This was also partly due to the Phase III trial of radium Ra 223 dichloride in combination with abiraterone acetate and prednisone/prednisolone being halted prematurely in November 2017.

- Sales of our pulmonary hypertension treatment **Adempas™** increased significantly due to positive business development in the United States and Europe. As in the past, sales reflected the proportionate recognition of the upfront and milestone payments resulting from the sGC collaboration with Merck & Co., United States.
- We posted encouraging growth in sales of our cancer drug **Stivarga™** on a currency- and portfolio-adjusted basis. The increase resulted primarily from expanded volumes in Japan and China, where we benefited from the market launches in previous years. By contrast, sales in the United States came in below the level of the prior-year quarter due to intensified competitive pressure.
- Sales of the hormone-releasing intrauterine devices of the **Mirena™** product family (Mirena™, Kyleena™ and Jaydess™/Skyla™) increased, especially in the United States, with the successful launch of Kyleena™ continuing to have a positive impact on sales.
- We again registered significant sales declines for our **Kogenate™/Kovaltry™** blood-clotting medicines that resulted from the termination of an agreement with a distribution partner at the end of 2017. Adjusted for this effect, sales rose by 3.2% (Fx & portfolio adj.).
- Sales of our cancer drug **Nexavar™** fell considerably, with intensified competitive pressure in the United States and Japan weighing on performance.
- We registered a decline in sales of **Adalat™**, our product for the treatment of hypertension and coronary heart disease, and of **Aspirin™ Cardio**, which is used for the secondary prevention of heart attacks. The continued strong expansion of volumes in China was not sufficient to offset declines in Europe.
- We once again recorded encouraging sales gains for our diabetes treatment **Glucobay™**, with performance driven by expanded volumes in China.
- Sales of our **YAZ™/Yasmin™/Yasminelle™** line of oral contraceptives developed very positively, due primarily to good business performance in Russia, China and Japan.
- Sales of our multiple sclerosis treatment **Betaferon™/Betaseron™** declined significantly. This was mainly due to the competitive market environment in the United States.
- We posted robust growth in sales of our MRI contrast agent **Gadavist™/Gadovist™** that resulted especially from the good business performance in the United States.
- We registered a decline in sales of our antibiotic **Avalox™/Avelox™**, primarily due to generic competition in the United States.

Earnings

EBITDA before special items of Pharmaceuticals declined by 8.0% to €1,363 million in the second quarter of 2018 (Q2 2017: €1,481 million). Adjusted for negative currency effects in the amount of €54 million, earnings were down by 4.3%. The decline was mainly attributable to higher R&D and selling expenses, as well as to effects relating to temporary supply disruptions. An increase in the cost of goods sold also weighed on earnings. These effects were partly offset by a substantial expansion in volumes for our key growth products.

EBIT declined by 4.4% to €1,053 million, after special charges of €56 million (Q2 2017: €120 million). These comprised €43 million in impairment losses on intangible assets and €13 million in expenses for efficiency improvement measures.

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Special Items[1] Pharmaceuticals

€ million	EBIT Q2 2017	EBIT Q2 2018	EBIT H1 2017	EBIT H1 2018	EBITDA Q2 2017	EBITDA Q2 2018	EBITDA H1 2017	EBITDA H1 2018
Restructuring	(2)	(13)	(5)	(14)	(1)	(13)	(4)	(14)
Impairment losses/reversals	(118)	(43)	(151)	(43)	(6)	–	(6)	–
Total special items	**(120)**	**(56)**	**(156)**	**(57)**	**(7)**	**(13)**	**(10)**	**(14)**

[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

First half of 2018

Sales

Sales of Pharmaceuticals rose by 3.0% (Fx & portfolio adj.) in the first six months of 2018, to €8,292 million. Our key growth products Xarelto™, Eylea™, Stivarga™, Xofigo™ and Adempas™ delivered strong performance, with their combined sales rising by 13.6% (Fx & portfolio adj.) to €3,252 million (H1 2017: €3,000 million). We registered a significant decline in sales of Kogenate™ due to the absence of orders from a distribution partner. After adjusting for this effect, sales of Pharmaceuticals rose by 4.4% (Fx & portfolio adj.).

Earnings

EBITDA before special items decreased by 6.9% in the first half of 2018, to €2,778 million (H1 2017: €2,983 million). Adjusted for negative currency effects in the amount of €123 million, earnings were down by 2.7%. Higher R&D and selling expenses, and a higher cost of goods sold were the primary factors that diminished earnings. Positive contributions primarily came from a substantial increase in volumes, especially for our key growth products.

EBIT declined by 4.5% to €2,216 million. Special charges amounted to €57 million (H1 2017: €156 million) and comprised €43 million in impairment losses on intangible assets and €14 million in expenses for efficiency improvement measures.

Consumer Health

A 8

Key Data – Consumer Health

			Change %[1]				Change %[1]	
€ million	Q2 2017	Q2 2018	Reported	Fx & p adj.	H1 2017	H1 2018	Reported	Fx & p adj.
Sales	**1,542**	**1,413**	**–8.4**	**–1.4**	**3,143**	**2,822**	**–10.2**	**–1.8**
Changes in sales[1]								
Volume	–4.6%	–2.2%			–2.2%	–2.8%		
Price	+2.4%	+0.8%			+2.4%	+1.0%		
Currency	+1.5%	–7.0%			+2.1%	–8.4%		
Portfolio	0.0%	0.0%			0.0%	0.0%		
Sales by region								
Europe/Middle East/Africa	503	466	–7.4	–3.4	1,041	962	–7.6	–3.5
North America	661	595	–10.0	–2.7	1,362	1,191	–12.6	–2.4
Asia/Pacific	195	202	+3.6	+8.2	415	379	–8.7	–2.7
Latin America	183	150	–18.0	–1.1	325	290	–10.8	+6.8
EBITDA[1]	**307**	**257**	**–16.3**		**691**	**565**	**–18.2**	
Special items[1]	(7)	1			(15)	(4)		
EBITDA before special items[1]	**314**	**256**	**–18.5**		**706**	**569**	**–19.4**	
EBITDA margin before special items[1]	20.4%	18.1%			22.5%	20.2%		
EBIT[1]	**195**	**157**	**–19.5**		**473**	**368**	**–22.2**	
Special items[1]	(15)	1			(24)	(4)		
EBIT before special items[1]	**210**	**156**	**–25.7**		**497**	**372**	**–25.2**	
Net cash provided by operating activities	**297**	**148**	**–50.2**		**562**	**321**	**–42.9**	

Fx & p adj. = currency- and portfolio-adjusted

[1] For definition see Annual Report 2017, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

Second quarter of 2018

Sales

Sales of Consumer Health declined slightly in the second quarter of 2018, falling by 1.4% (Fx & portfolio adj.) to €1,413 million. This was primarily due to a decline in business in Europe/Middle East/Africa and weaker business performance in North America. Business picked up in Asia/Pacific, returning to growth in the second quarter.

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Best-Selling Consumer Health Products

€ million	Q2 2017	Q2 2018	Change %[1] Reported	Change %[1] Fx & p adj.	H1 2017	H1 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Claritin™	159	140	–11.9	–5.7	349	307	–12.0	–2.7
Aspirin™	104	93	–10.6	–2.2	221	202	–8.6	+0.7
Bepanthen™/Bepanthol™	100	97	–3.0	+2.7	195	197	+1.0	+6.6
Aleve™	101	97	–4.0	+3.3	183	169	–7.7	+2.3
Coppertone™	80	71	–11.3	–5.1	182	157	–13.7	–4.2
Canesten™	74	69	–6.8	–3.4	144	121	–16.0	–12.0
Elevit™	44	54	+22.7	+31.3	96	104	+8.3	+17.7
Dr Scholl's™[2]	66	54	–18.2	–9.8	107	103	–3.7	+7.6
One A Day™	55	50	–9.1	–1.8	110	96	–12.7	–2.4
Alka-Seltzer™ product family	44	41	–6.8	+0.5	114	93	–18.4	–8.7
Total	**827**	**766**	**–7.4**	**–0.6**	**1,701**	**1,549**	**–8.9**	**–0.2**
Proportion of Consumer Health sales	54%	54%			54%	55%		

Fx & p adj. = currency- and portfolio-adjusted
[1] For definition see Annual Report 2017, 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

// The decline in sales of our antihistamine **Claritin™** was driven by a change in ordering behavior in China and a significantly late start to the season in the United States.
// Sales of our analgesic **Aspirin™** were down slightly year on year, due primarily to anticipated temporary supply disruptions. Including business with Aspirin™ Cardio, which is reported under Pharmaceuticals, sales amounted to €232 million (Q2 2017: €252 million), representing a currency- and portfolio-adjusted decline of 2.7%.
// We posted a slight increase in sales of our **Bepanthen™/Bepanthol™** wound and skin care products, thanks mainly to growth in Europe.
// Business with our analgesic **Aleve™** expanded, benefiting especially from a product line extension in the United States.
// Sales of our **Coppertone™** sunscreen were down, with the chief factors here being the late start to the suncare season and the persistently intensive competitive pressure in the United States.
// We registered a decline in sales of our **Canesten™** skin and intimate health products that was primarily attributable to anticipated temporary supply disruptions.
// We once again significantly expanded business with our prenatal vitamin **Elevit™** thanks to continuing strong demand in Asia/Pacific.
// Our **Dr. Scholl's™** foot care products registered a substantial decline in sales, especially in the United States, where we had benefited in the prior-year quarter from inventory building by retailers. Overall, the repositioning of this brand in the United States is progressing positively.
// Sales of our **One A Day™** vitamin product decreased slightly.
// Sales of the **Alka-Seltzer™** family of products to treat gastric complaints and cold symptoms came in at the prior-year level.

Earnings

EBITDA before special items of Consumer Health declined by a substantial 18.5% to €256 million in the second quarter of 2018 (Q2 2017: €314 million). Adjusted for negative currency effects in the amount of €12 million, earnings were down by 14.6%. This decline is predominantly attributable to lower volumes and a higher cost of goods sold, in part due to a shift in the product mix. Earnings included one-time gains from the sale of a noncore brand in the amount of €14 million (Q2 2017: €0 million).

EBIT decreased by 19.5% to €157 million, after special gains of €1 million (Q2 2017: special charges of €15 million).

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Special Items[1] Consumer Health

€ million	EBIT Q2 2017	EBIT Q2 2018	EBIT H1 2017	EBIT H1 2018	EBITDA Q2 2017	EBITDA Q2 2018	EBITDA H1 2017	EBITDA H1 2018
Restructuring	(15)	1	(24)	(4)	(7)	1	(15)	(4)
Total special items	**(15)**	**1**	**(24)**	**(4)**	**(7)**	**1**	**(15)**	**(4)**

[1] For definition see Annual Report 2017, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

First half of 2018

Sales

Sales of Consumer Health fell slightly in the first six months of 2018, decreasing by 1.8% (Fx & portfolio adj.) to €2,822 million. The declines in Europe/Middle East/Africa, Asia/Pacific and North America were not offset by the positive business performance in Latin America.

Earnings

EBITDA before special items receded by 19.4% in the first half of 2018, to €569 million (H1 2017: €706 million). Adjusted for negative currency effects in the amount of €47 million, earnings were down by 12.7%. The decline is primarily due to lower volumes. In addition, one-time gains from the sale of noncore brands were significantly lower than in the prior-year period.

EBIT decreased by 22.2% to €368 million (H1 2017: €473 million). Special charges amounted to €4 million (H1 2017: €24 million) and pertained to efficiency improvement measures.

Crop Science

A 11

Key Data – Crop Science

			Change %[1]				Change %[1]	
€ million	Q2 2017	Q2 2018	Reported	Fx & p adj.	H1 2017	H1 2018	Reported	Fx & p adj.
Sales	**2,163**	**3,011**	**+39.2**	**+21.4**	**5,283**	**5,872**	**+11.1**	**+8.1**
Change in sales[1]								
Volume	–13.7%	+22.0%			–4.3%	+8.6%		
Price	–2.1%	–0.6%			–1.1%	–0.5%		
Currency	+1.7%	–7.2%			+2.3%	–7.3%		
Portfolio	0.0%	+25.0%			0.0%	+10.3%		
Sales by region								
Europe/Middle East/Africa	908	986	+8.6	+5.5	2,370	2,280	–3.8	–3.3
North America	865	1,076	+24.4	–1.9	1,907	2,045	+7.2	+1.6
Asia/Pacific	459	508	+10.7	+10.2	825	876	+6.2	+10.4
Latin America	(69)	441	.	.	181	671	.	.
EBITDA[1]	**233**	**353**	**+51.5**		**1,324**	**1,334**	**+0.8**	
Special items[1]	(84)	(278)			(108)	(339)		
EBITDA before special items[1]	**317**	**631**	**+99.1**		**1,432**	**1,673**	**+16.8**	
EBITDA margin before special items[1]	14.7%	21.0%			27.1%	28.5%		
EBIT[1]	**117**	**154**	**+31.6**		**1,087**	**1,046**	**–3.8**	
Special items[1]	(95)	(280)			(132)	(341)		
EBIT before special items[1]	**212**	**434**	**+104.7**		**1,219**	**1,387**	**+13.8**	
Net cash provided by operating activities	**1,170**	**1,653**	**+41.3**		**491**	**950**	**+93.5**	

Fx & p adj. = currency- and portfolio-adjusted

[1] For definition see Annual Report 2017, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

Second quarter of 2018

Sales

In the second quarter of 2018, Crop Science posted sales of €3,011 million. The businesses being divested accounted for €468 million of this figure. Sales increased by 39.2% on a reported basis, thanks mainly to a positive portfolio effect of 25.0% (€543 million) from the acquisition of Monsanto. There was also a negative currency effect of 7.2%. On a currency- and portfolio-adjusted basis, sales increased by 21.4%. This development was largely attributable to significantly higher provisions for crop protection product returns recognized in the prior-year quarter due to high inventory levels in Brazil. Inventories in the distribution channel there have normalized as a result of the measures undertaken.

We considerably expanded our seed business through the acquisition of Monsanto as of June 7, 2018, particularly for corn and soybeans. In addition, our existing herbicides business was significantly enlarged. Against this backdrop, we have adjusted the reporting structure of the Crop Science segment as explained in the section “Changes in corporate structure” at the beginning of this interim report. In terms of regions, the transaction primarily expands our business in North America and Latin America.

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Sales by Business Unit

			Change %[1]				Change %[1]	
€ million	Q2 2017	Q2 2018	Reported	Fx & p adj.	H1 2017	H1 2018	Reported	Fx & p adj.
Crop Science	**2,163**	**3,011**	**+ 39.2**	**+ 21.4**	**5,283**	**5,872**	**+ 11.1**	**+ 8.1**
Herbicides	741	1,028	+ 38.7	+ 12.7	1,653	1,828	+ 10.6	+ 2.1
Corn Seed & Traits	19	134	.	0.0	70	172	+ 145.7	– 11.4
Soybean Seed & Traits	37	147	.	+ 37.8	105	206	+ 96.2	+ 13.3
Fungicides	502	709	+ 41.2	+ 47.8	1,289	1,437	+ 11.5	+ 17.4
Insecticides	256	329	+ 28.5	+ 37.1	557	628	+ 12.7	+ 21.4
Environmental Science	192	183	– 4.7	– 14.1	339	297	– 12.4	– 14.2
Vegetable Seeds	85	128	+ 50.6	+ 5.9	247	272	+ 10.1	– 2.0
Other	331	353	+ 6.6	+ 12.7	1,023	1,032	+ 0.9	+ 9.9

Fx & p adj. = currency- and portfolio-adjusted

[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

Sales by region

- Sales in the Europe/Middle East/Africa region climbed by 12.7% (Fx adj.) to €986 million. The acquired Monsanto business contributed €65 million to this figure. Sales increased by 5.5% on a currency- and portfolio-adjusted basis. Fungicides performed particularly well, benefiting from catch-up effects from the delayed start to the season in France and a successful product launch in Germany. Sales also increased at Herbicides. By contrast, there was a decline at Environmental Science.
- Sales in North America advanced by 31.0% (Fx adj.) to €1,076 million. The contribution of the acquired Monsanto business was €284 million. Sales fell by 1.9% on a currency- and portfolio-adjusted basis, due chiefly to intensified competitive pressure at Herbicides in the United States and to a significant decline at Environmental Science as a result of planned lower product deliveries to the company that acquired our consumer business in 2016. These effects were partly offset by higher license revenues for soybean seed in the United States.
- In the Asia/Pacific region, sales increased by 18.7% (Fx adj.) to €508 million. The contribution by the acquired Monsanto business was €38 million. We posted an encouraging 10.2% sales increase on a currency- and portfolio-adjusted basis. We registered double-digit-percentage increases in sales at Insecticides, due particularly to the weak prior-year quarter in India, and at Fungicides, due to a product launch in China. We also considerably expanded business at Herbicides, especially in Australia.
- Sales in the Latin America region increased to €441 million (Q2 2017: minus €69 million). The contribution by the acquired Monsanto business was €155 million. After a negative currency effect of €25 million, the currency- and portfolio-adjusted sales increase was largely attributable to the significantly higher provisions for crop protection product returns recognized in Brazil in the prior-year period due to high inventory levels. The related measures undertaken to normalize inventories of crop protection products were successfully completed at the end of the season during the second quarter. Excluding Brazil, the other countries in the region registered a slight increase overall.

Earnings

EBITDA before special items of Crop Science increased by 99.1% to €631 million in the second quarter of 2018 (Q2 2017: €317 million). The substantial increase is largely down to the aforementioned situation in Brazil in the prior-year quarter, when earnings were impacted by the recognition of provisions for product returns, impairment losses on receivables and inventory write-offs. The newly acquired business also provided a positive contribution of €70 million to earnings. By contrast, earnings were diminished by a negative currency effect of €52 million (excluding the acquired business).

EBIT climbed by 31.6% to €154 million. Included in this figure is additional depreciation and amortization in the amount of €55 million resulting from remeasurements or the first-time recognition of assets in the course of the purchase price allocation. Earnings were also held back by special charges of €280 million (Q2 2017: €95 million), primarily in connection with the acquisition of Monsanto. Of this figure, €126 million pertained to the sale of acquired inventories that were remeasured at fair value in the course of the purchase price allocation.

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Special Items[1] Crop Science

€ million	EBIT Q2 2017	EBIT Q2 2018	EBIT H1 2017	EBIT H1 2018	EBITDA Q2 2017	EBITDA Q2 2018	EBITDA H1 2017	EBITDA H1 2018
Restructuring	(6)	(4)	(22)	(6)	(5)	(4)	(8)	(6)
Litigations	(2)	(2)	(2)	(3)	(2)	(2)	(2)	(3)
Acquisition costs	(47)	(275)	(68)	(333)	(47)	(273)	(68)	(331)
Divestments	(40)	1	(40)	1	(30)	1	(30)	1
Total special items	**(95)**	**(280)**	**(132)**	**(341)**	**(84)**	**(278)**	**(108)**	**(339)**

[1] For definition see Annual Report 2017, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

First half of 2018

Sales

In the first half of 2018, Crop Science posted **sales** of €5,872 million. The businesses being divested accounted for €1,359 million of this figure. Sales increased by 11.1% on a reported basis, thanks mainly to a positive portfolio effect of 10.3% (€543 million) from the acquisition of Monsanto. There was also a negative currency effect of 7.3%. On a currency- and portfolio-adjusted basis, sales increased by 8.1%, in a development that was mainly attributable to the Latin America region because of the aforementioned effect in Brazil, and to positive performance in the Asia/Pacific region. This was partly offset by a decline in the Europe/Middle East/Africa region that was mainly the result of unfavorable weather conditions in Western Europe and regulatory changes in France.

Earnings

EBITDA before special items of Crop Science increased by 16.8% to €1,673 million in the first half of 2018 (H1 2017: €1,432 million). The substantial increase is primarily due to the aforementioned effects in Brazil and the earnings contribution provided by the newly acquired business as detailed above. By contrast, earnings were diminished by slightly lower selling prices in the United States, a minor decline in volumes in Europe, and a negative currency effect of €96 million (excluding the acquired business).

EBIT declined by 3.8% to €1,046 million. This figure included the above-mentioned depreciation and amortization as well as special charges in the amount of €341 million (H1 2017: €132 million), primarily in connection with the acquisition of Monsanto.

Pro forma sales by strategic business entity (unaudited)

Due to the scope of the acquired activities and the seasonality of the business, we are presenting sales by strategic business entity on an unaudited, pro forma basis, to better show the operational business development for the combined business of Crop Science and Monsanto, among other reasons. In this context, sales are presented as if both the acquisition of Monsanto and the associated divestments had taken place as of January 1, 2017.

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Pro Forma Sales by Business Unit[1]

			Change %[2]				Change %[2]	
€ million	Q2 2017	Q2 2018	Reported	Fx adj.	H1 2017	H1 2018	Reported	Fx adj.
Crop Science	**5,013**	**5,095**	**+1.6**	**+10.0**	**11,980**	**11,243**	**–6.2**	**+3.2**
Herbicides	1,402	1,454	+3.7	+11.4	2,954	2,757	–6.7	+0.9
Corn Seed & Traits	989	961	–2.8	+7.7	3,518	3,235	–8.0	+3.7
Soybean Seed & Traits	805	686	–14.8	–6.6	1,652	1,352	–18.2	–7.8
Fungicides	502	710	+41.4	+47.7	1,290	1,437	+11.4	+17.3
Insecticides	256	329	+28.5	+37.2	559	627	+12.2	+20.8
Environmental Science	320	283	–11.6	–4.6	617	521	–15.6	–6.7
Vegetable Seeds	185	175	–5.4	+0.3	382	351	–8.1	–1.1
Other	553	497	–10.1	–0.3	1,008	961	–4.7	+6.4

Fx adj. = currency-adjusted

[1] The unaudited pro forma data are presented as if both the acquisition of Monsanto and the associated divestments had taken place as of January 1, 2017. Sales of Monsanto are presented in periods as per the Bayer fiscal year. One-time effects of business operations, the accounting for discontinued operations and the recognition and measurement of sales from certain business transactions have been adjusted in line with our accounting. Due to this simplified procedure, they explicitly do not reflect sales according to IFRS or IDW RH HFA 1.004.

[2] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

Second quarter of 2018

Sales in the second quarter of 2018 increased by 10.0% (Fx adj.) on a pro forma basis.

// The increase in sales at Corn Seed & Traits was predominantly attributable to a one-time effect and associated higher license revenues in Brazil, as well as expanded volumes due to a late start to the season in North America and eastern Europe.
// Sales at Soybean Seed & Traits were down, primarily as a result of a challenging market environment in the United States. This was partly offset by the higher level of market penetration achieved by Roundup Ready 2 Xtend™ in North America and by Intacta RR2 PRO™ in Latin America.
// Sales growth at Herbicides, Fungicides and Insecticides was largely attributable to the significantly higher provisions for crop protection product returns in Brazil recognized in the prior year, as previously outlined. Higher prices at Herbicides also had a positive impact.
// We registered a decline in sales at Environmental Science as a result of planned lower product deliveries to the acquirer of our consumer business.

First half of 2018

Sales in the first half of 2018 increased by 3.2% (Fx adj.) on a pro forma basis. Growth was driven by Fungicides and Insecticides due to the aforementioned effect in Brazil. Corn Seed & Traits also delivered encouraging performance, benefiting in particular from the positive development in the second quarter as well as catch-up effects from the prior year in the United States. This was partly offset by the decline at Soybean Seed & Traits and Environmental Science.

Animal Health

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Key Data – Animal Health

€ million	Q2 2017	Q2 2018	Change %[1] Reported	Change %[1] Fx & p adj.	H1 2017	H1 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Sales	**450**	**453**	**+0.7**	**+7.6**	**890**	**867**	**–2.6**	**+5.4**
Change in sales[1]								
Volume	–0.7%	+9.6%			–0.5%	+6.2%		
Price	+2.8%	–2.0%			+3.0%	–0.8%		
Currency	+1.6%	–6.9%			+2.3%	–8.0%		
Portfolio	+1.9%	0.0%			+1.9%	0.0%		
Sales by region								
Europe/Middle East/Africa	122	116	–4.9	–3.3	266	252	–5.3	–3.8
North America	208	220	+5.8	+14.9	385	380	–1.3	+9.9
Asia/Pacific	80	81	+1.3	+7.5	156	158	+1.3	+9.0
Latin America	40	36	–10.0	+5.0	83	77	–7.2	+6.0
EBITDA[1]	**116**	**125**	**+7.8**		**251**	**264**	**+5.2**	
Special items[1]	–	(3)			–	(3)		
EBITDA before special items[1]	**116**	**128**	**+10.3**		**251**	**267**	**+6.4**	
EBITDA margin before special items[1]	25.8%	28.3%			28.2%	30.8%		
EBIT[1]	**107**	**116**	**+8.4**		**233**	**245**	**+5.2**	
Special items[1]	–	(3)			–	(3)		
EBIT before special items[1]	**107**	**119**	**+11.2**		**233**	**248**	**+6.4**	
Net cash provided by operating activities	**97**	**88**	**.**		**66**	**101**	**+53.0**	

Fx & p adj. = currency- and portfolio-adjusted
[1] For definition see Annual Report 2017, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

Second quarter of 2018

Sales

Sales of Animal Health in the second quarter of 2018 increased by 7.6% (Fx & portfolio adj.) to €453 million, despite the negative impact of amended financial reporting standards (IFRS 15). We posted considerable currency- and portfolio-adjusted sales increases in the North America region that resulted mainly from shifts in demand at the expense of subsequent quarters. We achieved encouraging sales gains (Fx & portfolio adj.) in the Asia/Pacific and Latin America regions. By contrast, sales declined in the Europe/Middle East/Africa region.

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Best-Selling Animal Health Products

€ million	Q2 2017	Q2 2018	Change %[1] Reported	Change %[1] Fx & p adj.	H1 2017	H1 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Advantage™ product family	146	156	+6.8	+13.8	282	270	–4.3	+3.2
Seresto™	81	99	+22.2	+29.2	157	187	+19.1	+27.1
Drontal™ product family	33	30	–9.1	–3.2	68	61	–10.3	–3.8
Baytril™	31	24	–22.6	–17.1	58	49	–15.5	–7.8
Total	**291**	**309**	**+6.2**	**+12.8**	**565**	**567**	**+0.4**	**+7.8**
Proportion of Animal Health sales	65%	68%			63%	65%		

Fx & p adj. = currency- and portfolio-adjusted
[1] For definition see Annual Report 2017, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

Sales by product

// Sales of our **Advantage™** line of flea, tick and worm control products increased significantly, particularly in North America, due to substantial shifts in demand, primarily from the third quarter into the second quarter. In the Europe/Middle East/Africa region, business declined due to persistently high competitive pressure.
// Business with our **Seresto™** flea and tick collar once again expanded significantly, with sales increasing in all regions. Growth was chiefly attributable to increased demand in the United States and in the Europe/Middle East/Africa region.
// We registered a decline in sales of our **Drontal™** line of dewormers in the Europe/Middle East/Africa region. Price and volume increases in the other regions were not sufficient to offset this effect.
// Sales of our **Baytril™** antibiotic fell primarily in North America, following the positive effect of a change in the distribution model in the prior-year quarter, as well as in the Europe/Middle East/Africa region.

Earnings

EBITDA before special items of Animal Health increased by 10.3% to €128 million in the second quarter of 2018 (Q2 2017: €116 million). Adjusted for negative currency effects in the amount of €10 million, earnings were up by 19.0%. This development was attributable to significantly higher volumes, in part due to the aforementioned shifts in demand. By contrast, earnings were diminished by the application of IFRS 15, negative price effects, higher selling expenses and an increase in the cost of goods sold.

EBIT improved by 8.4% to €116 million, after special charges of €3 million (Q2 2017: €0 million)

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Special Items[1] Animal Health

€ million	EBIT Q2 2017	EBIT Q2 2018	EBIT H1 2017	EBIT H1 2018	EBITDA Q2 2017	EBITDA Q2 2018	EBITDA H1 2017	EBITDA H1 2018
Restructuring	–	(3)	–	(3)	–	(3)	–	(3)
Total special items	**–**	**(3)**	**–**	**(3)**	**–**	**(3)**	**–**	**(3)**

[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

First half of 2018

Sales

Sales of Animal Health rose by 5.4% (Fx & portfolio adj.) in the first half of 2018, to €867 million. Growth was negatively impacted by the first-time application of IFRS 15, among other factors. We posted sales gains (Fx & portfolio adj.) in the North America region that were mainly driven by shifts in demand from the second half of the year into the first half. Business also developed positively in the Latin America and Asia/Pacific regions on a currency- and portfolio-adjusted basis, but declined in Europe/Middle East/Africa.

Earnings

EBITDA before special items of Animal Health increased by 6.4% to €267 million in the first half of 2018 (H1 2017: €251 million). Adjusted for negative currency effects in the amount of €20 million, earnings were up by 14.3%. Significantly higher volumes more than offset the diminishing effects of the application of IFRS 15, a higher cost of goods sold and negative price effects.

EBIT increased by 5.2% to €245 million, after special charges of €3 million (H1 2017: €0 million).

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 2017	Q2 2018	H1 2017	H1 2018
Net cash provided by (used in) operating activities, continuing operations	**1,901**	**2,240**	**2,452**	**2,898**
Net cash provided by (used in) operating activities, discontinued operations	412	–	702	–
Net cash provided by (used in) operating activities (total)	**2,313**	**2,240**	**3,154**	**2,898**
Net cash provided by (used in) investing activities (total)	**(1,178)**	**(37,925)**	**(2,314)**	**(39,983)**
Net cash provided by (used in) financing activities (total)	**(549)**	**35,746**	**62**	**35,165**
Change in cash and cash equivalents due to business activities	**586**	**61**	**902**	**(1,920)**
Cash and cash equivalents at beginning of period	**2,224**	**5,338**	**1,899**	**7,436**
Change due to exchange rate movements and to changes in scope of consolidation	(37)	(388)	(28)	(505)
Cash and cash equivalents at end of period	**2,773**	**5,011**	**2,773**	**5,011**

2017 figures restated

Net cash provided by operating activities

// In the second quarter of 2018, the net cash provided by operating activities (total) declined by 3.2% to €2,240 million. Covestro was still included in the prior-year quarter. The net cash provided by operating activities in continuing operations rose by 17.8% to €2,240 million due mainly to a decline in cash tied up in working capital.

// Operating cash flow (total) declined by 8.1% in the first half of 2018, to €2,898 million. Covestro was still included in the prior-year period. The net cash provided by operating activities in continuing operations rose by 18.2% to €2,898 million due mainly to lower additions to cash tied up in working capital.

Net cash used in investing activities

// Cash outflows for property, plant and equipment and intangible assets were 3.6% lower in the second quarter of 2018 at €459 million (Q2 2017: €476 million) and included €121 million (Q2 2017: €142 million) at Pharmaceuticals, €45 million (Q2 2017: €31 million) at Consumer Health, €174 million (Q2 2017: €135 million) at Crop Science and €9 million (Q2 2017: €5 million) at Animal Health. The prior-year figures included €92 million at Covestro.
// There was an outflow of €45,290 million for the acquisition of Monsanto, net of €2,657 million in cash acquired from Monsanto.
// There was a net cash inflow of €1,107 million from the acquisition and sale of Covestro shares. There was a net inflow of €2,162 million from the sale of Covestro shares, while the acquisition of shares held by the Bayer Pension Trust – to be used to repay the convertible bond maturing in 2020 – resulted in an outflow of €1,055 million.
// The net cash inflow from current financial assets amounted to €6,424 million (Q2 2017: outflow of €776 million).

// Cash outflows for property, plant and equipment and intangible assets were 9.3% lower in the first half of 2018 at €808 million (H1 2017: €891 million) and included €340 million (H1 2017: €294 million) at Pharmaceuticals, €73 million (H1 2017: €55 million) at Consumer Health, €237 million (H1 2017: €234 million) at Crop Science and €14 million (H1 2017: €11 million) at Animal Health. The prior-year figures included €166 million at Covestro.
// There was a total net cash inflow of €2,909 million from the acquisition and sale of Covestro shares.
// The net cash inflow from current financial assets amounted to €2,712 million (H1 2017: net cash outflow of €1,359 million).

Net cash used in financing activities

// In the second quarter of 2018, there was a net cash inflow of €35,746 million for financing activities, mainly from the issuance of bonds and from further net borrowings totaling €29,151 million (Q2 2017: €1,014 million).
// Capital increases resulted in an inflow of €8,986 million.
// There was an outflow of €2,403 million for dividend payments.
// The figure for the prior-year quarter included a net inflow of €1,045 million from the sale of Covestro shares while that company remained fully consolidated.

// In the first half of 2018, there was a net cash inflow of €35,165 million for financing activities, mainly from the issuance of bonds and from further net borrowings totaling €28,644 million (H1 2017: €270 million).
// The figure for the prior-year period included a net inflow of €2,505 million from the sale of Covestro shares while that company remained fully consolidated.

Liquid assets and net financial debt

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Net Financial Debt[1]

€ million	Dec. 31, 2017	March 31, 2018	June 30, 2018	Change vs. March 31, 2018 (%)
Bonds and notes/promissory notes	12,436	12,290	35,495	+188.8
of which hybrid bonds[2]	4,533	4,534	4,535	.
Liabilities to banks	534	611	14,441	.
Liabilities under finance leases	238	248	389	+56.9
Liabilities from derivatives[3]	240	199	201	+1.0
Other financial liabilities	970	686	1,603	+133.7
Receivables from derivatives[3]	(244)	(223)	(355)	+59.2
Financial debt	**14,174**	**13,811**	**51,774**	**.**
Cash and cash equivalents	(7,581)	(5,332)	(4,981)	–6.6
Current financial assets[4]	(2,998)	(6,829)	(1,042)	–84.7
Noncurrent financial assets[5]	–	–	(1,054)	.
Net financial debt	**3,595**	**1,650**	**44,697**	**.**

[1] For definition see Annual Report 2017, 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 financial investments in debt and equity instruments that were recorded as current on first-time recognition.
[5] These solely comprise the remaining interest in Covestro that is to be used to repay the convertible bond issued in 2017 that will mature in 2020.

// Net financial debt of the Bayer Group increased to €44.7 billion in the second quarter of 2018 due to the acquisition of Monsanto.
// Measures undertaken to finance the acquisition included the issuance in June 2018 of US$15 billion and €5 billion in bonds via our subsidiaries Bayer U.S. Finance II LLC, Pittsburgh, United States, and Bayer Capital Corporation B.V., Mijdrecht, Netherlands, respectively.
// Bonds with a nominal value of US$6.9 billion were acquired from Monsanto in connection with the acquisition.
// The increase in liabilities to banks mainly resulted from the use of the bridge financing for the acquisition of Monsanto.
// The other financial liabilities as of June 30, 2018, contained €530 million related to the mandatory convertible notes issued in November 2016 and €730 million in commercial paper.

// Net financial debt includes three subordinated hybrid bonds with a total volume of €4.5 billion, 50% of which is treated as equity by the rating agencies. As such, the hybrid bonds have a positive impact on the Group's rating-specific debt indicators.
// The table below illustrates how the rating agencies assess our creditworthiness following the acquisition of Monsanto, with the investment grade ratings from all three agencies demonstrating good creditworthiness:

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Rating

Rating agency	Long-term rating	Short-term rating	Outlook
S&P Global Ratings	BBB	A–2	stable
Moody's	Baa1	P–2	negative
Fitch Ratings	A–	F2	stable

Asset and capital structure

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Bayer Group Summary Statements of Financial Position

€ million	Dec. 31, 2017	March 31, 2018	June 30, 2018	Change %
Noncurrent assets	**45,014**	**42,225**	**98,713**	**+133.8**
Assets held for sale	2,081	3,132	3,720	+18.8
Other current assets	27,992	30,037	34,097	+13.5
Current assets	**30,073**	**33,169**	**37,817**	**+14.0**
Total assets	**75,087**	**75,394**	**136,530**	**+81.1**
Equity	**36,861**	**38,384**	**47,219**	**+23.0**
Noncurrent liabilities	24,633	23,912	62,549	+161.6
Liabilities directly related to assets held for sale	111	520	669	+28.7
Other current liabilities	13,482	12,578	26,093	+107.4
Current liabilities	13,593	13,098	26,762	+104.3
Liabilities	**38,226**	**37,010**	**89,311**	**+141.3**
Total equity and liabilities	**75,087**	**75,394**	**136,530**	**+81.1**

// Between March 31, 2018, and June 30, 2018, total assets increased by €61.1 billion to €136.5 billion, mainly due to the acquisition of Monsanto.
// Noncurrent assets increased by €56.5 billion to €98.7 billion. Intangible assets of €27.1 billion – mainly comprising patents and technologies (€17.4 billion), research projects (€4.3 billion) and trademarks (€4.2 billion) – and property, plant and equipment of €6.3 billion were acquired in connection with the acquisition. Goodwill of €23 billion was additionally recognized. Investments accounted for using the equity method declined by €2.1 billion, largely through the sale of further Covestro shares.
// Total current assets increased by €4.6 billion to €37.8 billion. Among the items acquired from Monsanto were receivables of €7.2 billion and inventories of €4.9 billion. Other financial assets declined by €5.8 billion to €1.6 billion, mainly due to their utilization in financing the acquisition. Assets held for sale, which were related to the acquisition of Monsanto and the planned divestment of the prescription dermatology business of Consumer Health, increased by €0.6 billion.

// Equity rose by €8.8 billion compared with March 31, 2018, to €47.2 billion. In April 2018, the investment firm Temasek subscribed to 31 million new Bayer shares, for total gross proceeds of €3 billion. In June 2018, we raised €6.0 billion in net proceeds from a capital increase out of authorized capital against cash contributions and with subscription rights for existing Bayer stockholders. Equity was increased by €0.8 billion through income after income taxes, by €1.0 billion through currency effects recognized outside profit or loss, by €0.3 billion through the change in the fair value of equity instruments recognized at fair value, and by €0.1 billion through the decline in pension provisions recognized outside profit or loss. By contrast, the dividend payment of €2.4 billion reduced equity. The equity ratio decreased to 34.6% as of June 30, 2018 (March 31, 2018: 50.9%).

// Liabilities rose by €52.3 billion as of June 30, 2018, to €89.3 billion. Financial liabilities of €8.7 billion, reimbursement obligations of €3.3 billion and other liabilities of €2.9 billion were assumed in connection with the acquisition. Furthermore, deferred tax liabilities of €8.0 billion were recognized in connection with the acquisition due to the measurement of the acquired assets and liabilities at fair value. Noncurrent liabilities rose by €38.6 billion overall to €62.5 billion. In particular, the newly issued bonds and the loans obtained to finance the acquisition led to increases of €23.2 billion and €13.8 billion in the respective line items in the statement of financial position. Current liabilities increased by €13.7 billion to €26.8 billion.

2. Research, Development, Innovation

Bayer Group expenses for research and development increased by 8.9% (Fx adj.) to €1,261 million in the second quarter of 2018.

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Research and Development Expenses

	R&D expenses						R&D expenses before special items					
			Change %			Change %			Change %			Change %
€ million	Q2 2017	Q2 2018	Fx adj.	H1 2017	H1 2018	Fx. adj.	Q2 2017	Q2 2018	Fx adj.	H1 2017	H1 2018	Fx. adj.
Pharmaceuticals	707	765	+11.5	1,419	1,458	+6.6	638	722	+16.5	1,317	1,415	+11.5
Consumer Health	65	55	−9.7	124	110	−4.1	59	57	+2.9	116	112	+4.1
Crop Science	275	390	+7.5	558	647	+1.8	273	383	+5.5	555	637	+0.5
Animal Health	38	37	−0.3	71	67	−1.8	38	35	−5.0	71	65	−4.8
Reconciliation	12	14	+21.7	19	19	−1.6	12	14	+21.7	19	19	−1.6
Total Group	**1,097**	**1,261**	**+8.9**	**2,191**	**2,301**	**+4.4**	**1,020**	**1,211**	**+12.0**	**2,078**	**2,248**	**+7.5**

Pharmaceuticals

We are conducting clinical trials with several drug candidates from our research and development pipeline.

Progress in Phase II clinical projects

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)[2]	Malignant pleural mesothelioma
BAY 1093884 (anti-TFPI antibody)	Hemophilia
BAY 1128688 (AKR1C3 inhibitor)	Endometriosis
Fulacimstat (BAY 1142524, chymase inhibitor)	Heart failure
Fulacimstat (BAY 1142524, chymase inhibitor)	Chronic kidney disease
BAY 1193397 (AR alpha 2c rec ant.)	Peripheral artery disease (PAD)
BAY 1213790 (anti-FXIa antibody)	Prevention of thrombosis
BAY 1902607 (P2X3 antagonist)	Chronic cough
BAY 2253651 (TASK channel blocker)	Obstructive sleep apnea
BAY 2306001 (IONIS-FXIRx)[3]	Prevention of thrombosis
Levonorgestrel + indomethacin combi IUS	Contraception
Neladenoson bialanate (BAY 1067197)	Chronic heart failure with reduced (HFrEF) and preserved (HFpEF) ejection fraction
Radium-223 dichloride	Breast cancer with bone metastases
Radium-223 dichloride	Multiple myeloma
Riociguat	Systemic sclerosis
Rogaratinib (pan-FGFR inhibitor)	Urothelial cancer
Vilaprisan (S-PRM)	Endometriosis

[1] As of August 27, 2018

[2] This trial did not meet its primary endpoint. However, it has not yet been terminated. Additional studies investigating anetumab ravtansine as a treatment for different forms of solid tumors are ongoing. See the Bayer Annual Report 2017 for more information.

[3] Sponsored by Ionis 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.

The Phase II trials with nesvacumab plus aflibercept (tradename: Eylea™) in the indications diabetic macular edema and wet age-related macular degeneration have been concluded.

In August 2018, the first data from the Phase II PANTHEON trial with neladenoson bialanate (BAY 1067197) in patients with heart failure with reduced ejection fraction (HFrEF) were presented at the European Society of Cardiology (ESC). Neladenoson bialanate is an oral selective partial adenosine A1 receptor agonist. The aim of the study was to investigate the safety, pharmacological profile and optimal dose of neladenoson bialanate in once-daily administration. The study did not achieve the defined primary endpoint for efficacy. No safety concerns were identified. The study data are being further analyzed and the next steps considered.

Progress in Phase III clinical projects

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

A 24

Research and Development Projects (Phase III)[1]

Projects	Indication
Copanlisib (PI3K inhibitor)	Various forms of non-Hodgkin lymphoma (NHL)
Darolutamide (ODM-201, AR antagonist)	Castration-resistant nonmetastatic prostate cancer
Darolutamide (ODM-201, AR antagonist)	Hormone-sensitive metastatic prostate cancer
Finerenone (MR antagonist)	Diabetic kidney disease
Molidustat (HIF-PH inhibitor)	Renal anemia
Radium-223 dichloride[2]	Combination treatment of castration-resistant prostate cancer
Rivaroxaban[3]	Anticoagulation in patients with chronic heart failure
Rivaroxaban[3]	Prevention of venous thromboembolism in high-risk patients after discharge from hospital
Rivaroxaban	Peripheral artery disease (PAD)
Rivaroxaban	VTE treatment in children
Vericiguat (sGC stimulator)[4]	Chronic heart failure
Vilaprisan (S-PRM)	Symptomatic uterine fibroids

[1] As of August 27, 2018

[2] This trial was unblinded ahead of schedule and there are no patients who are still receiving the combination therapy. Otherwise, however, the trial is continuing, especially with regard to per protocol patient monitoring. The final assessment has not yet been completed. For more information, see the Bayer Annual Report 2017.

[3] Sponsored by Janssen Research & Development, LLC

[4] Sponsored by Merck & Co., Inc., U.S.A.

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.

At the ESC congress in Munich in August 2018, Bayer and development partner Janssen Research & Development, LLC, United States, presented the results of the clinical Phase III COMMANDER HF and MARINER trials investigating the oral Factor Xa inhibitor rivaroxaban (tradename: Xarelto™). The COMMANDER HF trial investigated whether, when administered additionally to the standard therapy, rivaroxaban reduces the risk of cardiovascular events in coronary heart disease patients following an episode of worsening of heart failure. The data showed a reduction in thrombotic events in patients treated with rivaroxaban, but this was outweighed by the high rate of nonthrombotic events in both study arms, resulting in failure to achieve the primary endpoint of the study. The MARINER trial investigated whether rivaroxaban is superior to placebo in the prevention of venous thromboembolism (VTE) after hospital discharge for medical patients at high risk of VTE. The evaluation showed that the VTE event rate after discharge in patients who had received adequate antithrombotic treatment in hospital was so low that there was no discernible difference.

Filings and approvals

The most important drug candidates in the approval process are shown below.

A 25

Main Products Submitted for Approval[1]

Projects	Indication
Damoctocog alpha pegol (long-acting rFVIII)	Europe, U.S.A., Japan: Hemophilia A
Rivaroxaban	U.S.A.: Prevention of major adverse cardiac events (MACE), COMPASS trial
Rivaroxaban[2]	U.S.A.: secondary prophylaxis of acute coronary syndrome (ACS), Rivaroxaban in combination with dual antiplatelet therapy (DAPT), ATLAS trial
Larotrectinib (LOXO-101, TRK fusion inhibitor)[3]	U.S.A.: Solid tumors with NTRK gene fusions

[1] As of August 27, 2018
[2] Submitted by Janssen Research & Development, LLC
[3] Submitted by Loxo Oncology, Inc.

In May 2018, Eylea™ (active ingredient: aflibercept solution for injection into the eye) was approved by the Chinese regulatory authorities for the treatment of visual impairment due to neovascular (wet) age-related macular degeneration (nAMD).

Also in May 2018, the United States Food and Drug Administration (FDA) granted priority review status for the development candidate larotrectinib. The registration application refers to the treatment of adult and pediatric cancer patients with locally advanced or metastatic solid tumors in which neurotrophic tyrosine receptor kinase (NTRK) genes that code for the tropomyosin receptor kinase (TRK) receptors have fused with other DNA segments. In August 2018, Bayer filed an application seeking approval of larotrectinib in the European Union as well.

In July 2018, Kovaltry™ (active ingredient: octocog alfa) was approved by the Chinese regulatory authorities for use in adults and children with hemophilia A for routine prophylaxis, on-demand treatment and perioperative management of bleeding. Kovaltry™ is a full-length recombinant Factor VIII product.

In August 2018, the European Commission approved a new treatment approach for Eylea™ that enables early extension of the injection interval for patients with neovascular age-related macular degeneration (nAMD) already in the first year of treatment. The new regimen allows clinicians to extend patients' individual injection intervals based on visual and/or anatomic outcomes.

Also in August 2018, the European Commission approved a combination of Xarelto™ (rivaroxaban) 2.5 mg twice daily plus acetylsalicylic acid (ASA) 75 to 100 mg once daily for the prevention of atherothrombotic events in adults with coronary artery disease (CAD) or symptomatic peripheral artery disease (PAD) at high risk for ischemic events. The E.U. approval is based on the findings from the clinical Phase III COMPASS trial, which demonstrated that rivaroxaban in the specified dose reduced the risk of the composite of stroke, cardiovascular (CV) death and heart attack by a significant 24% (relative risk reduction) compared with ASA 100mg once daily alone in patients with CAD or PAD.

Cooperations

In May 2018, Bayer and the MD Anderson Cancer Center at the University of Texas in Houston, United States, signed a five-year collaboration agreement to accelerate the development of novel targeted treatments based on patient or tumor characteristics for which current therapies have not shown satisfactory clinical efficacy.

In June 2018, Bayer and the Broad Institute of the U.S. universities MIT and Harvard expanded their strategic research collaboration for the development of new therapies for patients with cardiovascular diseases such as heart failure. Researchers from the Broad Institute and the Bayer Group are working together in a joint Precision Cardiology Laboratory at the Broad Institute in Boston. The collaboration is focused on better understanding cardiovascular diseases on a molecular level and developing new therapies for patients.

In August 2018, Bayer and Haplogen GmbH, Austria, entered into a multi-year research collaboration agreement to identify and develop new drug candidates for the treatment of pulmonary diseases such as chronic obstructive pulmonary disease (COPD).

Crop Science

Research and development pipeline

The existing innovation activities of Crop Science are now complemented by the product innovation pipeline of Monsanto. The acquired pipeline includes multiple next generations of insect and weed control biotech plant traits, several new seed treatments to be launched through 2020, and more than 35 projects in the Climate FieldView pipeline.

The table below shows Bayer's current product innovation pipeline:

A 26

Product Innovation Pipeline[1]

Market launch	Product group	Indication/crop	Product/trait
2019	Seeds	Rice	Salt and flood tolerance (native trait)
2019	Chemical crop protection	Insecticide	Tetraniliprole
2019	Chemical crop protection	Fungicide	Tiviant™
2019	Seeds	Rice	Dual disease tolerance (native trait)

[1] The product innovation pipeline comprises planned market launches of selected new products.
As of August 1, 2018

An updated, integrated pipeline overview will be available in the next Annual Report.

Cooperations, new products and registrations

We signed the following cooperation agreements in the second quarter; activities related to the newly acquired business have been included since the transaction closed on June 7, 2018.

In April we joined with International Finance Corporation (Washington D.C., United States), Netafim Ltd. (Tel Aviv, Israel) and Swiss Re Corporate Solutions Ltd. (Zürich, Switzerland) in launching a global alliance named "Better Life Farming." The aim is to provide holistic and innovative solutions for smallholder farmers in the developing world with less than two hectares of land to enable them to grow their farms into sustainable businesses.

In June, Bayer – through Monsanto Company (St. Louis, Missouri, United States) – and Corteva Agriscience™ (Indianapolis, Indiana, United States), the agriculture division of DowDuPont Inc., reached an agreement on an expanded license for Roundup Ready 2 Xtend™ technology in soybeans. Through this license, Corteva Agriscience™ will offer U.S. and Canadian growers additional weed control flexibility through broader access to Roundup Ready 2 Xtend™ technology across its North America seed brand portfolio.

Animal Health

In July, Bayer Animal Health and Mitsui Chemicals Agro, Inc. (MCAG), Tokyo, Japan, signed a global license agreement to develop and commercialize novel parasiticides for companion animals based on intellectual property from MCAG.

3. Report on Future Perspectives and on Opportunities and Risks

3.1 Future Perspectives

3.1.1 Economic Outlook

A 27

Economic Outlook[1]

	Growth 2017	Growth forecast 2018
World	+3.3%	+3.3%
European Union	+2.6%	+2.1%
of which Germany	+2.5%	+2.2%
United States	+2.3%	+3.0%
Emerging Markets[2]	+4.8%	+4.8%

2017 figures restated
[1] Real growth of gross domestic product, source: IHS Markit
[2] Including about 50 countries defined by IHS Markit as Emerging Markets in line with the World Bank
As of July 2018

We continue to expect the global economy to achieve strong growth. However, the risks for the world economy have increased, especially due to the current conflicts over trade policy. We expect greater growth dynamics in the United States, while growth in Europe will likely be lower than in the prior year. As for the Emerging Markets, we anticipate a strong increase in economic output to match the pace of the prior year, while for China we continue to anticipate strong growth at a slightly slower rate than in the prior year.

A 28

Economic Outlook for the Segments[1]

	Growth 2017	Growth forecast 2018
Pharmaceuticals market	+3%	+4%
Consumer health market	+3–4%	+3–4%
Seed and crop protection market	+1%	+2–3%
Animal health market	+2%	+4%

2017 figures restated
[1] Bayer's estimate, except pharmaceuticals; source for pharmaceuticals market: IQVIA Market Prognosis (May 2018); all rights reserved; currency-adjusted
As of July 2018

3.1.2 Corporate Outlook

Following the closing of the Monsanto acquisition on June 7, 2018, and taking into account the business development described in this report and the potential risks and opportunities, we have revised our expectations for fiscal 2018.

Our outlook now includes the sales and earnings contributions from Monsanto since the date of acquisition. As the transaction closed later than we had anticipated, 2018 earnings will be lower than we had projected in our February forecast including Monsanto due to the seasonality of the agricultural business. Our outlook takes into account the financing costs for the acquisition of Monsanto shares as well as the higher number of shares of Bayer AG following the capital increases on a pro rata temporis basis. The businesses divested to BASF are excluded as of their respective divestment dates.

The forecasts are based on the exchange rates as of June 30, 2018, and adjusted for currency effects[4] to enhance the comparability of operating performance.

We now expect Bayer Group sales of more than €39 billion (previously: below €35 billion), with more than €5 billion attributable to the acquired business. The divestment of selected businesses to BASF will reduce anticipated sales by approximately €1 billion. This forecast now corresponds to a mid-single-digit percentage increase (previously: low- to mid-single-digit percentage increase) on a currency- and portfolio-adjusted basis.

We now expect EBITDA before special items to increase by a low- to mid-single-digit percentage (previously: decline by a low-single-digit percentage). On a currency-adjusted basis, this corresponds to an increase by a high-single-digit percentage (previously: increase by a mid-single-digit percentage).

We now expect core earnings per share to come in at between €5.70 and €5.90 (previously: at the prior-year level). On a currency-adjusted basis, this corresponds to a decrease by a high-single-digit percentage (previously: increase by a mid-single-digit percentage). Prior-year core earnings per share were restated to €6.64 to reflect the bonus component of the capital increase with subscription rights, and this is taken into account here.

A 29

Forecast for Key Financial Data of the Group for 2018

	Closing rates on June 30, 2018	Currency-adjusted
Sales	More than €39 billion	Increase by a mid-single-digit percentage[1]
Development of EBITDA before special items	Increase by a low- to mid-single-digit percentage	Increase by a high-single-digit percentage
Development of core earnings per share	€5.70 – €5.90	Decrease by a high-single-digit percentage

[1] Adjusted for currency and portfolio effects

We aim to pay out a dividend for 2018 that is at least at the same level as in the prior year, which would represent an upward deviation from our existing dividend policy (30-40% of core earnings per share as a mathematical basis for calculating the dividend payout). Due to the late closing of the Monsanto acquisition, anticipated core earnings per share for the full year will only include a small contribution from the acquired business. However, we will be able to utilize substantial operating cash flows from the acquired business due to seasonal trends. Bayer is also able to benefit from earnings contributions in the form of expected proceeds from the divestments to BASF and income from the sale of Covestro shares that has already been recognized. Overall, net financial debt at the end of the year will therefore be significantly lower than originally anticipated. Taking into account the cash flows and in view of the successful performance the combined business is expected to deliver, we want to enable our shareholders to share in our company's success by paying out an attractive dividend.

For **Pharmaceuticals**, we confirm our previous sales and earnings guidance.

For **Consumer Health**, we confirm our expectations for sales and currency-adjusted EBITDA before special items. As for EBITDA before special items, we now anticipate a decline by a mid-single-digit percentage (previously: decline by a low-single-digit percentage) as a result of currency effects.

For **Crop Science**, we now forecast sales of slightly more than €14 billion (previously: more than €9.5 billion). As previously outlined, this includes a positive sales effect of more than €5 billion from the acquired business as well as a negative effect of approximately €1 billion from the divestment of selected businesses to BASF. We continue to expect a mid-single-digit percentage increase on a currency- and portfolio-

[4] Using the average monthly exchange rates from 2017 (see B 4/1)

adjusted basis. As for EBITDA before special items, we anticipate an increase by a mid-twenties percentage (previously: mid- to high-single-digit percentage). On a currency-adjusted basis, we now anticipate an increase of around 30% (previously: mid-teens percentage increase).

For the **Animal Health** segment, the Reconciliation and Bayer AG, we confirm our sales and earnings guidance.

A 30

Forecast for Other Key Data of the Group for 2018

	Updated forecast	Forecast as of Feb. 28, 2018
Special charges	Special gain[1] of around €1.9 billion	Special charges of around €0.4 billion
Research and development expenses	Around €4.9 billion	Around €4.1 billion
Capital expenditures	Around €2.8 billion	Around €2.2 billion
of which for intangible assets	Around €0.6 billion	Around €0.6 billion
Depreciation and amortization	Around €3.0 billion	Around €2.2 billion
of which on intangible assets	Around €2.0 billion	Around €1.2 billion
Financial result	Around minus €1.2 billion	Around minus €1 billion
Effective tax rate	21.0%	20.0%
Net financial debt	around €37 billion	Net liquidity position[2]

[1] Mainly comprising income from disposals of certain Crop Science activities as required by antitrust authorities
[2] Excluding capital and portfolio measures

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 or 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 opportunity and risk status are outlined in detail in the Annual Report 2017, A 3.2 “Opportunity and Risk Report.” There have not been any material changes to Bayer’s risk profile compared with our description in the Annual Report 2017, without taking the Monsanto acquisition into account.

Change in the risk portfolio due to the Monsanto acquisition

Monsanto retained responsibility for managing Monsanto-related risks during the reporting period. These risks will be accounted for in our ERM process in the course of the coming integration measures. The following risk overview therefore pertains to the risks identified and recently published by Monsanto. The risks were not evaluated with regard to their probability or damage potential. Risks that ceased to exist due to the closing of the transaction are not listed here.

The following table shows an allocation of risks reported externally by Monsanto to Bayer’s main risk categories. Each of these risks was allocated solely to what we regard as the primary risk category. The occurrence of such risks could impact the entire Group and its reputation in the same way as risks pertaining to the original Bayer segments.

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Material Risk Areas of Bayer and Risks Reported by Monsanto

Bayer risk areas	Extracts from Monsanto's external risk report
Strategic risks	
	Business transactions
Operational performance risks	
	Intellectual property
	Development and commercialization of pipeline products
	Fluctuations in commodity prices
	Production
	Seasonal working capital needs and indebtedness
Safety, quality and compliance risks	
	Regulation of seed biotechnology, agricultural products, and research and manufacturing processes
	Public understanding and public acceptance of biotechnology and other agricultural products
	Compliance with quality controls and regulations
	Legal proceedings[1]
External risks	
	Competition
	Business operations outside the United States
	Weather, natural disasters, accidents and security breaches (incl. cybersecurity incidents)

[1] Significant developments that have occurred in respect of the legal risks since publication of the Annual Report 2017 (Note [32] to the Consolidated Financial Statements) are described in the Notes to the Condensed Consolidated Interim Financial Statements under "Legal Risks"

The sections of Monsanto's risk report that we currently do not believe were reported on in comparable form in the Bayer Annual Report 2017, A 3.2 "Opportunity and Risk Report," are described below:

Fluctuations in commodity prices

Production is contracted with multiple growers at fair value, and the seed is retained in inventory until it is sold. These purchases constitute a significant portion of seed manufacturing costs. Additionally, chemical manufacturing operations use chemical intermediates and energy, which are subject to increases in price as the costs of oil and natural gas increase. Accordingly, increases in commodity prices may negatively affect the cost of goods sold or lead to seed or chemical price increases, which could adversely affect sales. Hedging strategies and raw material supply agreements are applied that contain terms designed to mitigate the risk of short-term changes in commodity prices. However, this is not possible with regard to medium- and long-term increases. Farmers' incomes are also affected by commodity prices, fluctuations in which could impact the demand for seed and chemical products.

Seasonal working capital needs and current levels of indebtedness

Current levels of indebtedness and seasonal working capital needs may reduce financial and operational flexibility. For example, credit is regularly extended to customers in certain areas of the world to enable them to acquire crop production products and seeds at the beginning of their growing seasons. Due to these credit practices as well as the seasonality of sales and costs, short-term debt may need to be issued at certain times of the year to fund cash flow requirements. Levels of short-term debt may be greater to the extent that customer receivables are unable to be collected when due.

Overall assessment by the Board of Management

Compared with our commentary in the Annual Report 2017, we see no material changes in our risk situation, as we had anticipated an intensification of our risk situation as a result of the acquisition of Monsanto, which had been imminent at the time. Now that the transaction has closed, Monsanto's risks have been transferred to Bayer.

We currently are not aware of any individual risks, risk combinations or risk interdependencies that could endanger the Bayer Group's continued existence.

Significant developments that have occurred in respect of the legal risks since publication of the Bayer Annual Report 2017 (Note [32] to the Consolidated Financial Statements) are described in the Notes to the Condensed Consolidated Interim Financial Statements under "Legal Risks." That section also contains Monsanto risks that appear material from the viewpoint of the Bayer Group.

Condensed Consolidated Interim Financial Statements as of June 30, 2018

Bayer Group Consolidated Income Statements

B 1

€ million	Q2 2017	Q2 2018	H1 2017	H1 2018
Net sales	**8,714**	**9,481**	**18,394**	**18,619**
Cost of goods sold	(2,783)	(3,512)	(5,770)	(6,421)
Gross profit	**5,931**	**5,969**	**12,624**	**12,198**
Selling expenses	(2,831)	(2,940)	(5,498)	(5,449)
Research and development expenses	(1,097)	(1,261)	(2,191)	(2,301)
General administration expenses	(493)	(573)	(953)	(1,000)
Other operating income	185	185	344	337
Other operating expenses	(232)	(29)	(436)	(124)
EBIT[1]	**1,463**	**1,351**	**3,890**	**3,661**
Equity-method income (loss)	(5)	27	(12)	98
Financial income	100	160	132	530
Financial expenses	(464)	(509)	(785)	(820)
Financial result	**(369)**	**(322)**	**(665)**	**(192)**
Income before income taxes	**1,094**	**1,029**	**3,225**	**3,469**
Income taxes	(258)	(216)	(682)	(710)
Income from continuing operations after income taxes	**836**	**813**	**2,543**	**2,759**
of which attributable to noncontrolling interest	2	6	–	6
of which attributable to Bayer AG stockholders (net income)	**834**	**807**	**2,543**	**2,753**
Income from discontinued operations after income taxes	**641**	**(8)**	**1,205**	**–**
of which attributable to noncontrolling interest	251	–	441	–
of which attributable to Bayer AG stockholders (net income)	**390**	**(8)**	**764**	**–**
Income after income taxes	**1,477**	**805**	**3,748**	**2,759**
of which attributable to noncontrolling interest	253	6	441	6
of which attributable to Bayer AG stockholders (net income)	**1,224**	**799**	**3,307**	**2,753**
Shares				
Weighted average number of shares[2]	885,186,889	915,694,644	884,826,889	900,704,047
€				
Earnings per share				
From continuing operations				
Basic	0.94	0.88	2.87	3.06
Diluted	0.94	0.88	2.87	3.06
From discontinued operations				
Basic	0.44	(0.01)	0.87	0.00
Diluted	0.44	(0.01)	0.87	0.00
From continuing and discontinued operations				
Basic	1.38	0.87	3.74	3.06
Diluted	1.38	0.87	3.74	3.06

2017 figures restated

[1] For definition see Annual Report 2017, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

[2] Weighted average number of shares (basic and diluted) restated for all periods prior to June 2018 to reflect the effect of the bonus component of the subscription rights issued as part of the June 2018 capital increase

Bayer Group Consolidated Statements of Comprehensive Income

B 2

€ million	Q2 2017	Q2 2018	H1 2017	H1 2018
Income after income taxes	**1,477**	**805**	**3,748**	**2,759**
of which attributable to noncontrolling interest	253	6	441	6
of which attributable to Bayer AG stockholders	1,224	799	3,307	2,753
Remeasurements of the net defined benefit liability for post-employment benefit plans	300	82	905	(94)
Income taxes	(132)	59	(327)	58
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**168**	**141**	**578**	**(36)**
Changes in fair values of equity instruments measured at fair value	–	90	–	185
Income taxes	–	(2)	–	(2)
Other comprehensive income from equity instruments measured at fair value	**–**	**88**	**–**	**183**
Other comprehensive income relating to associates accounted for using the equity method	**–**	**17**	**–**	**4**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**168**	**246**	**578**	**151**
Changes in fair values of cash flow hedges	10	292	(78)	352
Reclassified to profit or loss	(27)	(26)	27	(57)
Reclassified to goodwill	–	(37)	–	(37)
Income taxes	8	(75)	23	(83)
Other comprehensive income from cash flow hedges	**(9)**	**154**	**(28)**	**175**
Changes in fair values of available-for-sale financial assets	(27)	–	(34)	–
Reclassified to profit or loss	–	–	–	–
Income taxes	(1)	–	8	–
Other comprehensive income from available-for-sale financial assets	**(28)**	**–**	**(26)**	**–**
Changes in exchange differences recognized on translation of operations outside the eurozone	(1,213)	1,021	(1,384)	639
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	**(1,213)**	**1,021**	**(1,384)**	**639**
Other comprehensive income relating to associates accounted for using the equity method	**40**	**3**	**47**	**2**
Other comprehensive income that may be reclassified subsequently to profit or loss	**(1,210)**	**1,178**	**(1,391)**	**816**
Total other comprehensive income[1]	**(1,042)**	**1,425**	**(813)**	**968**
of which attributable to noncontrolling interest	(86)	(1)	(63)	(5)
of which attributable to Bayer AG stockholders	(956)	1,426	(750)	973
Total comprehensive income	**435**	**2,230**	**2,935**	**3,727**
of which attributable to noncontrolling interest	167	5	378	1
of which attributable to Bayer AG stockholders	268	2,225	2,557	3,726

[1] Total income and expense items (including reclassifications) that may not or must not be recognized through profit or loss according to other IFRS

Bayer Group Consolidated Statements of Financial Position

B 3

€ million	June 30, 2017	June 30, 2018	Dec. 31, 2017
Noncurrent assets			
Goodwill	15,823	37,770	14,751
Other intangible assets	12,685	38,312	11,674
Property, plant and equipment	12,672	13,762	7,633
Investments accounted for using the equity method	548	501	4,007
Other financial assets	1,402	2,815	1,634
Other receivables	526	783	400
Deferred taxes	6,332	4,770	4,915
	49,988	**98,713**	**45,014**
Current assets			
Inventories	8,459	11,089	6,550
Trade accounts receivable	12,077	14,254	8,582
Other financial assets	7,233	1,556	3,529
Other receivables	1,652	1,600	1,276
Claims for income tax refunds	455	617	474
Cash and cash equivalents	2,773	4,981	7,581
Assets held for sale	3	3,720	2,081
	32,652	**37,817**	**30,073**
Total assets	**82,640**	**136,530**	**75,087**
Equity			
Capital stock	2,117	2,387	2,117
Capital reserves	9,658	18,388	9,658
Other reserves	20,875	26,371	25,026
Equity attributable to Bayer AG stockholders	**32,650**	**47,146**	**36,801**
Equity attributable to noncontrolling interest	2,833	73	60
	35,483	**47,219**	**36,861**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	9,618	8,352	8,020
Other provisions	1,631	1,929	1,366
Refund liabilities	–	233	–
Contract liabilities	–	889	–
Financial liabilities	14,168	42,593	12,483
Income tax liabilities	505	810	495
Other liabilities	985	291	1,116
Deferred taxes	1,490	7,452	1,153
	28,397	**62,549**	**24,633**
Current liabilities			
Other provisions	5,631	2,424	4,344
Refund liabilities	–	5,920	–
Contract liabilities	–	529	–
Financial liabilities	5,037	9,536	1,935
Trade accounts payable	5,211	4,861	5,129
Income tax liabilities	935	504	422
Other liabilities	1,946	2,319	1,652
Liabilities directly related to assets held for sale	–	669	111
	18,760	**26,762**	**13,593**
Total equity and liabilities	**82,640**	**136,530**	**75,087**

Bayer Group Consolidated Statements of Cash Flows

B 4

€ million	Q2 2017	Q2 2018	H1 2017	H1 2018
Income from continuing operations after income taxes	836	813	2,543	2,759
Income taxes	258	216	682	710
Financial result	369	322	665	192
Income taxes paid	(491)	(540)	(984)	(928)
Depreciation, amortization and impairments	672	666	1,244	1,174
Change in pension provisions	(82)	(73)	(145)	(171)
(Gains) losses on retirements of noncurrent assets	14	(40)	(36)	(60)
Decrease (increase) in inventories	31	267	(69)	183
Decrease (increase) in trade accounts receivable	334	1,458	(1,311)	109
(Decrease) increase in trade accounts payable	(117)	(106)	(845)	(542)
Changes in other working capital, other noncash items	77	(743)	708	(528)
Net cash provided by (used in) operating activities from continuing operations	**1,901**	**2,240**	**2,452**	**2,898**
Net cash provided by (used in) operating activities from discontinued operations	412	–	702	–
Net cash provided by (used in) operating activities (total)	**2,313**	**2,240**	**3,154**	**2,898**
Cash outflows for additions to property, plant, equipment and intangible assets	(476)	(459)	(891)	(808)
Cash inflows from the sale of property, plant, equipment and other assets	19	23	73	82
Cash inflows from divestments	54	69	54	214
Cash inflows from (outflows for) noncurrent financial assets	(42)	1,211	(96)	2,988
Cash outflows for acquisitions less acquired cash	–	(45,316)	(158)	(45,316)
Interest and dividends received	43	123	63	145
Cash inflows from (outflows for) current financial assets	(776)	6,424	(1,359)	2,712
Net cash provided by (used in) investing activities (total)	**(1,178)**	**(37,925)**	**(2,314)**	**(39,983)**
Capital contributions	–	8,986	–	8,986
Proceeds from shares of Covestro AG	1,045	–	2,505	–
Dividend payments	(2,361)	(2,403)	(2,361)	(2,403)
Issuances of debt	1,424	56,307	1,716	57,328
Retirements of debt	(410)	(27,156)	(1,446)	(28,684)
Interest paid including interest-rate swaps	(275)	(361)	(389)	(444)
Interest received from interest-rate swaps	28	373	37	382
Cash outflows for the purchase of additional interests in subsidiaries	–	–	–	–
Net cash provided by (used in) financing activities (total)	**(549)**	**35,746**	**62**	**35,165**
Change in cash and cash equivalents due to business activities (total)	**586**	**61**	**902**	**(1,920)**
Cash and cash equivalents at beginning of year	**2,224**	**5,338**	**1,899**	**7,436**
Change in cash and cash equivalents due to changes in scope of consolidation	–	–	–	1
Change in cash and cash equivalents due to exchange rate movements	(37)	(388)	(28)	(506)
Cash and cash equivalents at end of year	**2,773**	**5,011**	**2,773**	**5,011**

2017 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, 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**
Dec. 31, 2017	**2,117**	**9,658**	**25,026**	**36,801**	**60**	**36,861**
Adjustment of retained earnings on adoption of IFRS 9 (net of tax)			(60)	(60)		(60)
Adjustment of retained earnings on adoption of IFRS 15 (net of tax)			86	86		86
Equity transactions with owners						
Capital increase/decrease	270	8,730		9,000		9,000
Dividend payments			(2,402)	(2,402)		(2,402)
Other changes			(5)	(5)	12	7
Total comprehensive income			3,726	3,726	1	3,727
June 30, 2018	**2,387**	**18,388**	**26,371**	**47,146**	**73**	**47,219**

Notes to the Condensed Consolidated Interim Financial Statements of the Bayer Group

Key Data by Segment

B 6

Key Data by Segment

	Pharmaceuticals		Consumer Health		Crop Science		Animal Health	
€ million	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018
Net sales (external)	4,304	4,217	1,542	1,413	2,163	3,011	450	453
Change[1]	+4.9%	−2.0%	−0.7%	−8.4%	−14.1%	+39.2%	+5.6%	+0.7%
Currency-adjusted change[1]	+4.4%	+2.9%	−2.2%	−1.4%	−15.8%	+46.4%	+4.0%	+7.6%
Intersegment sales	11	10	4	1	8	12	1	3
Net sales (total)	4,315	4,227	1,546	1,414	2,171	3,023	451	456
EBIT[1]	1,102	1,053	195	157	117	154	107	116
EBIT before special items[1]	1,222	1,109	210	156	212	434	107	119
EBITDA before special items[1]	1,481	1,363	314	256	317	631	116	128
Net cash provided by operating activities	528	629	297	148	1,170	1,653	97	88
Depreciation, amortization, impairment losses/loss reversals	372	297	112	100	116	199	9	9

[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

B 6 continued

Key Data by Segment

			Reconciliation			
	All Other Segments		Corporate Functions and Consolidation		Group	
€ million	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018
Net sales (external)	252	378	3	9	8,714	9,481
Change[1]	−1.6%	+50.0%	–	–	−1.6%	+8.8%
Currency-adjusted change[1]	−0.8%	+52.5%	–	–	−2.7%	+14.6%
Intersegment sales	508	624	(532)	(650)	–	–
Net sales (total)	760	1,002	(529)	(641)	8,714	9,481
EBIT[1]	45	24	(103)	(153)	1,463	1,351
EBIT before special items[1]	58	36	(102)	(140)	1,707	1,714
EBITDA before special items[1]	118	93	(99)	(136)	2,247	2,335
Net cash provided by operating activities	(74)	24	(117)	(302)	1,901	2,240
Depreciation, amortization, impairment losses/loss reversals	60	57	3	4	672	666

2017 figures restated

[1] For definition see Annual Report 2017, 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 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Net sales (external)	8,567	8,292	3,143	2,822	5,283	5,872	890	867
Change[1]	+7.2%	−3.2%	+2.3%	−10.2%	−3.1%	+11.1%	+6.7%	−2.6%
Currency-adjusted change[1]	+5.8%	+2.8%	+0.2%	−1.8%	−5.4%	+18.4%	+4.4%	+5.4%
Intersegment sales	21	19	9	2	16	20	2	5
Net sales (total)	8,588	8,311	3,152	2,824	5,299	5,892	892	872
EBIT[1]	2,321	2,216	473	368	1,087	1,046	233	245
EBIT before special items[1]	2,477	2,273	497	372	1,219	1,387	233	248
EBITDA before special items[1]	2,983	2,778	706	569	1,432	1,673	251	267
Net cash provided by operating activities	1,501	1,861	562	321	491	950	66	101
Depreciation, amortization, impairment losses/loss reversals	652	548	218	197	237	288	18	19

[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

B 7 continued

Key Data by Segment

	All Other Segments		Reconciliation: Corporate Functions and Consolidation		Group	
€ million	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Net sales (external)	504	756	7	10	18,394	18,619
Change[1]	−0.4%	+50.0%	–	–	+3.0%	+1.2%
Currency-adjusted change[1]	+0.6%	+50.3%	–	–	+1.2%	+7.9%
Intersegment sales	1,218	1,219	(1,266)	(1,265)	–	–
Net sales (total)	1,722	1,975	(1,259)	(1,255)	18,394	18,619
EBIT[1]	19	46	(243)	(260)	3,890	3,661
EBIT before special items[1]	50	66	(240)	(244)	4,236	4,102
EBITDA before special items[1]	163	180	(234)	(236)	5,301	5,231
Net cash provided by operating activities	(241)	(219)	73	(116)	2,452	2,898
Depreciation, amortization, impairment losses/loss reversals	113	114	6	8	1,244	1,174

2017 figures restated.

[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

Explanatory Notes

Accounting policies

The consolidated interim financial statements as of June 30, 2018, 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 2017 fiscal year, particularly with regard to the main recognition and measurement principles, except where financial reporting standards have been applied for the first time in 2018 or an accounting policy has changed.

Financial reporting standards applied for the first time in 2018

IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) were applied for the first time as of January 1, 2018. The effects resulting from their first-time application are detailed in this section.

IFRS 9 is the new standard for accounting for financial instruments that Bayer applied in modified form retrospectively for the first time as of January 1, 2018, without restating the prior-year figures, accounting for the aggregate amount of any transition effects by way of an adjustment to equity and presenting the comparative period in line with previous rules.

The effects that the first-time application of IFRS 9 and IFRS 15 had on retained earnings and other comprehensive income in the statement of comprehensive income are detailed in the following tables:

B 8

Retained Earnings Reconciliation: IFRS 9 and IFRS 15

€ million	
Retained earnings incl. net income as at December 31, 2017	**26,851**
Effects of IFRS 9	**(43)**
of which reclassification from other comprehensive income (fair-value measurement of financial instruments)	37
of which loss allowances established for trade accounts receivable	(93)
of which loss allowances established for other receivables	(4)
of which loss allowances established for cash and cash equivalents	(1)
of which deferred taxes	18
Effects of IFRS 15	**86**
Retained earnings incl. net income as at January 1, 2018	**26,894**

B 9

Other Comprehensive Income Reconciliation (Fair-Value Measurement of Financial Instruments)

€ million	
Fair-value measurement of financial instruments as at December 31, 2017	**98**
Reclassifications to retained earnings	(37)
Remeasurement due to change in measurement category	11
Deferred taxes	9
Fair-value measurement of financial instruments as at January 1, 2018	**81**

IFRS 9 introduces new provisions for the classification and measurement of financial assets and replaces the current rules on the impairment of financial assets. The new standard requires a change in accounting methods for the effects resulting from a change in the company's own credit risk for financial liabilities classified at fair value and modifies the requirements for hedge accounting. The classification and measurement of financial liabilities are otherwise largely unchanged from the existing regulations.

Under IFRS 9, the classification and measurement of financial assets is determined by the company's business model and the characteristics of the cash flows of each financial asset. In the case of equity instruments held as of January 1, 2018, that are not held for trading, Bayer has uniformly opted to recognize future changes in their fair value through other comprehensive income in the statement of comprehensive income and to continue to classify these as equity upon the derecognition of the financial instrument. As for new instruments, Bayer can opt to make use of this option on an instrument-by-instrument basis upon recognition, but it must continue to do so thereafter. The 6.8% interest in Covestro acquired from Bayer Pension Trust at the beginning of May 2018 to service the exchangeable bond maturing in 2020 is recognized at fair value through profit or loss.

As at the date of first-time application, reclassifications primarily resulted from the characteristics of the cash flows from fund shares, investments in limited partnerships, and the loan capital and jouissance right capital (Genussrechtkapital) provided to Bayer Pensionskasse VVaG. These financial instruments were previously reported in the category "available for sale," with changes in their fair value recognized in other comprehensive income in the statement of comprehensive income. They are now classified as debt instruments, and changes in their fair values are recognized through profit or loss.

Changes in the classification and measurement of financial assets led to the following effects as at the date of first-time application:

B 10

Financial Assets Reconciliation from IAS 39 to IFRS 9

€ million

Measurement category in accordance with IAS 39	Carrying amount (IAS 39) as of Dec. 31, 2017	Reclassification	Remeasurement due to change in measurement category	Remeasurement due to implementation of the expected loss model	Carrying amount (IFRS 9) as of Jan. 1, 2018	Measurement category in accordance with IFRS 9
Trade accounts receivable						**Trade accounts receivable**
Loans and receivables	8,582			(93)	8,489	Measured at amortized cost
Other financial assets						**Other financial assets**
Loans and receivables	1,731				1,731	Measured at amortized cost
Available-for-sale financial assets – debt instruments	34				34	Measured at amortized cost
Held-to-maturity financial assets	57				57	Measured at amortized cost
Available-for-sale financial assets – equity instruments measured at amortized cost	35		11		46	Equity instruments measured at fair value through OCI (no recycling)
Available-for-sale financial assets – equity instruments measured at fair value	191				191	Equity instruments measured at fair value through OCI (no recycling)
Available-for-sale financial assets – equity instruments measured at fair value	39				39	Debt instruments measured at fair value through profit or loss
Available-for-sale financial assets – debt instruments	2,429	145			2,574	Debt instruments measured at fair value through profit or loss
Derivatives that qualify for hedge accounting	296				296	Derivatives that qualify for hedge accounting
Derivatives that do not qualify for hedge accounting	351				351	Derivatives that do not qualify for hedge accounting
Other receivables						**Other receivables**
Loans and receivables	380			(4)	376	Measured at amortized cost
Available-for-sale financial assets – debt instruments	46				46	Debt instruments measured at fair value through profit or loss
Cash and cash equivalents						**Cash and cash equivalents**
Loans and receivables	7,581	(145)		(1)	7,435	Measured at amortized cost
Total financial assets	**21,752**	**0**	**11**	**(98)**	**21,665**	

There were no effects on financial liabilities.

The following table shows the effects of the first-time application of IFRS 9 on retained earnings and other comprehensive income in the statement of other comprehensive income, broken down by measurement category:

B 11

Effects of First-Time Application of IFRS 9 on Retained Earnings and Other Comprehensive Income

€ million

Measurement category in accordance with IAS 39	Measurement category in accordance with IFRS 9	Retained earnings effect as of Jan. 1, 2018	OCI effect as of Jan 1, 2018
Trade accounts receivable	**Trade accounts receivable**		
Loans and receivables	Measured at amortized cost	(93)	
Other financial assets	**Other financial assets**		
Available-for-sale financial assets – equity instruments measured at amortized cost	Equity instruments measured at fair value through OCI (no recycling)		11
Available-for-sale financial assets – equity instruments measured at fair value	Debt instruments measured at fair value through profit or loss	10	(10)
Available-for-sale financial assets – debt instruments	Debt instruments measured at fair value through profit or loss	36	(36)
Other receivables	**Other receivables**		
Loans and receivables	Measured at amortized cost	(4)	
Available-for-sale financial assets – debt instruments	Debt instruments measured at fair value through profit or loss	(9)	9
Cash and cash equivalents	**Cash and cash equivalents**		
Loans and receivables	Measured at amortized cost	(1)	
Total financial assets		**(61)**	**(26)**

The following table shows the effects of the first-time application of IFRS 9 on financial assets and liabilities that are based on unobservable inputs and are measured at fair value (Level 3). The development of these assets and liabilities in the first half of 2018 is presented in Table B 27.

B 12

Reconciliation of Financial Assets and Liabilities Measured at Fair Value (Level 3) from IAS 39 to IFRS 9

€ million

Measurement category in accordance with IAS 39	Carrying amount (IAS 39) as of Dec. 31, 2017	Reclassification due to change in fair value hierarchy	Remeasurement due to change in measurement category	Carrying amount (IFRS 9) as of Jan. 1, 2018	Measurement category in accordance with IFRS 9
Other financial assets					**Other financial assets**
Available-for-sale financial assets – equity instruments measured at amortized cost		35	11	46	Equity instruments measured at fair value through OCI (no recycling)
Available-for-sale financial assets – equity instruments measured at fair value	18	4		22	Equity instruments measured at fair value through OCI (no recycling)
Available-for-sale financial assets – equity instruments measured at fair value	18			18	Debt instruments measured at fair value through profit or loss
Available-for-sale financial assets – debt instruments	757			757	Debt instruments measured at fair value through profit or loss
Derivatives	10			10	Derivatives
Other receivables					**Other receivables**
Available-for-sale financial assets – debt instruments	46			46	Debt instruments measured at fair value through profit or loss
Total financial assets (Level 3)	**849**	**39**	**11**	**899**	**Total financial assets (Level 3)**
Other liabilities					**Other liabilities**
Measured at fair value through profit or loss (non-derivative)	(7)			(7)	Measured at fair value through profit or loss (non-derivative)
Total financial liabilities (Level 3)	**(7)**			**(7)**	**Total financial liabilities (Level 3)**

Loss allowances for expected credit losses are recognized for financial assets measured at amortized cost. Expected lifetime credit losses for trade accounts receivable are recognized using the simplified approach. This is based on loss rates calculated from historical and forward-looking data, taking into account the business model, the respective customer and the economic environment of the geographical region. Receivables that are overdue by a significant amount of time – in some cases exceeding 90 days due to the customer structure – and receivables from debtors against which insolvency or similar proceedings have been initiated are tested individually for impairment. Expected credit losses for other financial assets are determined upon their first-time recognition primarily on the basis of credit default swaps, with expected losses from defaults within the next 12 months calculated using the Monte Carlo simulation method. In the event of a significant increase in default risk, expected lifetime credit losses are taken into account.

The effects from the increase in loss allowances from the first-time application of the new impairment model are presented in the following table:

B 13

Reconciliation of Loss Allowances

€ million

Measurement category in accordance with IAS 39	Closing loss allowances under IAS 39 as at Dec. 31, 2017	Remeasurement due to implementation of the expected loss model under IFRS 9	Opening loss allowances under IFRS 9 as at Jan 1, 2018	Measurement category in accordance with IFRS 9
Trade accounts receivable				**Trade accounts receivable**
Loans and receivables	(425)	(93)	(518)	Measured at amortized cost
Other receivables				**Other receivables**
Loans and receivables	(3)	(4)	(7)	Measured at amortized cost
Cash and cash equivalents				**Cash and cash equivalents**
Loans and receivables		(1)	(1)	Measured at amortized cost
Total	**(428)**	**(98)**	**(526)**	

Changes in the fair values of financial liabilities measured at fair value through profit or loss resulting from Bayer's own credit risk are now recognized through other comprehensive income in the statement of comprehensive income rather than in the income statement. At Bayer, this change principally affects the debt instruments (exchangeable bond) issued in June 2017 which also can be exchanged into Covestro shares. As at the transition date, this accounting change did not have any material effects.

For hedge accounting, Bayer has opted to prospectively apply IFRS 9 from January 1, 2018. If only the intrinsic value of an option is designated as a hedging instrument in a hedging relationship, IFRS 9 requires that changes in the fair value of the time value of the options during the hedging period initially be recognized as other comprehensive income in the statement of comprehensive income. The release of the accumulated amounts, either in the form of a basis adjustment or directly through profit or loss, depends on the type of hedged transaction. In contrast to the other rules on hedge accounting, the revised accounting method is to be applied retrospectively. As at the transition date, these changes did not have any material impact on the presentation of the Group's financial position and results of operations.

In October 2017, the IASB published an amendment to IFRS 9 (Financial Instruments) under the title "Prepayment Features with Negative Compensation." It also published a clarification regarding the accounting for a modification of a financial liability that does not result in its derecognition. For these nonsubstantial modifications, modification gains or losses – including the costs of the modification – must be immediately recognized in profit or loss. This amendment to IFRS 9 is to be applied for annual periods beginning on or after January 1, 2018. As there were no past nonsubstantial modifications of liabilities, this amendment did not have any impact on the presentation of the Group's financial position and results of operations. A bond exchange program constituting a nonsubstantial modification was initiated in June 2018 for the Monsanto bonds acquired as part of the Monsanto acquisition. In this connection, expenses of €13 million were recognized in profit or loss in the second quarter of 2018.

The IASB issued IFRS 15 (Revenues from Contracts with Customers) in May 2014 and provided clarifications to the standard in April 2016. Both the standard and the clarifications have been endorsed by the European Union. IFRS 15 replaces the current IAS 18 (Revenue) and IAS 11 (Construction Contracts) revenue recognition standards and the related interpretations, and is applicable for annual reporting periods beginning on or after January 1, 2018. The new standard establishes a five-step model related to revenue recognition from contracts with customers. Under IFRS 15, revenue is recognized at amounts that reflect the consideration that an entity expects to be entitled to in exchange for transferring goods or services to a customer. Revenue is recognized when (or as) the entity transfers control of goods or services to a customer either over time or at a point in time. In addition, 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.

As of January 1, 2018, Bayer transitioned to IFRS 15 on the basis of the modified retrospective method, accounting for the aggregate amount of the 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. Bayer has elected to retrospectively apply the standard only to contracts that are not completed contracts at the date of first-time application, and has opted to reflect the aggregate effect of all contract modifications that occurred prior to the date of first-time application in accordance with IFRS 15.C7A(b).

The adoption of IFRS 15 has led to the following effects:

Changes in the timing of recognition

- IFRS 15 requires catch-up adjustments to revenue when milestone payments for right-to-access licenses become unconstrained, leading to earlier revenue recognition. This change resulted in an increase in retained earnings by €64 million after deferred taxes and a decrease in contract liabilities (under IAS 18, amounts were presented as deferred income in other liabilities) by €86 million. For the Pharmaceuticals segment, the introduction of IFRS 15 translates into a €5 million decrease in first-half net sales and a €3 million decrease in second-quarter net sales, as well as a €2 million decrease in first-half deferred tax expense and a €1 million decrease in second-quarter deferred tax expense compared with IAS 18.
- IFRS 15 in conjunction with IAS 38 (Intangible Assets) generally requires the recognition of the purchase price related to a brand divestment net of associated carrying amounts in other operating income or expenses upon transfer of control. Some cases were identified where the purchase price was deferred under former policy in line with IAS 18, but would have been recognized in income earlier under IFRS 15, leading to a €21 million increase in retained earnings after deferred taxes and a €27 million decrease in contract liabilities (under IAS 18, amounts were presented as deferred income in other liabilities) on the date of transition. For the Pharmaceuticals and Animal Health segments, the introduction of IFRS 15 translates into a combined €23 million decrease in first-half net sales and a combined €8 million decrease in second-quarter net sales, as well as a €5 million decrease in first-half deferred tax expense and a €2 million decrease in second-quarter deferred tax expense as compared with IAS 18.
- Including the effects described individually, the change in the timing of revenue recognition led to a €9 million decrease in first-half earnings and an €8 million decrease in second-quarter earnings as compared to revenue recognition under IAS 18. These earnings effects pertain to the Bayer Group prior to the first-time consolidation of the former Monsanto Group, whose financial information for the reference periods was prepared according to U.S. accounting standards and therefore does not permit an appropriate comparison with net sales as determined according to IAS 18.

Presentational changes

Bayer also changed the presentation of certain items in the statement of financial position and income statements to reflect the methodology of IFRS 15.

- IFRS 15 changes the presentation of expected product returns within the statement of financial position from net to gross in cases where returns are expected to be resalable and Bayer will refund the purchase price. The right-of-return asset is reflected in inventories at the former carrying amount less expected costs to recover and potential impairment. The refund liabilities include amounts expected to be refunded upon product return. Prior to the adoption of IFRS 15, Bayer presented the margin of expected returns on a net basis in “other provisions.” In the statement of cash flows, the increase in inventories to be recorded under IFRS 15 is set against a decline in “other working capital, other noncash items.”

- Amounts already received (or receivable), but expected to be refunded to the customer are presented as “refund liabilities” under IFRS 15. These amounts typically relate to expected volume rebates and expected product returns and were previously presented as “other provisions.”

- Advance payments received (or receivable) in connection with product deliveries were previously recognized in trade accounts payable. Advance payments received (or receivable) relating to right-to-access licenses and service contracts recognized over time were previously presented under “deferred income” in “other liabilities.” With the introduction of IFRS 15, both are presented as contract liabilities. Within the statement of cash flows, the decline in trade accounts payable resulting from the presentational change is set against a corresponding change in “other working capital, other noncash items.”

The effects of applying the modified retrospective method on the opening statement of financial position as of January 1, 2018, are shown in table B 14. The impact of the transition from IAS 18 to IFRS 15 on the consolidated statement of financial position as at June 30, 2018, which includes the former Monsanto Group, is presented in table B 15.

B 14

IFRS 15 Accounting Changes: Consolidated Statements of Financial Position as of January 1, 2018

	Dec. 31, 2017			Jan. 1, 2018
	Before accounting changes	Presentational changes	Changes in timing of recognition	After accounting changes
€ million				
Noncurrent assets				
Deferred taxes	4,915		(5)	4,910
Other noncurrent assets	40,099			40,099
	45,014		**(5)**	**45,009**
Current assets				
Inventories	6,550	76		6,626
Other current assets	23,523			23,523
	30,073	**76**		**30,149**
Total assets	**75,087**	**76**	**(5)**	**75,158**
Equity				
Other reserves	25,026		86	25,112
Other equity	11,835			11,835
	36,861		**86**	**36,947**
Noncurrent liabilities				
Other provisions	1,366	(152)		1,214
Refund liabilities	–	152		152
Contract liabilities	–	905	(78)	827
Other liabilities	1,116	(905)		211
Deferred taxes	1,153		24	1,177
Other noncurrent liabilities	20,998			20,998
	24,633	**0**	**(54)**	**24,579**
Current liabilities				
Other provisions	4,344	(2,197)		2,147
Refund liabilities	–	2,275		2,275
Contract liabilities	–	740	(37)	703
Trade accounts payable	5,129	(561)		4,568
Other liabilities	1,652	(181)		1,471
Other Current liabilities	2,468			2,468
	13,593	**76**	**(37)**	**13,632**
Total equity and liabilities	**75,087**	**76**	**(5)**	**75,158**

B 15

Reconciliation IFRS 15 to IAS 18 for Presentational Changes:
Consolidated Statements of Financial Position as of June 30, 2018

€ million	IFRS 15 June 30, 2018	Presentational changes	IAS 18 June 30, 2018
Noncurrent assets			
Deferred taxes	4,770		4,770
Other noncurrent assets	93,943		93,943
	98,713		**98,713**
Current assets			
Inventories	11,089	(146)	10,943
Other current assets	26,728		26,728
	37,817	**(146)**	**37,671**
Total assets	**136,530**	**(146)**	**136,384**
Equity			
Other reserves	26,371		26,371
Other equity	20,848		20,848
	47,219		**47,219**
Noncurrent liabilities			
Other provisions	1,929	233	2,162
Refund liabilities	233	(233)	–
Contract liabilities	889	(889)	–
Other liabilities	291	750	1,041
Deferred taxes	7,452		7,452
Other noncurrent liabilities	51,755		51,755
	62,549	**(139)**	**62,410**
Current liabilities			
Other provisions	2,424	5,774	8,198
Refund liabilities	5,920	(5,920)	–
Contract liabilities	529	(529)	–
Trade accounts payable	4,861	524	5,385
Other liabilities	2,319	144	2,463
Other current liabilities	10,709		10,709
	26,762	**(7)**	**26,755**
Total equity and liabilities	**136,530**	**(146)**	**136,384**

Published financial reporting standards that have not yet been applied

In January 2016, the IASB published the new standard for lease accounting, IFRS 16 (Leases), which replaces the existing rules contained in IAS 17 (Leases), IFRIC 4 (Determining Whether an Arrangement Contains a Lease), SIC-15 (Operating Leases – Incentives) and SIC-27 (Evaluating the Substance of Transactions Involving the Legal Form of a Lease). It was endorsed by the European Union in October 2017. The new standard is to be applied for annual periods beginning on or after January 1, 2019. The standard introduces a single lessee accounting model, requiring lessees to recognize assets for granted rights of use and corresponding lease liabilities. It will eliminate the current requirement for lessees to classify lease contracts as either operating leases – without recognizing the respective assets or liabilities – or as finance leases. However, IFRS 16 contains optional recognition exemptions. As in the previous standard, IAS 17, lessors still have to differentiate between finance and operating leases.

Bayer will apply IFRS 16 for the first time as of January 1, 2019, retrospectively and without restating the prior-year figures, accounting for the aggregate amount of any transition effects by way of an adjustment to equity and presenting the comparative period in line with previous rules. In this connection, various practical expedients can be applied as of the transition date for lease agreements in which a Bayer company is the lessee. Bayer will exercise the option of exempting intangible assets from the scope of application of IFRS 16.

A Group-wide project is steering the implementation of this new standard. The analysis of the quantitative impact of IFRS 16 on the Group's financial position and results of operations has not yet been completed. The following effects are anticipated: Instead of the minimum lease payments arising from operating leases being presented under other financial commitments as at present, application of IFRS 16 will increase noncurrent assets by requiring the recognition of rights of use assets. Similarly, financial liabilities will be increased by recognition of the corresponding lease liabilities. In the statement of comprehensive income, the amortization of rights of use assets and the interest expense for the liabilities will be recognized in place of the expenses for operating leases. In the statement of cash flows, IFRS 16 will probably lead to an improvement in the operating cash flow by reducing cash outflows for operating activities, while the repayment component of lease payments and the interest expense will be recognized in the financing cash flow.

The specific quantitative effects of the first-time application depend partly on the development of the incremental borrowing rate as of January 1, 2019, the composition of the lease portfolio as of that date, and the assessment then to be made as regards the exercise of extension or termination options, for instance. An assessment also has not yet been completed as to whether and how options and exemption rules will be applied.

In June 2017, the IASB published IFRIC Interpretation 23 (Uncertainty over Income Tax Treatments) to clarify uncertainty relating to the accounting treatment of income taxes. IFRIC 23 is to be applied for annual periods beginning on or after January 1, 2019. It has not yet been endorsed by the European Union. Bayer is currently evaluating the impact the amendments will have on the presentation of its financial position and results of operations.

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 16

Exchange Rates for Major Currencies

		Closing rate			Average rate	
€1		**Dec. 31, 2017**	**June 30, 2017**	**June 30, 2018**	**H1 2017**	**H1 2018**
BRL	Brazil	3.98	3.76	4.48	3.43	4.13
CAD	Canada	1.51	1.48	1.54	1.44	1.55
CHF	Switzerland	1.17	1.09	1.16	1.08	1.17
CNY	China	7.81	7.73	7.72	7.42	7.70
GBP	United Kingdom	0.89	0.88	0.89	0.86	0.88
JPY	Japan	135.01	127.72	128.93	121.60	131.61
MXN	Mexico	23.66	20.57	22.86	20.99	23.07
RUB	Russia	69.41	67.47	73.10	62.69	71.84
USD	United States	1.20	1.14	1.17	1.08	1.21

Due to the economic situation in Argentina, we are in the process of assessing whether to apply IAS 29 for Argentina.

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

B 17

Discount Rate for Pension Obligations

%	Dec. 31, 2017	March 31, 2018	June 30, 2018
Germany	1.90	1.90	1.90
United Kingdom	2.50	2.60	2.80
United States	3.40	3.80	4.10

Bayer uses the Heubeck mortality tables to calculate pension obligations in Germany. The RT 2005 G tables were used in recent years. However, we have now switched to the RT 2018 G tables, as we believe that basing calculations on these new tables provides a more appropriate presentation of the actual economic impact on the respective closing date. If we had not switched to the Heubeck RT 2018 G tables, provisions would have been €364 million lower.

When determining the discount rate for measuring pension obligations, we previously applied the Macauley Duration method as part of our calculations. However, Bayer decided to switch to the uniform discount rate method, which is used more frequently in the market and is mathematically superior. If we had not switched, the discount rate as of June 30, 2018, would have been 10 basis points lower, which would have led to provisions being €361 million higher.

Segment reporting

As of June 30, 2018, the Bayer Group comprises the four reportable segments Pharmaceuticals, Consumer Health, Crop Science and Animal Health.

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 from continuing operations:

B 18

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

€ million	Q2 2017	Q2 2018	H1 2017	H1 2018
EBITDA before special items of segments	2,346	2,471	5,535	5,467
EBITDA before special items of Corporate Functions and Consolidation	(99)	(136)	(234)	(236)
EBITDA before special items[1]	**2,247**	**2,335**	**5,301**	**5,231**
Depreciation, amortization and impairment losses before special items of segments	(537)	(617)	(1,059)	(1,121)
Depreciation, amortization and impairment losses before special items of Corporate Functions and Consolidation	(3)	(4)	(6)	(8)
Depreciation, amortization and impairment losses before special items	**(540)**	**(621)**	**(1,065)**	**(1,129)**
EBIT before special items of segments	1,809	1,854	4,476	4,346
EBIT before special items of Corporate Functions and Consolidation	(102)	(140)	(240)	(244)
EBIT before special items[1]	**1,707**	**1,714**	**4,236**	**4,102**
Special items of segments	(243)	(350)	(343)	(425)
Special items of Corporate Functions and Consolidation	(1)	(13)	(3)	(16)
Special items[1]	**(244)**	**(363)**	**(346)**	**(441)**
EBIT of segments	1,566	1,504	4,133	3,921
EBIT of Corporate Functions and Consolidation	(103)	(153)	(243)	(260)
EBIT[1]	**1,463**	**1,351**	**3,890**	**3,661**
Financial result	(369)	(322)	(665)	(192)
Income before income taxes	**1,094**	**1,029**	**3,225**	**3,469**

2017 figures restated

[1] For definition see Annual Report 2017, 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, 2018, included 421 companies (December 31, 2017: 237 companies). Nine (December 31, 2017: eight) joint ventures and four (December 31, 2017: four) associates were accounted for in the consolidated financial statements using the equity method according to IAS 28 (Investments in Associates and Joint Ventures). As the parent company of the Covestro Group, Covestro AG was accounted for in the consolidated financial statements using the equity method until May 2018. Since May 2018, Bayer has been presenting its interest in Covestro as an equity instrument.

Capital increase

On April 16, 2018, the investment company Temasek subscribed to 31 million new shares of Bayer at an issue price that was close to market prices (total gross proceeds of around €3 billion). This corresponded to around 3.6% of the capital stock as of the acquisition date. The transaction increased Temasek's interest in Bayer AG to approximately 4%.

On June 3, 2018, with the consent of the Supervisory Board, the Board of Management of Bayer AG resolved to execute a capital increase out of authorized capital against cash contributions and with subscription rights for existing Bayer stockholders. For this purpose, Bayer issued 74,604,156 new registered (no-par value) shares with an entitlement to dividends as of January 1, 2018.

For every 23 Bayer shares they held, stockholders were able to acquire two new shares at a subscription price of €81.00 per new share by way of indirect subscription rights. This option was exercised for 73,343,177 shares. The 1,261,039 shares not subscribed to were purchased by institutional investors at an average placement price of €96.6437 per share as part of a private placement. After deducting transaction costs, net proceeds totaled around €6 billion.

Together with the mandatory convertible notes issued in November 2016, the two capital increases conclude the equity component, announced in September 2016, to finance the acquisition of Monsanto.

Acquisitions, divestments and discontinued operations

Acquisitions

Bayer acquired 100% of the outstanding shares of Monsanto Company, St. Louis, Missouri, United States (Monsanto) on June 7, 2018. The acquisition of Monsanto brings together two strong and highly complementary businesses: Bayer's innovative chemical and biological crop protection portfolio and Monsanto's exceptional expertise in the field of seeds and traits. Bayer is now a leader in the agricultural industry with a clear commitment to innovation and sustainability – for the benefit of its customers and society. In addition to leveraging its employees' extensive expertise in agriculture, Bayer also has the strongest portfolio of seed and crop protection products for a wide range of crops and indications, the best research and development platform and the leading digital farming business.

Among the production sites maintained by Monsanto are facilities in St. Louis, Luling, Muscatine and Soda Springs (all United States), Antwerp (Belgium), Zarate (Argentina) and Camacari (Brazil). Monsanto's portfolio of established brands includes DEKALB™, Asgrow™ and Roundup™. The purchase price of €48,029 million pertained mainly to intangible assets for technologies in the areas of seeds and traits (useful lives of between 9 and 30 years), herbicides (useful lives of 20 years) and digital platforms (useful lives of 15 years), as well as for R&D projects, brands (useful lives of between 10 and 30 years), property, plant and equipment, inventories and goodwill. No value was assigned to the company name "Monsanto."

The goodwill included expected synergies in administration processes and infrastructure, including cost savings in the cost of goods, selling, R&D and general administration functions, as well as expected sales synergies resulting from the combined offering of products. The goodwill is non-tax-deductible.

Monsanto contributed €543 million to sales of the Bayer Group in the second quarter. An after-tax loss of €165 million was recorded for the acquired businesses since the date of first-time consolidation.

The purchase price allocation for Monsanto 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 price to the individual assets and liabilities.

In connection with its acquisition of Monsanto, Bayer had to submit a takeover offer for the noncontrolling interest in the company Monsanto India Limited. This offer was published in June. As of June 30, 2018, the noncontrolling interest is presented as a liability due to the offer made.

The following bonds with total nominal volumes of US$15 billion and €5 billion in total were issued in June 2018 to finance the acquisition:

B 19

Bonds and Notes

Issuer	Coupon (%)	Nominal volume	Issue date	Maturity date
Bayer U.S. Finance II LLC, U.S.A.				
	3.5	US$1,250 million	Jun 25, 2018	Jun 25, 2021
	3 month USD LIBOR + 0.63	US$1,250 million	Jun 25, 2018	Jun 25, 2021
	3.875	US$2,250 million	Jun 25, 2018	Dec 15, 2023
	3 month USD LIBOR + 1.01	US$1,250 million	Jun 25, 2018	Dec 15, 2023
	4.25	US$2,500 million	Jun 25, 2018	Dec 15, 2025
	4.375	US$3,500 million	Jun 25, 2018	Dec 15, 2028
	4.625	US$1,000 million	Jun 25, 2018	Jun 25, 2038
	4.875	US$2,000 million	Jun 25, 2018	Jun 25, 2048
Bayer Capital Corporation B.V., Netherlands				
	3 month EURIBOR + 0.55	€750 million	Jun 26, 2018	Jun 26, 2022
	0.625	€1,000 million	Jun 26, 2018	Dec 15, 2022
	1.5	€1,750 million	Jun 26, 2018	Jun 26, 2026
	2.125	€1,500 million	Jun 26, 2018	Dec 15, 2029

As part of the acquisition, bonds with a nominal volume of US$6.9 billion were taken over from Monsanto.

On May 2, Bayer increased its interest in the joint venture Bayer Zydus Pharma Private Limited, Thane, India, from 50% to 75% plus one share. A purchase price of €28 million was agreed. Bayer is obligated to purchase the remaining 25% minus one share of Bayer Zydus Pharma by 2021 and has recognized a liability of €9 million in connection with this obligation. As a result, the accounting method used for this business changed from the equity method to full consolidation, with 100% of the shares of Bayer Zydus Pharma being consolidated. Remeasurement of the shares previously accounted for using the equity method resulted in an amount of €18 million. The gain of €15 million resulting from the derecognition of the shares previously accounted for using the equity method was recognized in the financial result. The purchase price pertained mainly to goodwill that in turn was based primarily on a control premium. Bayer Zydus Pharma is active in core segments of the Indian pharmaceutical market and focuses on women's health, diagnostic imaging, cardiovascular disease, diabetes treatment and oncology. This acquisition increases Bayer's presence in the Indian pharmaceutical market.

The effects of these transactions on the Group's assets and liabilities are shown in the table. Net of acquired cash and cash equivalents, they resulted in the following cash outflow:

B 20

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

€ million	H1 2018	of which Monsanto	of which Zydus
Goodwill	23,046	22,998	48
Patents and technologies	17,350	17,350	–
Trademarks	4,195	4,195	–
Marketing and distribution rights	821	821	–
R&D projects	4,300	4,300	–
Other rights	394	394	–
Property, plant and equipment	6,293	6,293	–
Investments accounted for using the equity method	52	52	–
Other financial assets	253	250	3
Inventories	4,885	4,882	3
Receivables	7,203	7,201	2
Other assets	27	27	–
Cash and cash equivalents	2,659	2,657	2
Deferred tax assets	1,550	1,548	2
Provisions for pensions and other post-employment benefits	(367)	(367)	–
Other provisions	(1,530)	(1,529)	(1)
Refund liabilities	(3,322)	(3,321)	(1)
Financial liabilities	(8,657)	(8,656)	(1)
Other liabilities	(2,872)	(2,870)	(2)
Deferred tax liabilities	(8,019)	(8,019)	–
Net assets	**48,261**	**48,206**	**55**
Changes in noncontrolling interest	(177)	(177)	–
Remeasurement of previously held equity interest and net assets	(18)	–	(18)
Consideration transferred	**48,066**	**48,029**	**37**
Acquired cash and cash equivalents	(2,659)	(2,657)	(2)
Noncash components	(91)	(82)	(9)
Net cash outflow for acquisitions	**45,316**	**45,290**	**26**

The fair value of the acquired receivables in the amount of €7.2 billion primarily comprises trade accounts receivable. As of the date of the acquisition, the gross amount of the contractual receivables amounted to €7.7 billion, with €0.4 billion of this figure assessed as irrecoverable.

If the aforementioned acquisitions had already been made as of January 1, 2018, the Bayer Group would have had total sales of €25,321 million. Income after income taxes would have been €2,712 million, and earnings per share €2.85. This takes into account significant effects relating to financing costs and purchase price allocations for the half year. In particular, the remeasurement of inventories at fair value and their subsequent utilization as well as planned amortization had a negative impact. In addition, no adjustment for special items is included.

Divestments and discontinued operations

Bayer ceded de facto control of Covestro and deconsolidated the company at the end of September 2017. As of the loss of control, Covestro fulfills the conditions for presentation as a discontinued operation. In connection with the sale of Covestro AG shares in 2017, Bayer AG entered into derivative contracts. These resulted in Bayer AG retaining economic exposure to the price of Covestro AG shares until the second quarter of 2018. In the second quarter of 2018, Bayer recognized an after-tax loss of €8 million from these contracts:

B 21

Income Statements for Discontinued Operations

	Covestro		Diabetes Care		Total	
€ million	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018
Net sales	**3,479**	**–**	**184**	**–**	**3,663**	**–**
Cost of goods sold	(2,336)	–	(7)	–	(2,343)	–
Gross profit	**1,143**	**–**	**177**	**–**	**1,320**	**–**
Selling expenses	(344)	–	(1)	–	(345)	–
Research and development expenses	(68)	–	–	–	(68)	–
General administration expenses	(115)	–	(3)	–	(118)	–
Other operating income/expenses	72	(2)	–	–	72	(2)
EBIT[1]	**688**	**(2)**	**173**	**–**	**861**	**(2)**
Financial result	**(36)**	**–**	**–**	**–**	**(36)**	**–**
Income before income taxes	**652**	**(2)**	**173**	**–**	**825**	**(2)**
Income taxes	(159)	(6)	(25)	–	(184)	(6)
Income after income taxes	**493**	**(8)**	**148**	**–**	**641**	**(8)**
of which attributable to noncontrolling interest	251	–	–	–	251	–
of which attributable to Bayer AG stockholders (net income)	242	(8)	148	–	390	(8)

[1] For definition see Bayer Annual Report 2017, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

Income from discontinued operations in the first half of 2018 was as follows:

B 22

Income Statements for Discontinued Operations

	Covestro		Diabetes Care		Total	
€ million	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Net sales	**7,043**	**–**	**312**	**–**	**7,355**	**–**
Cost of goods sold	(4,694)	–	(14)	–	(4,708)	–
Gross profit	**2,349**	**–**	**298**	**–**	**2,647**	**–**
Selling expenses	(690)	–	(2)	–	(692)	–
Research and development expenses	(132)	–	–	–	(132)	–
General administration expenses	(227)	–	(5)	–	(232)	–
Other operating income/expenses	77	8	5	–	82	8
EBIT[1]	**1,377**	**8**	**296**	**–**	**1,673**	**8**
Financial result	**(89)**	**–**	**–**	**–**	**(89)**	**–**
Income before income taxes	**1,288**	**8**	**296**	**–**	**1,584**	**8**
Income taxes	(330)	(8)	(49)	–	(379)	(8)
Income after income taxes	**958**	**0**	**247**	**–**	**1,205**	**0**
of which attributable to noncontrolling interest	441	0	–	–	441	0
of which attributable to Bayer AG stockholders (net income)	517	0	247	–	764	0

[1] For definition see Bayer Annual Report 2017, A 2.4 "Alternative Performance Measures Used by the Bayer Group."

In the second quarter of 2018, the discontinued operations affected the Bayer Group statement of cash flows as follows:

B 23

Statements of Cash Flows for Discontinued Operations

	Covestro		Diabetes Care		Total	
€ million	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018
Net cash provided by (used in) operating activities	415	–	(3)	–	412	–
Net cash provided by (used in) investing activities	(275)	–	–	–	(275)	–
Net cash provided by (used in) financing activities	(116)	–	3	–	(113)	–
Change in cash and cash equivalents	**24**	**–**	**–**	**–**	**24**	**–**

The effect of discontinued operations on the statements of cash flows in the first half of 2018 was as follows:

B 24

Statements of Cash Flows for Discontinued Operations

	Covestro		Diabetes Care		Total	
€ million	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Net cash provided by (used in) operating activities	690	–	12	–	702	–
Net cash provided by (used in) investing activities	(387)	–	–	–	(387)	–
Net cash provided by (used in) financing activities	(117)	–	(12)	–	(129)	–
Change in cash and cash equivalents	**186**	**–**	**–**	**–**	**186**	**–**

As no cash was assigned to the discontinued operation Diabetes Care, the balance of the cash provided is deducted again in financing activities.

Assets held for sale

In connection with the acquisition of Monsanto, Bayer signed an agreement with BASF on October 13, 2017, concerning the sale of selected Crop Science businesses. The businesses to be sold comprised Bayer's global glufosinate ammonium business and the related LibertyLink™ technology for herbicide tolerance and a substantial part of the field crop seed business, including the related research and development capabilities. The seeds business to be divested included the global cotton seed business (excluding India and South Africa), the North American and European canola seed business, and the soybean seed business.

In this connection, Bayer signed a further agreement with BASF on April 23, 2018, comprising its entire vegetable seeds business, its R&D platform for hybrid wheat, its remaining canola seed business, three research projects in the area of nonselective herbicides, its global digital farming business and business activities in the field of seed treatments.

All of the transactions closed on August 1, 2018, apart from the divestment of the vegetable seed business, which closed on August 16, 2018. The total base purchase price of €7.6 billion before tax is subject to purchase price adjustments typical for such transactions.

In accordance with the conditions imposed by antitrust authorities, the divestment of Crop Science businesses to BASF also comprises further significant obligations by Bayer that will be fulfilled over a number of years subsequent to the date of divestment. Another one of these conditions is for deliveries under the supply agreement (finished products and active ingredients) to be made at prices based on the respective variable costs. The difference between these and customary sales prices will be recognized as deferred income in the statement of financial position, and this will be dissolved as the obligations are fulfilled.

On July 27, 2018, Bayer signed an agreement to divest its prescription dermatology business to LEO Pharma A/S, Ballerup, Denmark. Subject to the satisfaction of customary closing conditions, the business will be transferred on September 4, 2018, for the United States and during the second half of 2019 for all other markets. The portfolio being divested comprises prescription brands including Advantan™, Skinoren™ and Travocort™. The base purchase price amounts to €58 million for the U.S. business and €555 million for the rest of the global business and is subject to customary purchase price adjustments.

The assets and liabilities held for sale are presented below:

B 25

Assets and Liabilities Held for Sale

€ million	June 30, 2018
Goodwill	800
Other intangible assets	440
Property, plant and equipment	1,384
Other assets	456
Deferred taxes	163
Inventories	447
Cash and cash equivalents	30
Assets held for sale	**3,720**
Provisions for pensions and other post-employment benefits	40
Other provisions	467
Other liabilities	107
Deferred taxes	55
Liabilities directly related to assets held for sale	**669**

On June 30, 2018, the Pharmaceuticals segment sold its MK Generics business in Central America and the Caribbean to Tecnoquímicas S.A. The divested business includes the Bonima production plant in El Salvador. The base purchase price was €44 million.

Financial instruments

The following table shows the carrying amounts and fair values of financial assets and liabilities by category of financial instrument under IFRS 9 and a reconciliation to the corresponding line items in the statements of financial position. Since the line items “Trade accounts receivable,” “Other receivables” 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 transition effects from the reclassification and remeasurement of financial assets upon the first-time application of IFRS 9 are detailed in the section “Financial reporting standards applied for the first time in 2018.”

B 26

Carrying Amounts and Fair Values of Financial Instruments

June 30, 2018

	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	14,048				206	14,254
Carried at amortized cost	14,048					14,048
Nonfinancial assets					206	206
Other financial assets	153	2,458	696	1,064		4,371
Carried at amortized cost	153		[153]			153
Carried at fair value through profit or loss		2,165	137	857		3,159
Carried at fair value through OCI (no recycling)		292		186		478
Derivatives		1	559	21		581
Other receivables	429			53	1,901	2,383
Carried at amortized cost	429		[429]			429
Carried at fair value through profit or loss				53		53
Nonfinancial assets					1,901	1,901
Cash and cash equivalents	4,981					4,981
Carried at amortized cost	4,981		[4,981]			4,981
Total financial assets	**19,611**	**2,458**	**696**	**1,117**		**23,882**
of which carried at amortized cost	19,611					19,611
of which carried at fair value through profit or loss		2,165	137	910		3,212
Financial liabilities	50,791	1,137	201			52,129
Carried at amortized cost	50,791	[31,141]	[22,857]			50,791
Carried at fair value through profit or loss (nonderivative)		1,137				1,137
Derivatives			201			201
Trade accounts payable	4,861					4,861
Carried at amortized cost	4,861					4,861
Other liabilities	1,384	3	234	15	974	2,610
Carried at amortized cost	1,384		[1,384]			1,384
Carried at fair value through profit or loss (nonderivative)				15		15
Derivatives		3	234			237
Nonfinancial liabilities					974	974
Total financial liabilities	**57,036**	**1,140**	**435**	**15**		**58,626**
of which carried at amortized cost	57,036					57,036
of which carried at fair value through profit or loss (nonderivative)		1,137		15		1,152
of which derivatives		3	435			438

[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 category “measured at amortized cost” within other financial assets and in financial liabilities also includes receivables and liabilities under finance leases in which Bayer is the lessor or lessee and which are therefore measured in accordance with IAS 17.

Due to 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 financial assets and liabilities measured 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 financial assets measured at fair value correspond to quoted prices in active markets (Level 1), or 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 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 measured at fair value 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, provided these are not financial instruments. 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.

The financial liabilities arising from the debt instruments (exchangeable bond) issued in June 2017 that can be converted into Covestro shares are measured at fair value through profit or loss. This exchangeable bond is a hybrid financial instrument containing a debt instrument as a nonderivative host contract and multiple embedded derivatives.

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

B 27

Development of Financial Assets and Liabilities (Level 3)

					2018
€ million	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI (no recycling)	Derivatives (net)	Liabilities carried at fair value (non-derivative)	Total
Carrying amounts of net assets (net liabilities), January 1	**821**	**68**	**10**	**(7)**	**892**
Gains (losses) recognized in profit or loss	8	–	(6)	–	2
of which related to assets/liabilities recognized in the statements of financial position	8	–	(6)	–	2
Gains (losses) recognized outside profit or loss	–	(1)	–	–	(1)
Additions of assets (liabilities)	81	130	17	(10)	218
Settlements of (assets) liabilities	–	(1)	–	1	–
Transfers (IFRS 5)		(6)		1	(5)
Disposals from divestments/changes in scope of consolidation	–	(4)	–	–	(4)
Carrying amounts of net assets (net liabilities), June 30	**910**	**186**	**21**	**(15)**	**1,102**

The changes recognized in profit or loss were included in other operating income/expenses, as well as in the financial result in interest income and in other financial income and expenses.

The following table shows the carrying amounts and fair values of financial assets and liabilities by category of financial instrument as of December 31, 2017, under IAS 39.

B 28

Carrying Amounts and Fair Values of Financial Instruments

						Dec. 31, 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	8,582					8,582
Loans and receivables	8,582					8,582
Other financial assets	1,823	452	2,085	803		5,163
Loans and receivables	1,731		[1.731]			1,731
Available-for-sale financial assets	35	448	1,452	793		2,728
Held-to-maturity financial assets	57		[58]			57
Derivatives		4	633	10		647
Other receivables	380			46	1,250	1,676
Loans and receivables	380		[380]			380
Available-for-sale financial assets				46		46
Nonfinancial assets					1,250	1,250
Cash and cash equivalents	7,581					7,581
Loans and receivables	7,581		[7.581]			7,581
Total financial assets	**18,366**	**452**	**2,085**	**849**		**21,752**
of which loans and receivables	18,274					18,274
of which available-for-sale financial assets	35	448	1,452	839		2,774
Financial liabilities	12,958	1,220	240			14,418
Carried at amortized cost	12,958	[11.327]	[2.183]			12,958
Carried at fair value (nonderivative)		1,220				1,220
Derivatives			240			240
Trade accounts payable	4,568				561	5,129
Carried at amortized cost	4,568					4,568
Nonfinancial liabilities					561	561
Other liabilities	681	2	319	7	1,759	2,768
Carried at amortized cost	681		[681]			681
Carried at fair value (nonderivative)				7		7
Derivatives		2	319			321
Nonfinancial liabilities					1,759	1,759
Total financial liabilities	**18,207**	**1,222**	**559**	**7**		**19,995**
of which carried at amortized cost	18,207					18,207
of which derivatives		2	559			561

[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 following table shows 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 for the comparative period under IAS 39:

B 29

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**

Interest held in Covestro reduced to 6.8%

In the first quarter, Bayer sold 21.0 million shares of Covestro AG to institutional investors at a price of €86.25 per share. A further 28.81 million shares of Covestro AG were sold to institutional investors in the second quarter at a price of €75.50 per share. In addition, 13.79 million shares of Covestro AG were acquired from Bayer Pension Trust e.V., which no longer holds any Covestro shares. Bayer AG thus now holds only a 6.8% interest in Covestro to service the exchangeable bond issued in 2017 that matures in 2020.

Until May 2018, the interest in Covestro was accounted for in the Bayer Group consolidated financial statements as an associate using the equity method. The aforementioned share disposals led to the loss of significant influence on the financial and business policy decisions of Covestro. This in turn resulted in a change in the accounting method. Since May 2018, Bayer has reported the Covestro interest as an equity instrument. In this connection, Bayer exercised the option of recognizing future changes in its fair value through profit or loss.

Contingent liabilities and other financial commitments

The Group's contingent liabilities amounted to €907 million as of June 30, 2018, and mainly comprised pending legal cases in a number of countries. There were also other financial commitments of €9,487 million. Compared with December 31, 2017, the decline in other financial commitments was predominantly attributable to the successful closing of the acquisition of the Monsanto Company, St. Louis, Missouri, United States.

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 2017, which can be downloaded free of charge at www.bayer.com. Since the Bayer Annual Report 2017, the following significant changes have occurred in respect of the legal risks:

Product-related litigation

Mirena™: As of August 17, 2018, lawsuits from approximately 2,700 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. As of August 17, 2018, lawsuits from approximately 600 users of Mirena™ alleging idiopathic intracranial hypertension had been served upon Bayer in the United States.

In April 2018, the Master Settlement Agreement regarding the global settlement of the perforation cases for a total amount of US$12.2 million was executed. Bayer may withdraw from the agreement if fewer than 98% of those who are eligible choose to participate. As of August 17, 2018, a total of approximately 4,600 cases would be included in the settlement.

Xarelto™: As of August 17, 2018, U.S. lawsuits from approximately 24,300 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.

Essure™: As of August 17, 2018, U.S. lawsuits from approximately 17,000 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.

Class actions over neonicotinoids in Canada: In February 2018, a court in Quebec certified a class proposed by plaintiffs. Plaintiffs are honey producers in Quebec claiming damages and punitive damages and alleging Bayer and another crop protection company were negligent in the design, development, marketing and sale of neonicotinoid pesticides.

Patent disputes

Betaferon™/Betaseron™: Since 2010, Bayer and Biogen Idec MA Inc. have been engaged in a dispute in the United States about the validity of a patent issued to Biogen and whether Bayer's production and distribution of Betaseron™ would infringe such patent. Betaseron™ is Bayer's drug product for the treatment of multiple sclerosis. In February 2018, a jury decided that Biogen's patent is invalid at the end of a trial regarding Biogen's claims against EMD Serono, Inc. and Pfizer Inc. for infringement of the same patent. Biogen has challenged the jury's verdict. Unless the jury's verdict is overturned, Biogen cannot assert its claims against Bayer.

Xarelto™: In 2015, Bayer and Janssen Pharmaceuticals filed a patent infringement lawsuit in a U.S. federal court against Mylan Pharmaceuticals Inc. ("Mylan"), Prinston Pharmaceutical Inc. ("Prinston"), Sigmapharm Laboratories, LLC ("Sigmapharm") and further defendants. Bayer had received notices of an ANDA IV application by Mylan, Sigmapharm and the other defendants, each seeking approval to market a generic version of Xarelto™, an oral anticoagulant for the treatment and prevention of blood clots, in the United States. In July 2018, the court ordered that Bayer's compound patent protection for Xarelto™ until 2024 is valid and that the patent is infringed. Prinston appealed. Mylan and Sigmapharm did not appeal. The other defendants may still appeal.

Further Legal Proceedings

Newark Bay Environmental Matters: In the United States, Bayer is one of numerous parties involved in a series of claims brought by federal and state environmental protection agencies. In the Lower Passaic River matter, a group of more than sixty companies including Bayer is investigating contaminated sediments in the riverbed under the supervision of the United States Environmental Protection Agency (EPA) and other governmental authorities. Future remediation will involve some form of dredging, the nature and scope of which are not yet defined, and potentially other tasks. The cost of the investigation and the remediation work may be substantial if the final remedy involves extensive dredging and disposal of impacted sediments. In July 2018, Occidental Chemical Company, one of parties potentially liable for cleanup costs in the Lower Passaic River, filed a lawsuit in New Jersey federal court seeking contribution and cost recovery from dozens of other potentially responsible parties, including a Bayer subsidiary, for past and future cleanup costs. Bayer is currently unable to determine the extent of its liability in this matter.

Monsanto Legal Risks

In June 2018, Bayer became the sole shareholder of Monsanto Company, St. Louis, USA ("Monsanto"). However, the US Department of Justice ordered Bayer to hold Monsanto separately until certain divestitures required for antitrust clearance were completed. Therefore, the exchange of information on Monsanto´s legal risks prior to the approval of this semi-annual report by the Bayer Board of Management was limited until August 16, 2018. Based on the information available to Bayer on August 30, 2018, Bayer considers the following legal proceedings of Monsanto to involve risks that are material for the Bayer Group. The legal proceedings referred to do not represent an exhaustive list.

PCB: Monsanto has been named in lawsuits brought by various governmental entities in the United States claiming that Monsanto, Pharmacia and Solutia, collectively as a manufacturer of PCBs, should be responsible for a variety of damages due to PCBs in bodies of water, regardless of how PCBs came to be located there. PCBs are man-made chemicals that were widely used for various purposes until prohibited by the Environmental Protection Agency (EPA) in the United States in 1979. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

Roundup™ (Glyphosate): As of August 27, 2018, lawsuits from approximately 8,700 plaintiffs claiming to have been exposed to glyphosate-based products manufactured by Monsanto had been served upon Monsanto in the United States. Glyphosate is the active ingredient contained in certain of Monsanto´s herbicides, including Roundup™-branded products. Plaintiffs allege personal injuries resulting from exposure to those products, including non-Hodgkin lymphoma (NHL) and multiple myeloma, and seek compensatory and punitive damages. Plaintiffs claim, inter alia, that Monsanto´s glyphosate-based herbicide products are defective and that Monsanto knew, or should have known, of the risks associated with such products and failed to adequately warn its users. Additional lawsuits are anticipated. The majority of plaintiffs have brought actions in state courts in Missouri, Delaware and California, while the remainder of plaintiffs' cases were filed in many different federal courts. In 2016, the Judicial Panel on Multi-District Litigation transferred to the Northern District of California all of the federal cases for pretrial purposes. In August 2018, a state court jury in San Francisco, California, awarded USD 39 million in compensatory and USD 250 million in punitive damages to a plaintiff who claimed that a Monsanto product caused his NHL. We disagree with the verdict and intend to seek trial court review and appeal, if necessary. In view of more than 800 scientific studies – including an independent study which followed more than 50,000 licensed pesticide applicators and farm workers and their spouses for more than 20 years – and regulatory authorities all over the world confirming that glyphosate does not cause cancer and is safe for use when used according to label instructions, we continue to believe that we have meritorious defenses and intend to defend ourselves vigorously in all of these lawsuits.

In connection with the above-mentioned Monsanto proceedings, Monsanto is insured against statutory product liability claims against Monsanto to the extent customary in the respective industries and has, based on the information currently available, taken appropriate accounting measures for anticipated defense costs.

Notes to the Statements of Cash Flows

Operating cash flows were reduced by the payout of the Monsanto stock options in the amount of €352 million. There was an outflow of €45,290 million for the acquisition of Monsanto, net of €2,657 million in cash from Monsanto. The sale of further Covestro shares resulted in a net cash inflow of €1,107 million. The issue of bonds and further net borrowings resulted in an inflow of €29,151 million, and capital increases in a net inflow of €8,986 million. In addition, there was an outflow of €2,403 million for dividend payments.

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.

Sales to related parties were not material from the viewpoint of the Bayer Group. As was the case on December 31, 2017, liabilities to joint ventures amounted to €0.2 billion, and primarily pertained to the joint venture Casebia Therapeutics Limited Liability Partnership, Ascot, United Kingdom, which was established together with CRISPR Therapeutics AG, Basel, Switzerland.

In May 2018, Bayer AG acquired a 6.8% interest in Covestro from Bayer Pension Trust at market value for a total amount of €1.1 billion to repay the exchangeable bond that matures in 2020.

Covestro ceased to be recognized as an associate in May 2018. In this connection, receivables from associates declined by €0.1 billion to €0.0 billion

Other information

On May 25, 2018, the Annual Stockholders' Meeting approved the proposal by the Board of Management and the Supervisory Board that a dividend of €2.80 per share be paid for the 2017 fiscal year.

The actions of the members of the Board of Management and the Supervisory Board in office in 2017 were ratified in accordance with the proposals by the Board of Management and the Supervisory Board.

One stockholder representative was elected to the Supervisory Board in accordance with the nomination submitted by the Supervisory Board.

In accordance with the proposal by the Supervisory Board, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, was elected auditor of the financial statements of Bayer AG and the consolidated financial statements of the Bayer Group for the fiscal year 2018 and to review the condensed consolidated interim financial statements and interim management reports as of June 30, 2018, September 30, 2018, and March 31, 2019.

Events After the End of the Reporting Period

Bayer signed an agreement on July 27, 2018, to divest the Consumer Health prescription dermatology business to LEO Pharma A/S, Ballerup, Denmark. The business will be transferred in two steps: on September 4, 2018, for the United States, and during the second half of 2019 for all other markets, subject to the satisfaction of customary closing conditions. The portfolio being divested comprises prescription brands including Advantan™, Skinoren™ and Travocort™. The purchase price amounts to €58 million for the U.S. business and €555 million for the rest of the global business, and is subject to customary purchase price adjustments.

In connection with the acquisition of Monsanto, Bayer had concluded an agreement with BASF concerning the divestment of selected Crop Science businesses. All of the transactions closed on August 1, 2018, apart from the divestment of the vegetable seed business, which closed on August 16, 2018. The total purchase price of €7.6 billion is subject to customary purchase price adjustments.

Repayment of financial liabilities

The syndicated credit facility drawn in June 2018 as bridge financing for the acquisition of Monsanto was reduced by a further US$7.9 billion in July and August 2018, mainly with the proceeds from the divestment of Crop Science businesses to BASF.

Leverkusen, August 30, 2018
Bayer Aktiengesellschaft

The Board of Management

Werner Baumann

Liam Condon | Dr. Hartmut Klusik | Kemal Malik

Wolfgang Nickl | Heiko Schipper | 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, August 30, 2018
Bayer Aktiengesellschaft

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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 until 30 June 2018 of Bayer Aktiengesellschaft, Leverkusen, that are part of the half-year financial report under § 115 WpHG (Wertpapierhandelsgesetz: German Securities Trading Act). The preparation of the condensed interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applicable to interim financial reporting as adopted by the EU and 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. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We conducted our review of the interim consolidated financial statements and 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 (Institute of Public Auditors in Germany) as well as in supplementary compliance with the International Standard on Review Engagements *"Review of Interim Financial Information performed by the Independent Auditor of the Entity"* (ISRE 2410). Those standards require that we plan and perform the review such that we can preclude through critical evaluation, with a limited level of 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, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of personnel of the entity and analytical assessments 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.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements of Bayer Aktiengesellschaft, Leverkusen, have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Munich, Germany, 31 August 2018

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

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

Financial Calendar

Q3 2018 Interim Report	*November 13, 2018*
Annual Report 2018	*February 27, 2019*
Q1 2019 Interim Report	*April 25, 2019*
Annual Stockholders' Meeting 2019	*April 26, 2019*
Q2 2019 Interim Report	*July 30, 2019*
Q3 2019 Interim Report	*October 30, 2019*

Masthead

Published by
Bayer AG, 51368 Leverkusen, Germany

Editor
Meike Kneip, phone +49 214 30 20015
Email: meike.kneip@bayer.com

Investor Relations
Peter Dahlhoff, phone +49 214 30 33022
Email: peter.dahlhoff@bayer.com

English edition
Bayer Business Services GmbH
Translation Services

Date of publication
Wednesday, September 5, 2018

Bayer on the internet
www.bayer.com

ISSN 0343/1975

Interim Group Management Report and Condensed Consolidated Interim Financial Statements produced in-house with FIRE.sys.

Cautionary Statements Regarding Forward-Looking Information
Certain statements contained in this communication 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: the risk that the parties may be unable to achieve expected synergies and operating efficiencies in the merger within the expected timeframes (or at all) and to successfully integrate the operations of Monsanto Company ("Monsanto") into those of Bayer Aktiengesellschaft ("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 difficulties in maintaining relationships with employees, customers, clients or suppliers) may be greater or more significant than expected following the transaction; the retention of certain key employees at Monsanto; the parties' ability to meet expectations regarding the accounting and tax treatments of the merger; the impact of refinancing the loans taken out for the transaction; the impact of indebtedness incurred by Bayer in connection with the transaction and the potential impact on Bayer's rating of indebtedness; 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 U.S. Securities and Exchange Commission (the "SEC") for the fiscal year ended August 31, 2017, 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 assumes 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 hereof.