Science For A Better Life

Q1

Interim Report

First Quarter of 2017

Bayer Group Key Data

€ million	Q1 2016	Q1 2017	Change %	Full Year 2016
Sales	**11,854**	**13,244**	**+11.7**	**46,769**
Change (adjusted for currency and portfolio effects)[1]			+9.4	+3.5%
Change in sales[1]				
Volume	+5.2%	+5.9%		+4.2%
Price	−2.0%	+3.5%		−0.7%
Currency	−2.8%	+2.3%		−2.0%
Portfolio	+0.1%	0.0%		0.0%
EBITDA[1]	**3,359**	**3,846**	**+14.5**	**10,785**
Special items[1]	(28)	(47)		(517)
EBITDA before special items[1]	**3,387**	**3,893**	**+14.9**	**11,302**
EBITDA margin before special items[1]	28.6%	29.4%		24.2%
EBIT[1]	**2,320**	**3,116**	**+34.3**	**7,042**
Special items[1]	(272)	(85)		(1,088)
EBIT before special items[1]	**2,592**	**3,201**	**+23.5**	**8,130**
Financial result	**(315)**	**(349)**	**−10.8**	**(1,155)**
Net income (from continuing and discontinued operations)	**1,511**	**2,083**	**+37.9**	**4,531**
Earnings per share (from continuing and discontinued operations) (€)[1]	1.83	2.39	+30.6	5.44
Core earnings per share (from continuing operations) (€)[1]	2.35	2.62	+11.5	7.32
Net cash provided by operating activities (from continuing and discontinued operations)	**1,322**	**841**	**−36.4**	**9,089**
Cash outflows for capital expenditures	**363**	**415**	**+14.3**	**2,578**
Research and development expenses	**1,109**	**1,158**	**+4.4**	**4,666**
Depreciation, amortization and impairments	**1,039**	**730**	**−29.7**	**3,743**
Number of employees at end of period[2]	**116,225**	**115,578**	**−0.6**	**115,200**
Personnel expenses (including pension expenses)	2,832	3,124	+10.3	11,357

2016 figures restated
[1] For definition see Annual Report 2016, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”
[2] Employees calculated as full-time equivalents (FTEs)

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Reporting Principles

The Bayer Interim Report complies with the requirements made of a quarterly financial report in accordance with the applicable provisions of the German Securities Trading Act (WpHG) and, pursuant to Section 37w Para. 3 of the WpHG, comprises condensed consolidated interim financial statements and an interim group management report. Bayer has prepared the condensed consolidated interim financial statements according to the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union (E.U.). The condensed consolidated interim financial statements also comply with the IFRS published by the IASB. The interim group management report should be read in conjunction with our Annual Report 2016, which contains a detailed description of our business operations.

First quarter of 2017

Strong start to the year for Bayer

- Group sales increase to €13.2 billion (Fx & portfolio adj.: + 9.4%)
- EBITDA before special items raised to €3.9 billion (+ 14.9%)
- Growth momentum across all segments
- Very good business development at Pharmaceuticals
- Significant increase in sales and earnings at Covestro
- Net income €2.1 billion (+ 37.9%)
- Core earnings per share €2.62 (+ 11.5%)
- Group outlook for 2017 raised, driven by Covestro performance

Economic situation of the Bayer Group

The Bayer Group got off to a very successful start to 2017. In the first quarter, sales increased by 9.4% on a currency- and portfolio-adjusted basis (Fx & portfolio adj.) to €13.2 billion and EBITDA before special items by a substantial 14.9% to €3.9 billion. At Pharmaceuticals, we once again benefited from the very good performance of our key growth products. Consumer Health, Crop Science and Animal Health also registered increases in sales and EBITDA before special items. Covestro posted substantial growth in sales and earnings.

1. Overview of Sales, Earnings and Financial Position

1.1 Earnings Performance of the Bayer Group[1]

First quarter of 2017

Group Sales

Sales of the Bayer Group increased by 9.4% to €13,244 million in the first quarter of 2017 after adjusting for currency and portfolio changes (Fx & portfolio adj.; reported: + 11.7%). Germany accounted for €1,394 million of this figure. Sales of the Life Science businesses amounted to €9,680 million (Fx & portfolio adj. + 4.9%).

Pharmaceuticals posted encouraging sales growth of 7.4% (Fx & portfolio adj.) to €4,263 million. The continued strong business performance of our key growth products contributed significantly to this increase. Consumer Health sales grew by 2.6% (Fx & portfolio adj.) to €1,601 million. Sales at Crop Science increased by 3.2% (Fx & portfolio adj.) to €3,120 million. Animal Health posted a 2.9% (Fx & portfolio adj.) gain in sales to €440 million. Sales of Covestro improved considerably, increasing by 23.6% (Fx & portfolio adj.) to €3,564 million.

EBITDA before special items

Group EBITDA before special items increased by 14.9% to €3,893 million. EBITDA before special items at Pharmaceuticals grew by a substantial 19.1% to €1,502 million. EBITDA before special items of Consumer Health improved by 2.3% to €392 million. At Crop Science, EBITDA before special items climbed by 2.4% to €1,115 million. Animal Health registered a gratifying 10.7% improvement in EBITDA before special items, to €135 million. The Life Science businesses overall posted EBITDA before special items of €3,054 million (+ 5.9%). Covestro raised EBITDA before special items by a considerable 66.5% to €839 million.

Depreciation, amortization and special items

Depreciation, amortization and impairment losses amounted to €730 million in the first quarter of 2017 (Q1 2016: €1,039 million), and comprised €349 million (Q1 2016: €667 million) in amortization and impairments on intangible assets and €381 million (Q1 2016: €372 million) in depreciation and impairments on property, plant and equipment. A total of €38 million (Q1 2016: €244 million) in impairments constituted special items. These largely related to the discontinuation of the Phase II trial with our cooperation partner Regeneron Pharmaceuticals, Inc. In the prior year, €231 million in impairments on intangible assets were recognized in connection with Essure™.

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

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

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Special Items Reconciliation[1]

€ million	EBIT Q1 2016	EBIT Q1 2017	EBITDA Q1 2016	EBITDA Q1 2017
Before special items	**2,592**	**3,201**	**3,387**	**3,893**
Pharmaceuticals	**(231)**	**(36)**	**–**	**(3)**
Consumer Health	**(32)**	**(9)**	**(19)**	**(8)**
Crop Science	**(3)**	**(37)**	**(3)**	**(24)**
Animal Health	**(1)**	**–**	**(1)**	**–**
Reconciliation	**(5)**	**(20)**	**(5)**	**(20)**
Restructuring	(5)	(15)	(5)	(15)
Litigations	–	(5)	–	(5)
Total special items Life Sciences	**(272)**	**(102)**	**(28)**	**(55)**
Covestro	**–**	**17**	**–**	**8**
Total special items	**(272)**	**(85)**	**(28)**	**(47)**
of which cost of goods sold	(183)	(8)	(8)	(2)
of which selling expenses	(41)	(1)	(5)	(1)
of which research and development expenses	(35)	(36)	(2)	(3)
of which general administration expenses	(13)	(35)	(13)	(35)
of which other operating income / expenses	–	(5)	–	(6)
After special items	**2,320**	**3,116**	**3,359**	**3,846**

2016 figures restated

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

EBIT

EBIT of the Bayer Group rose by a substantial 34.3% to €3,116 million (Q1 2016: €2,320 million) after special charges of €85 million (Q1 2016: €272 million). These mainly comprised €43 million in connection with efficiency improvement programs and €33 million for impairment losses on intangible assets, while €21 million were connected with the agreed acquisition of Monsanto. EBIT before special items moved forward by 23.5% to €3,201 million (Q1 2016: €2,592 million).

Net income

Including a financial result of minus €349 million (Q1 2016: minus €315 million), income before income taxes was €2,767 million (Q1 2016: €2,005 million). After income tax expense of €595 million (Q1 2016: €474 million) and adjusting for income from discontinued operations after income taxes and noncontrolling interest, net income for the first quarter of 2017 amounted to €2,083 million (Q1 2016: €1,511 million).

Core earnings per share

Earnings per share (total) rose by 30.6% in the first quarter of 2017, to €2.39 (Q1 2016: €1.83), while core earnings per share from continuing operations improved by 11.5% to €2.62 (Q1 2016: €2.35).

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Core Earnings per Share[1]

€ million	Q1 2016	Q1 2017
EBIT (as per income statements)	**2,320**	**3,116**
Amortization and impairment losses / loss reversals on intangible assets	667	349
Impairment losses / loss reversals on property, plant and equipment	18	6
Special items (other than amortization and impairment losses / loss reversals)	28	47
Core EBIT	**3,033**	**3,518**
Financial result (as per income statements)	(315)	(349)
Special items in the financial result	(10)	35
Income taxes (as per income statements)	(474)	(595)
Special items in income taxes	–	–
Tax effects related to amortization, impairment losses / loss reversals and special items	(218)	(138)
Income after income taxes attributable to noncontrolling interest (as per income statements)	(70)	(188)
Above-mentioned adjustments attributable to noncontrolling interest	(2)	3
Core net income from continuing operations	**1,944**	**2,286**
Shares		
Weighted average number of shares	**826,947,808**	**871,387,808**
€		
Core earnings per share from continuing operations	**2.35**	**2.62**
Core earnings per share from discontinued operations	0.07	0.12
Core earnings per share from continuing and discontinued operations	2.42	2.74

2016 figures restated

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

Our calculations for determining net income and core earnings per share took into account our sale, effective March 3, 2017, of 22 million shares in Covestro AG to insitutional investors at a price of €66.50, in a move that reduced Bayer’s stake from 64.2% to 53.3% of the shares issued.

Personnel expenses rose by 10.3% compared with March 31, 2016, to €3,124 million (Q1 2016: €2,832 million). Compared with the closing date of the first quarter of 2016, the number of employees in the Bayer Group was largely unchanged at 115,578 (March 31, 2016: 116,225; –0.6%).

1.2 Business Development by Segment

Pharmaceuticals

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Key Data – Pharmaceuticals

€ million	Q1 2016	Q1 2017	Change % Reported	Change % Fx & p adj.
Sales	**3,889**	**4,263**	**+9.6**	**+7.4**
Change in sales[1]				
Volume	+12.7%	+7.8%		
Price	−0.5%	−0.4%		
Currency	−3.0%	+2.2%		
Portfolio	0.0%	0.0%		
			Reported	Fx adj.
Sales by region				
Europe / Middle East / Africa	1,542	1,606	+4.2	+3.9
North America	989	1,073	+8.5	+4.9
Asia / Pacific	1,130	1,312	+16.1	+13.5
Latin America	228	272	+19.3	+11.0
EBITDA[1]	**1,261**	**1,499**	**+18.9**	
Special items[1]	–	(3)		
EBITDA before special items[1]	**1,261**	**1,502**	**+19.1**	
EBITDA margin before special items[1]	32.4%	35.2%		
EBIT[1]	**698**	**1,219**	**+74.6**	
Special items[1]	(231)	(36)		
EBIT before special items[1]	**929**	**1,255**	**+35.1**	
Net cash provided by operating activities	**734**	**973**	**+32.6**	

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

First quarter of 2017

Sales

Sales of Pharmaceuticals rose by an encouraging 7.4% (Fx & portfolio adj.) to €4,263 million in the first quarter of 2017. Our key growth products Xarelto™, Eylea™, Xofigo™, Stivarga™ and Adempas™ once again delivered strong performance, with their combined sales rising by 20.0% (Fx adj.) to €1,445 million (Q1 2016: €1,187 million). Our Pharmaceuticals business expanded in all regions on a currency-adjusted basis.

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Best-Selling Pharmaceuticals Products

€ million	Q1 2016	Q1 2017	Change % Reported	Change % Fx adj.[1]
Xarelto™	617	751	+ 21.7	+ 19.6
of which U.S.A.[2]	86	86	.	.
Eylea™	372	446	+ 19.9	+ 19.3
of which U.S.A.[3]	0	0	.	.
Mirena™ product family	248	315	+ 27.0	+ 22.7
of which U.S.A.	169	219	+ 29.6	+ 24.8
Kogenate™ / Kovaltry™	296	275	– 7.1	– 8.5
of which U.S.A.	96	94	– 2.1	– 5.0
Nexavar™	213	207	– 2.8	– 5.7
of which U.S.A.	81	75	– 7.4	– 10.0
Adalat™	160	174	+ 8.8	+ 8.5
of which U.S.A.	1	0	– 100.0	– 98.9
Betaferon™ / Betaseron™	190	171	– 10.0	– 12.1
of which U.S.A.	100	94	– 6.0	– 9.3
YAZ™ / Yasmin™ / Yasminelle™	172	170	– 1.2	– 7.3
of which U.S.A.	40	20	– 50.0	– 52.3
Glucobay™	139	158	+ 13.7	+ 14.6
of which U.S.A.	1	1	.	– 44.9
Aspirin™ Cardio	137	157	+ 14.6	+ 13.8
of which U.S.A.	0	0	.	.
Xofigo™	75	100	+ 33.3	+ 30.5
of which U.S.A.	50	62	+ 24.0	+ 18.7
Avalox™ / Avelox™	98	100	+ 2.0	+ 2.3
of which U.S.A.	0	3	.	.
Gadavist™ / Gadovist™	82	89	+ 8.5	+ 6.2
of which U.S.A.	27	27	.	– 3.1
Ultravist™	71	84	+ 18.3	+ 18.0
of which U.S.A.	1	1	.	+ 16.4
Stellant™	70	78	+ 11.4	+ 7.6
of which U.S.A.	52	57	+ 9.6	+ 6.1
Total best-selling products	**2,940**	**3,275**	**+ 11.4**	**+ 9.4**
Proportion of Pharmaceuticals sales	76%	77%		
Total best-selling products in U.S.A.	**704**	**739**		

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

Sales by product

> Our oral anticoagulant **Xarelto™** achieved strong sales growth, primarily due to an expansion of volumes in Europe and Japan. Our license revenues – recognized as sales – in the United States, where Xarelto™ is marketed by a subsidiary of Johnson & Johnson, matched the prior-year quarter.

> We once again significantly expanded our business with the eye medicine **Eylea™**, with performance driven by higher sales volumes in Europe. Encouraging sales gains were also achieved in Canada and Japan.

> We substantially increased sales of the hormone-releasing intrauterine devices of the **Mirena™** product family (Mirena™, Kyleena™ und Jaydess™ / Skyla™), particularly in the United States, where we also benefited from the successful market launch of the new Kyleena™ intrauterine device.

- Business with our **Kogenate™ / Kovaltry™** blood-clotting medicines was down overall, largely due to fluctuations in the order volumes placed by our distribution partner.
- We registered a decline in sales for our cancer drug **Nexavar™**, primarily due to higher competitive pressure in the United States and Europe.
- Encouraging sales gains for **Adalat™**, our product for the treatment of hypertension and coronary heart disease, were mainly the result of increased volumes in China.
- As expected, sales of our multiple sclerosis product **Betaferon™ / Betaseron™** were lower than in the prior-year quarter due to reduced demand in Europe and the United States.
- Business with our **YAZ™ / Yasmin™ / Yasminelle™** line of oral contraceptives was down overall. Sales gains in Russia and China were insufficient to offset declines caused by intensified generic competition in the United States.
- Substantial sales increases for our diabetes treatment **Glucobay™** and our **Aspirin™ Cardio** product for the secondary prevention of heart attacks, as well as slight sales gains for our antibiotic **Avalox™ / Avelox™** were largely the result of a favorable market environment in China.
- Business with our cancer drug **Xofigo™** increased significantly, driven by the successful launch of the product in Japan as well as growth in the United States and Europe.
- Sales of our MRI contrast agent **Gadovist™** advanced, mainly due to good business performance in Japan.
- Substantial sales gains for our X-ray contrast agent **Ultravist™** were primarily the result of positive business performance in China.
- Business with our **Stellant™** contrast agent injection system benefited from higher volumes, primarily in the United States.
- Sales of our cancer drug **Stivarga™** increased by 9.1% to €75 million (Q1 2016: 67 million), especially due to gains in the United States and Europe.
- Sales of the pulmonary hypertension treatment **Adempas™** amounted to €73 million (Q1 2016: €56 million; Fx adj. +27.5%) and, as in the past, reflected the proportionate recognition of the one-time payment resulting from the sGC collaboration with Merck & Co., United States. Business benefited mainly from a positive performance in the United States.

Earnings

In the first quarter of 2017, **EBITDA before special items** of Pharmaceuticals increased by a substantial 19.1% percent to €1,502 million (Q1 2016: €1,261 million). Sales increased, while selling expenses and research and development expenditures were at around the same level as the prior-year quarter. Positive currency effects amounted to around €15 million.

EBIT improved by a substantial 74.6% to €1,219 million, including special charges of €36 million (Q1 2016: €231 million).

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Special Items[1] Pharmaceuticals

€ million	EBIT Q1 2016	EBIT Q1 2017	EBITDA Q1 2016	EBITDA Q1 2017
Restructuring	(2)	(3)	(2)	(3)
Litigations	2	–	2	–
Impairment losses / impairment loss reversals	(231)	(33)	–	–
Total special items	**(231)**	**(36)**	**–**	**(3)**

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

Consumer Health

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Key Data – Consumer Health

€ million	Q1 2016	Q1 2017	Change % Reported	Change % Fx & p adj.
Sales	**1,520**	**1,601**	**+5.3**	**+2.6**
Change in sales[1]				
Volume	−1.5%	+0.3%		
Price	+3.7%	+2.3%		
Currency	−4.5%	+2.7%		
Portfolio	0.0%	0.0%		
			Reported	Fx adj.
Sales by region				
Europe / Middle East / Africa	482	538	+11.6	+8.9
North America	677	701	+3.5	−0.1
Asia / Pacific	201	220	+9.5	+6.5
Latin America	160	142	−11.3	−9.4
EBITDA[1]	**364**	**384**	**+5.5**	
Special items[1]	(19)	(8)		
EBITDA before special items[1]	**383**	**392**	**+2.3**	
EBITDA margin before special items[1]	25.2%	24.5%		
EBIT[1]	**243**	**278**	**+14.4**	
Special items[1]	(32)	(9)		
EBIT before special items[1]	**275**	**287**	**+4.4**	
Net cash provided by operating activities	**197**	**265**	**+34.5**	

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

First quarter of 2017

Sales

Sales of Consumer Health rose by 2.6% (Fx & portfolio adj.) in the first quarter of 2017 to €1,601 million. We registered encouraging growth in Europe / Middle East / Africa and Asia / Pacific. Sales in North America were level year on year on a currency-adjusted basis, while business declined substantially in Latin America.

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Best-Selling Consumer Health Products

€ million	Q1 2016	Q1 2017	Change % Reported	Change % Fx adj.[1]
Claritin™	187	190	+1.6	−2.4
Aspirin™	116	117	+0.9	−0.4
Coppertone™	81	102	+25.9	+21.3
Bepanthen™ / Bepanthol™	92	95	+3.3	+2.2
Aleve™	90	82	−8.9	−11.8
Canesten™	64	70	+9.4	+11.5
Alka-Seltzer™ product family	57	70	+22.8	+19.6
One A Day™	44	55	+25.0	+19.1
Elevit™	43	52	+20.9	+13.4
Dr. Scholl’s™[2]	60	41	−31.7	−33.6
Total	**834**	**874**	**+4.8**	**+2.1**
Proportion of Consumer Health sales	55%	55%		

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

Sales by product

- Business with our antihistamine **Claritin™** was down slightly, primarily due to a slow start to the allergy season in the United States. Gains in Europe and China only partially offset this effect.
- Sales of our analgesic **Aspirin™** were level with the prior-year quarter. Including business with Aspirin™ Cardio, which is reported under Pharmaceuticals, sales climbed by 7.5% (Fx adj.) to €274 million (Q1 2016: €253 million).
- We achieved strong sales growth with our sunscreen product **Coppertone™**, primarily in the United States and China where we built inventories in the distribution channel ahead of the summer season.
- Business with our **Bepanthen™ / Bepanthol™** wound and skin care products increased slightly. Sales growth in Europe and Asia / Pacific more than offset the decline registered in Latin America.
- Sales of our analgesic **Aleve™** decreased substantially, primarily due to intensified competition in the United States. The sales performance of Aleve™ Tens remained positive but was insufficient to offset this decline.
- We achieved gratifying sales increases for our **Canesten™** skin and intimate health products, in part due to the expansion of our product portfolio last year.
- Sales of the **Alka-Seltzer™** family of products to treat gastric complaints and cold symtoms advanced significantly, especially in the United States due to a strong cold season and as a result of a product line extension.
- We recorded strong sales growth for our **One A Day™** vitamin product, in part due to product line extensions and the expansion of our distribution channels in the United States.
- Our prenatal vitamin **Elevit™** registered double-digit sales growth. This was largely attributable to demand remaining strong in Asia / Pacific.
- Sales of our **Dr. Scholl's™** foot care products declined substantially, primarily due to the reduction of inventories in distribution channels ahead of a change in product lines and a weak market environment in the United States.

Earnings

EBITDA before special items of Consumer Health advanced by 2.3% to €392 million in the first quarter of 2017 (Q1 2016: €383 million). This increase resulted from the positive development of sales as well as from one-time gains of around €20 million, primarily arising from the sale of brands. A higher cost of goods sold, in part due to write-downs on inventories, had an opposing effect.

EBIT increased by 14.4% to €278 million, including special charges of €9 million (Q1 2016: €32 million) that were largely attributable to efficiency enhancement measures.

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Special Items[1] Consumer Health

€ million	EBIT Q1 2016	EBIT Q1 2017	EBITDA Q1 2016	EBITDA Q1 2017
Restructuring	(14)	(9)	(1)	(8)
Integration costs	(18)	–	(18)	–
Total Special Items	**(32)**	**(9)**	**(19)**	**(8)**

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

Crop Science

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Key Data – Crop Science

€ million	Q1 2016	Q1 2017	Change % Reported	Change % Fx & p adj.
Sales	**2,936**	**3,120**	**+6.3**	**3.2**
Change in sales[1]				
Volume	−0.5%	+3.4%		
Price	+1.7%	−0.2%		
Currency	−3.6%	+3.1%		
Portfolio	+0.1%	0.0%		
			Reported	Fx adj.
Sales by region				
Europe / Middle East / Africa	1,420	1,462	+3.0	+2.0
North America	909	1,042	+14.6	+8.9
Asia / Pacific	342	366	+7.0	+2.9
Latin America	265	250	−5.7	−9.8
EBITDA[1]	**1,086**	**1,091**	**+0.5**	
Special items[1]	(3)	(24)		
EBITDA before special items[1]	**1,089**	**1,115**	**+2.4**	
EBITDA margin before special items[1]	37.1%	35.7%		
EBIT[1]	**955**	**970**	**+1.6**	
Special items[1]	(3)	(37)		
EBIT before special items[1]	**958**	**1,007**	**+5.1**	
Net cash provided by operating activities	**(666)**	**(679)**	**−2.0**	

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

First quarter of 2017

Sales

In the first quarter of 2017, Crop Science posted sales of €3,120 million (Fx & portfolio adj. +3.2%). Growth at Crop Protection / Seeds was largely due to encouraging performance in North America. The sales growth recorded at Environmental Science was based on the delivery of products to the company that acquired our consumer business.

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Sales by Business Unit

€ million	Q1 2016	Q1 2017	Change % Reported	Change % Fx & p adj.[1]
Crop Protection / Seeds	**2,819**	**2,973**	**+5.5**	**+2.5**
Crop Protection	2,182	2,251	+3.2	+0.9
Herbicides	845	912	+7.9	+5.3
Fungicides	827	787	−4.8	−6.2
Insecticides	284	301	+6.0	+3.9
SeedGrowth	226	251	+11.1	+7.1
Seeds	637	722	+13.3	+8.0
Environmental Science	**117**	**147**	**+25.6**	**+20.5**

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

Sales by region

- Sales in Europe / Middle East / Africa climbed to €1,462 million (Fx adj. + 2.0%). We recorded double-digit sales gains in both the Insecticides and Seeds businesses. Slight increases at Herbicides stood against declines at Fungicides and SeedGrowth.
- Sales in North America advanced by 8.9% (Fx adj.) to €1,042 million. We registered especially positive performance for the SeedGrowth business, as a result of strong demand for application in soybeans and cereals, and for the Herbicides business in Canada. We also grew sales at Insecticides and Fungicides. At Seeds, gratifying gains for oilseed rape/canola and soybean seeds more than offset substantial declines for cotton seeds.
- In the Asia / Pacific region, sales increased to €366 million (Fx adj. + 2.9%). We achieved double-digit growth at Herbicides, where we benefited from product launches in Japan and China as well as favorable weather conditions in Australia, among other things. The SeedGrowth and Fungicides businesses also delivered positive performance. By contrast, weak demand in India led to substantial declines in sales at Insecticides.
- Sales in Latin America decreased by 9.8% (Fx adj.) to €250 million. Our Fungicides business in Brazil saw a substantial decline, primarily due to inventories in the market remaining high. Double-digit sales increases at Herbicides, particularly in Argentina, and in the Seeds business were unable to offset this development.

Earnings

EBITDA before special items of Crop Science increased by 2.4% to €1,115 million in the first quarter of 2017 (Q1 2016: €1,089 million). Positive earnings effects resulted primarily from higher volumes. A higher cost of goods sold, increased research and development expenses as well as lower selling prices diminished earnings.

EBIT advanced by 1.6% to €970 million after special items of €37 million (Q1 2016: €3 million) in conjunction with the agreed acquisition of Monsanto and efficiency improvement programs.

A 11

Special Items[1] Crop Science

€ million	EBIT Q1 2016	EBIT Q1 2017	EBITDA Q1 2016	EBITDA Q1 2017
Restructuring	–	(16)	–	(3)
Litigations	(3)	–	(3)	–
Acquisition costs	–	(21)	–	(21)
Total special items	**(3)**	**(37)**	**(3)**	**(24)**

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

Animal Health

A 12

Key Data – Animal Health

€ million	Q1 2016	Q1 2017	Change % Reported	Change % Fx & p adj.
Sales	**408**	**440**	**+ 7.8**	**+ 2.9**
Change in sales[1]				
Volume	+ 8.3%	– 0.3%		
Price	+ 0.5%	+ 3.2%		
Currency	– 3.1%	+ 3.1%		
Portfolio	0.0%	+ 1.8%		
			Reported	Fx adj.
Sales by region				
Europe / Middle East / Africa	138	144	+ 4.3	+ 2.2
North America	162	177	+ 9.3	+ 5.6
Asia / Pacific	67	76	+ 13.4	+ 9.0
Latin America	41	43	+ 4.9	0.0
EBITDA[1]	**121**	**135**	**+ 11.6**	
Special items[1]	(1)	–		
EBITDA before special items[1]	**122**	**135**	**+ 10.7**	
EBITDA margin before special items[1]	29.9%	30.7%		
EBIT[1]	**114**	**126**	**+ 10.5**	
Special items[1]	(1)	–		
EBIT before special items[1]	**115**	**126**	**+ 9.6**	
Net cash provided by operating activities	**(20)**	**(31)**	**– 55.0**	

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

First quarter of 2017

Sales

Sales of Animal Health in the first quarter of 2017 rose by 2.9% (Fx & portfolio adj.) to €440 million. The development of business in the Asia / Pacific region in particular was encouraging. We also achieved growth in the Europe / Middle East / Africa region. The increase registered in North America is in part attributable to the U.S. sales generated by the Cydectin™ product portfolio that we acquired from Boehringer Ingelheim Vetmedica, Inc., United States.

A 13

Best-Selling Animal Health Products

€ million	Q1 2016	Q1 2017	Change % Reported	Change % Fx adj.[1]
Advantage™ product family	148	136	– 8.1	– 10.0
Seresto™	54	76	+ 40.7	+ 38.2
Drontal™ product family	32	35	+ 9.4	+ 6.0
Baytril™	28	27	– 3.6	– 5.8
Total	**262**	**274**	**+ 4.6**	**+ 2.3**
Proportion of Animal Health sales	64%	62%		

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

Sales by product

> Sales of our **Advantage™** family of flea, tick and worm control products were considerably lower than in the prior-year quarter, partly due to intensified competitive pressure and shifts in demand patterns.

> We once again significantly expanded business with our **Seresto™** flea and tick collar, primarily as the result of higher volumes in the United States and Europe.

- Sales of our **Drontal™** line of wormers were up year on year. Here we mainly benefited from new distribution possibilities in the United States.
- As expected, business with our antibiotic **Baytril™** declined, primarily due to generic competition in the United States and Europe.

Earnings

EBITDA before special items of Animal Health increased by 10.7% in the first quarter of 2017 to €135 million (Q1 2016: €122 million). Positive earnings contributions resulted from both price increases as well as the Cydectin™ business that we acquired. By contrast, there was an increase in selling expenses and research and development expenditures.

EBIT advanced 10.5% to €126 million. No special items (Q1 2016: special charges of €1 million) were recognized.

A 14

Special Items[1] Animal Health

€ million	EBIT Q1 2016	EBIT Q1 2017	EBITDA Q1 2016	EBITDA Q1 2017
Restructuring	(1)	–	(1)	–
Total special items	**(1)**	**–**	**(1)**	**–**

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

Covestro

A 15

Key Data – Covestro

€ million	Q1 2016	Q1 2017	Change % Reported	Change % Fx & p adj.
Sales	**2,850**	**3,564**	**+ 25.1**	**+ 23.6**
Change in sales[1]				
Volume	+ 5.9%	+ 10.3%		
Price	– 10.6%	+ 13.3%		
Currency	– 0.7%	+ 1.5%		
Portfolio	0.0%	0.0%		
			Reported	**Fx adj.**
Sales by region				
Europe / Middle East / Africa	1,210	1,413	+ 16.8	+ 16.6
North America	683	761	+ 11.4	+ 7.8
Asia / Pacific	793	1,182	+ 49.1	+ 47.3
Latin America	164	208	+ 26.8	+ 26.2
EBITDA[1]	**504**	**847**	**+ 68.1**	
Special items[1]	–	8		
EBITDA before special items[1]	**504**	**839**	**+ 66.5**	
EBITDA margin before special items[1]	17.7%	23.5%		
EBIT[1]	**336**	**689**	**+ 105.1**	
Special items[1]	–	17		
EBIT before special items[1]	**336**	**672**	**+ 100.0**	
Net cash provided by operating activities	**169**	**275**	**+ 62.7**	

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

First quarter of 2017

Sales

Sales of Covestro increased by 23.6% (Fx & portfolio adj.) in the first quarter of 2017 compared with the prior-year period, to €3,564 million. Selling prices were much higher overall, especially at Polyurethanes, while volumes increased substantially in all business units.

A 16

Sales by Business Unit

€ million	Q1 2016	Q1 2017	Change % Reported	Change % Fx & p adj.[1]
Polyurethanes	1,401	1,894	+35.2	+33.5
Polycarbonates	786	954	+21.4	+20.0
Coatings, Adhesives, Specialties	512	564	+10.2	+8.8
Other Covestro business	151	152	+0.7	0.0
Total	**2,850**	**3,564**	**+25.1**	**+23.6**

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

Sales by business unit

- **Polyurethanes** saw sales increase by 33.5% (Fx & portfolio adj.) to €1,894 million, due to significantly higher selling prices and much higher volumes.
- **Polycarbonates** grew sales by 20.0% (Fx & portfolio adj.) to €954 million, largely thanks to a strong increase in volumes. Selling prices were also up compared with the prior-year period.
- Sales of **Coatings, Adhesives, Specialties** rose by 8.8% to €564 million due to a significant increase in volumes, while selling prices remained almost stable.

Earnings

EBITDA before special items of Covestro improved by 66.5% to €839 million in the first quarter of 2017 (Q1 2016: €504 million). Substantially higher selling prices more than offset the effect of a slight increase in raw material prices. In addition, higher volumes had a positive effect on earnings.

EBIT more than doubled year on year, rising by 105.1% to €689 million. A special gain of €17 million (Q1 2016: €0 million) resulted from the decision to postpone the closure of a production facility until further notice.

A 17

Special Items[1] Covestro

€ million	EBIT Q1 2016	EBIT Q1 2017	EBITDA Q1 2016	EBITDA Q1 2017
Restructuring	–	17	–	8
Total special items	**–**	**17**	**–**	**8**

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

1.3 Asset and Financial Position of the Bayer Group

Statement of Cash Flows

A 18

Bayer Group Summary Statements of Cash Flows

€ million	Q1 2016	Q1 2017	Change %
Net cash provided by (used in) operating activities, continuing operations	**552**	**826**	**+ 49.6**
Net cash provided by (used in) operating activities, discontinued operations	770	15	– 98.1
Net cash provided by (used in) operating activities (total)	**1,322**	**841**	**– 36.4**
Net cash provided by (used in) investing activities (total)	**(462)**	**(1,136)**	**– 145.9**
Net cash provided by (used in) financing activities (total)	**823**	**611**	**– 25.8**
Change in cash and cash equivalents due to business activities	**1,683**	**316**	**– 81.2**
Cash and cash equivalents at beginning of period	**1,859**	**1,899**	**+ 2.2**
Change due to exchange rate movements and to changes in scope of consolidation	10	9	– 10.0
Cash and cash equivalents at end of period	**3,552**	**2,224**	**– 37.4**

2016 figures restated

Net cash provided by operating activities

- Operating cash flow (total) declined by 36.4% in the first quarter of 2017, to €841 million. The prior-year figure included inflows from the divestiture of Diabetes Care. Cash flow from operating activities from continuing operations climbed by a substantial 49.6% to €826 million.

Net cash provided by (used in) investing activities

- Cash outflows for property, plant and equipment and intangible assets were 14.3% higher in the first quarter of 2017 at €415 million (Q1 2016: €363 million) and included €152 million (Q1 2016: €141 million) at Pharmaceuticals, €24 million (Q1 2016: €39 million) at Consumer Health, €99 million (Q1 2016: €97 million) at Crop Science, €6 million (Q1 2016: €5 million) at Animal Health and €74 million (Q1 2016: €46 million) at Covestro.
- Cash outflows for acquisitions in the amount of €158 million related to the acquisition of the Cydectin™ product portfolio in the United States in the Animal Health segment.
- In total, we invested €637 million in mostly current financial assets (Q1 2016: net investment of €144 million in current and noncurrent financial assets).

Net cash provided by (used in) financing activities

- Net cash inflow for financing activities in the first quarter of 2017 amounted to €611 million, with inflows of €1,460 million from the sale of Covestro shares more than offsetting net loan repayments of €744 million (Q1 2016: net borrowings of €909 million).
- Net interest expense was €19 million higher at €105 million.

Liquid assets and net financial debt

A 19

Net Financial Debt[1]

€ million	Dec. 31, 2016	March 31, 2017	Change %
Bonds and notes / promissory notes	15,991	15,421	– 3.6
of which hybrid bonds[2]	4,529	4,530	.
Liabilities to banks	1,837	1,846	+ 0.5
Liabilities under finance leases	436	435	– 0.2
Liabilities from derivatives[3]	587	534	– 9.0
Other financial liabilities	730	751	+ 2.9
Receivables from derivatives[3]	(313)	(235)	– 24.9
Financial liabilities	**19,268**	**18,752**	**– 2.7**
Cash and cash equivalents	(1,899)	(2,224)	+ 17.1
Current financial assets[4]	(5,591)	(6,128)	+ 9.6
Net financial debt	**11,778**	**10,400**	**– 11.7**

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

> Net financial debt of the Bayer Group declined by €1.4 billion between December 31, 2016, and the end of the first quarter, due mainly to cash inflows from the sale of Covestro shares.
> Net financial debt includes three subordinated hybrid bonds with a total volume of €4.5 billion, 50% of which is treated as equity by Moody’s and S & P Global Ratings. The hybrid bonds thus have a more limited effect on the Group’s rating-specific debt indicators than senior debt.
> In March 2017, Bayer Nordic SE, Finland, redeemed at maturity a bond with a nominal volume of €500 million issued under its debt issuance program.
> Other financial liabilities as of March 31, 2017, included €654 million in connection with the mandatory convertible notes issued in November 2016.
> S & P Global Ratings and Moody’s give Bayer long-term issuer ratings of A– and A3, respectively. The short-term ratings are A–2 (S & P Global Ratings) and P–2 (Moody’s). These investment-grade ratings document good creditworthiness. In connection with the agreed acquisition of Monsanto, both rating agencies are currently reviewing the ratings with regard to a potential downgrade.

Asset and capital structure

A 20

Bayer Group Summary Statements of Financial Position

€ million	Dec. 31, 2016	March 31, 2017	Change %
Noncurrent assets	**51,791**	**51,664**	**– 0.2**
Current assets	30,437	33,362	+ 9.6
Assets held for sale	10	28	+ 180.0
Total current assets	**30,447**	**33,390**	**+ 9.7**
Total assets	**82,238**	**85,054**	**+ 3.4**
Equity	**31,897**	**35,857**	**+ 12.4**
Noncurrent liabilities	31,804	29,625	– 6.9
Current liabilities	18,537	19,572	+ 5.6
Liabilities	**50,341**	**49,197**	**– 2.3**
Total equity and liabilities	**82,238**	**85,054**	**+ 3.4**

- Between December 31, 2016, and March 31, 2017, total assets increased by €2.8 billion to €85.1 billion.
- Noncurrent assets were largely unchanged at €51.7 billion. Total current assets climbed to €33.4 billion, due particularly to a €2.1 billion increase in trade accounts receivable.
- Equity increased by €4.0 billion compared with December 31, 2016, to €35.9 billion. Income after income taxes of €2.3 billion was among the positive factors here, while the sale of Covestro shares led to an additional positive equity effect of approximately €1.5 billion. The decrease – recognized outside profit or loss – in post-employment benefit obligations had a positive effect of €0.4 billion. The equity ratio (equity coverage of total assets) as of March 31, 2017, was 42.2% (December 31, 2016: 38.8%).
- Liabilities decreased from €50.3 billion to €49.2 billion in the first quarter of 2017. Trade accounts payable declined by €0.7 billion and financial liabilities by €0.6 billion. Provisions for pensions and other post-employment benefits fell by €0.6 billion to €10.5 billion due to actuarial gains. This was mainly attributable to a slight increase in long-term capital market interest rates for high-quality corporate bonds in Germany and the United States. By contrast, other provisions rose by €0.7 billion.

2. Research, Development, Innovation

Bayer Group expenses for research and development increased by 2.7% (Fx adj.) to €1,158 million in the first quarter of 2017, with the Life Science businesses accounting for €1,094 million of this figure (Fx adj. + 2.9%).

A 21

Research and Development Expenses

	R&D expenses			R&D expenses before special items		
			Change %			Change %
€ million	Q1 2016	Q1 2017	Fx adj.	Q1 2016	Q1 2017	Fx adj.
Pharmaceuticals	700	712	+ 0.4	667	679	+ 0.5
Consumer Health	58	59	– 1.6	56	57	– 0.7
Crop Science	261	283	+ 5.8	261	282	+ 5.5
Animal Health	30	33	+ 7.7	30	33	+ 7.7
Reconciliation	(4)	7	.	(4)	7	.
Total Life Sciences	**1,045**	**1,094**	**+ 2.9**	**1,010**	**1,058**	**+ 3.0**
Covestro	64	64	.	64	64	.
Total Group	**1,109**	**1,158**	**+ 2.7**	**1,074**	**1,122**	**+ 2.9**

2016 figures restated

Pharmaceuticals

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

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

A 22

Research and Development Projects (Phase II) [1]

Projects	Indication
Anetumab ravtansine (mesothelin ADC)	Cancer
Nesvacumab (previously: Ang2 antibody) + aflibercept	Serious eye diseases [2]
BAY 1142524 (chymase inhibitor)	Heart failure
BAY 2306001 (IONIS-FXIRx)	Prevention of thrombosis [3]
Copanlisib (PI3K inhibitor)	Relapsed / refractory diffuse large B-cell lymphoma
Molidustat (HIF-PH inhibitor)	Renal anemia
Neladenoson bialanate (BAY 1067197)	Chronic heart failure
Radium-223 dichloride	Breast cancer with bone metastases
Radium-223 dichloride	Cancer, various studies
Regorafenib	Cancer
Riociguat	Diffuse systemic sclerosis
Riociguat	Cystic fibrosis
Rivaroxaban	Secondary prevention of acute coronary syndrome (ACS) [4]
Vilaprisan (S-PRM)	Symptomatic uterine fibroids [5]
Vilaprisan (S-PRM)	Endometriosis

[1] As of April 18, 2017
[2] Sponsored by Regeneron Pharmaceuticals, Inc.
[3] Sponsored by Ionis Pharmaceuticals, Inc.
[4] Sponsored by Janssen Research & Development, LLC
[5] Based on positive Phase II study data, the decision was taken to initiate Phase III studies.
The nature of drug discovery and development is such that not all compounds can be expected to meet the predefined project goals. It is possible that any or all of the projects listed above may have to be discontinued due to scientific and / or commercial reasons and will not result in commercialized products. It is also possible that the requisite U.S. Food and Drug Administration (FDA), European Medicines Agency (EMA) or other regulatory approvals will not be granted for these compounds. Moreover, we regularly review our research and development pipeline so that we can give priority to advancing the most promising pharmaceuticals projects.

Based on the results of the clinical Phase II CAPELLA trial after 28 weeks, our partner Regeneron Pharmaceuticals, Inc., United States, decided to discontinue the further development of rinucumab, a PDGFR-β antibody, in combination with aflibercept (tradename: Eylea™) for the treatment of wet age-related macular degeneration. The trial missed its clinical endpoint, which had been for a statistically significant improvement in visual acuity after 12 or 28 weeks.

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

A 23

Research and Development Projects (Phase III)[1]

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

[1] As of April 18, 2017
[2] Sponsored by Janssen Research & Development, LLC
[3] Sponsored by Merck & Co., Inc., USA
The nature of drug discovery and development is such that not all compounds can be expected to meet the predefined project goals. It is possible that any or all of the projects listed above may have to be discontinued due to scientific and / or commercial reasons and will not result in commercialized products. It is also possible that the requisite U.S. Food and Drug Administration (FDA), European Medicines Agency (EMA) or other regulatory approvals will not be granted for these compounds. Moreover, we regularly review our research and development pipeline so that we can give priority to advancing the most promising pharmaceuticals projects.

After conducting an interim analysis, the independent Data Monitoring Committee (DMC) issued a recommendation in February 2017 to discontinue the Phase III COMPASS trial as the primary endpoint had been achieved ahead of schedule. The trial investigated the efficacy of rivaroxaban at preventing major adverse cardiac events (MACE) such as cardiovascular mortality, heart attacks and strokes in patients with coronary heart disease or periphery arterial occlusive disease. COMPASS is one of the largest clinical trials investigating rivaroxaban.

The most important drug candidates in the approval process are:

A 24

Main Products Submitted for Approval[1]

Projects	Indication
Copanlisib (PI3K inhibitor)	U.S.A.: Recurrent / resistant non-Hodgkin lymphoma (NHL)
Regorafenib	Europe, Japan, U.S.A.: second-line treatment for unresectable liver cancer
Rivaroxaban	Europe: long-term prevention of venous thromboembolic events
Rivaroxaban[2]	U.S.A.: secondary prophylaxis of acute coronary syndrome (ACS)

[1] As of April 18, 2017
[2] Submitted by Janssen Research & Development, LLC

In January 2017, the United States Food and Drug Administration (FDA) and the Japanese Ministry of Health, Labour and Welfare granted priority review status to regorafenib, an oral multikinase inhibitor, in the registration process for the expansion of indications. If approved, Bayer's cancer drug will in the future also be available as a second-line treatment to patients with unresectable liver cancer.

In March 2017, Bayer presented the latest results of the EINSTEIN CHOICE trial at the American College of Cardiology's Annual Scientific Session. The trial found that, in dosages of 10 mg once a day and 20 mg once a day, the oral Factor Xa inhibitor rivaroxaban (Xarelto™) significantly reduced the rate of recurrent venous thromboembolism compared with Aspirin™ (acetylsalicylic acid, ASA) taken once a day in a dosage of 100 mg. The trial investigated patients who had previously received 6 to 12 months of anticoagulant therapy due to them having had a pulmonary embolism or symptomatic deep vein thrombosis. Comparable and low rates of major bleeding (the primary endpoint for safety) that were at the level of the Aspirin™ therapy were observed for both rivaroxaban dosages.

At the end of March 2017, Bayer presented positive data from a Phase II trial involving the oncological development product copanlisib at the American Association for Cancer Research's Annual Meeting. In the open-label, non-randomized CHRONOS-1 trial, copanlisib achieved an objective tumor response rate of 59.2% across all patient groups, while the complete response rate stood at 12% and the median duration of response at the time of the primary analysis was more than 98 weeks (687 days). The trial investigated the safety and efficacy of copanlisib in patients with relapsed or refractory indolent non-Hodgkin lymphoma (iNHL), including follicular lymphoma. The patients had previously been treated with at least two other medicines. Copanlisib is an intravenous pan-class I phosphatidylinositol-3-kinase (PI3K) inhibitor with predominant inhibitory activity against PI3K-α and PI3K-δ isoforms.

Collaborations

Under an existing exclusive licensing deal, Bayer reached an agreement with Ionis Pharmaceuticals, Inc., United States, in February 2017 pertaining to the further clinical development of IONIS-FXIRx. Under the agreement, Ionis plans to conduct a Phase IIb trial evaluating IONIS-FXIRx in around 200 patients with end-stage kidney disease on hemodialysis to finalize dose selection. Ionis will also initiate development of IONIS-FXI-LRx and plans to develop this substance through Phase I.

Crop Science

In February 2017, we concluded a software cooperation and technology licensing agreement with the fertilizer producer Yara International ASA, Oslo, Norway. The goal of the agreement is to develop new digital farming solutions and increase the use of existing technologies, helping farmers to more efficiently manage their use of fertilizer and crop protection products and thus enhance productivity and sustainability in their operations.

3. Report on Future Perspectives and on Opportunities and Risks

3.1 Future Perspectives

3.1.1 Economic Outlook

A 25

Economic Outlook[1]

	Growth 2016	Growth forecast 2017
World	+ 2.5%	+ 2.9%
European Union	+ 1.8%	+ 1.7%
of which Germany	+ 1.8%	+ 1.9%
United States	+ 1.6%	+ 2.3%
Emerging Markets[2]	+ 3.8%	+ 4.4%

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

The global economy will likely grow more quickly in 2017 than in the previous year. In the United States particularly, we expect better economic development than in 2016. On the other hand, growth in the European Union is likely to slow down slightly, due partly to uncertainty surrounding future political development in Europe. Economic output in the Emerging Markets will probably pick up overall compared with the previous year. We continue to expect strong growth in China but at a slightly slower pace.

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Economic Outlook for the Segments[1]

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

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

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

3.1.2 Corporate Outlook

For 2017, Covestro is now budgeting a substantial sales increase (previously: increase) and a significant improvement in EBITDA after adjustment for special items (previously: on or above the prior-year level).

This development leads to the following changes for the Bayer Group. Sales are now expected to increase to around €51 billion (previously: more than €49 billion). This now corresponds to a mid- to high-single-digit (previously: low- to mid-single-digit) percentage increase on a currency- and portfolio-adjusted basis. EBITDA before special items is now expected to improve by a low-teens percentage (previously: mid-single-digit percentage). We now aim to grow core earnings per share from continuing operations by a mid- to high-single-digit percentage (previously: mid-single-digit percentage). Here it must be noted that Bayer's interest in Covestro amounts to only 53% as of March 2017 (previously: 64% for the full year). Excluding capital and portfolio measures, net financial debt is targeted to be around €8 billion at the end of 2017 (previously: around €10 billion).

Taking into account the potential opportunities and risks, at this point in time we are not adjusting the forecasts issued for our Life Science businesses in February 2017. For more information on our business outlook, please consult our Annual Report 2016, Chapter 3.1.2.

This forecast is based on the exchange rates as of March 31, 2017. There were no significant changes compared with December 31, 2016.

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 non-financial objectives.

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

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

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

Condensed Consolidated Interim Financial Statements as of March 31, 2017

Bayer Group Consolidated Income Statements

B 1

€ million	Q1 2016	Q1 2017
Net sales	**11,854**	**13,244**
Cost of goods sold	(5,044)	(5,345)
Gross profit	**6,810**	**7,899**
Selling expenses	(2,888)	(3,013)
Research and development expenses	(1,109)	(1,158)
General administration expenses	(495)	(572)
Other operating income	203	175
Other operating expenses	(201)	(215)
EBIT [1]	**2,320**	**3,116**
Equity-method loss	(5)	(13)
Financial income	37	35
Financial expenses	(347)	(371)
Financial result	**(315)**	**(349)**
Income before income taxes	**2,005**	**2,767**
Income taxes	(474)	(595)
Income from continuing operations after income taxes	**1,531**	**2,172**
Income from discontinued operations after income taxes	**50**	**99**
Income after income taxes	**1,581**	**2,271**
of which attributable to noncontrolling interest	70	188
of which attributable to Bayer AG stockholders (net income)	**1,511**	**2,083**

€		
Earnings per share		
From continuing operations		
Basic	1.77	2.28
Diluted	1.77	2.28
From discontinued operations		
Basic	0.06	0.11
Diluted	0.06	0.11
From continuing and discontinued operations		
Basic	1.83	2.39
Diluted	1.83	2.39

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

Bayer Group Consolidated Statements of Comprehensive Income

B 2

€ million	Q1 2016	Q1 2017
Income after income taxes	**1,581**	**2,271**
of which attributable to noncontrolling interest	70	188
of which attributable to Bayer AG stockholders	1,511	2,083
Remeasurements of the net defined benefit liability for post-employment benefit plans	(2,563)	605
Income taxes	756	(195)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**(1,807)**	**410**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**(1,807)**	**410**
Changes in fair values of derivatives designated as cash flow hedges	53	(88)
Reclassified to profit or loss	(16)	54
Income taxes	–	15
Other comprehensive income from cash flow hedges	**37**	**(19)**
Changes in fair values of available-for-sale financial assets	12	(7)
Reclassified to profit or loss	–	–
Income taxes	(4)	9
Other comprehensive income from available-for-sale financial assets	**8**	**2**
Changes in exchange differences recognized on translation of operations outside the eurozone	(509)	(171)
Reclassified to profit or loss	–	–
Other comprehensive income from exchange differences	**(509)**	**(171)**
Other comprehensive income relating to associates accounted for using the equity method	**18**	**7**
Other comprehensive income that may be reclassified subsequently to profit or loss	**(446)**	**(181)**
Total other comprehensive income[1]	**(2,253)**	**229**
of which attributable to noncontrolling interest	(101)	23
of which attributable to Bayer AG stockholders	(2,152)	206
Total comprehensive income	**(672)**	**2,500**
of which attributable to noncontrolling interest	(31)	211
of which attributable to Bayer AG stockholders	(641)	2,289

2016 figures restated
[1] Total changes recognized outside profit or loss

Bayer Group Consolidated Statements of Financial Position

B 3

€ million	March 31, 2016	March 31, 2017	Dec. 31, 2016
Noncurrent assets			
Goodwill	15,814	16,290	16,312
Other intangible assets	14,371	13,367	13,567
Property, plant and equipment	12,056	13,085	13,114
Investments accounted for using the equity method	493	580	584
Other financial assets	1,148	1,308	1,281
Other receivables	380	568	583
Deferred taxes	5,641	6,466	6,350
	49,903	**51,664**	**51,791**
Current assets			
Inventories	8,504	8,674	8,408
Trade accounts receivable	11,554	13,020	10,969
Other financial assets	550	6,662	6,275
Other receivables	2,121	2,205	2,210
Claims for income tax refunds	437	577	676
Cash and cash equivalents	3,552	2,224	1,899
Assets held for sale	8	28	10
	26,726	**33,390**	**30,447**
Total assets	**76,629**	**85,054**	**82,238**
Equity			
Capital stock	2,117	2,117	2,117
Capital reserves	6,167	9,658	9,658
Other reserves	15,340	21,842	18,558
Equity attributable to Bayer AG stockholders	**23,624**	**33,617**	**30,333**
Equity attributable to noncontrolling interest	1,149	2,240	1,564
	24,773	**35,857**	**31,897**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	13,343	10,522	11,134
Other provisions	1,633	1,753	1,780
Financial liabilities	17,119	14,788	16,180
Income tax liabilities	373	204	423
Other liabilities	1,151	933	957
Deferred taxes	809	1,425	1,330
	34,428	**29,625**	**31,804**
Current liabilities			
Other provisions	5,589	6,130	5,421
Financial liabilities	3,191	4,199	3,401
Trade accounts payable	4,977	5,690	6,410
Income tax liabilities	1,198	1,307	884
Other liabilities	2,473	2,246	2,421
	17,428	**19,572**	**18,537**
Total equity and liabilities	**76,629**	**85,054**	**82,238**

Bayer Group Consolidated Statements of Cash Flows

B 4

€ million	Q1 2016	Q1 2017
Income from continuing operations after income taxes	1,531	2,172
Income taxes	474	595
Financial result	315	349
Income taxes paid	(478)	(522)
Depreciation, amortization and impairments	1,039	730
Change in pension provisions	(99)	(54)
(Gains) losses on retirements of noncurrent assets	(2)	(57)
Decrease (increase) in inventories	(119)	(257)
Decrease (increase) in trade accounts receivable	(1,668)	(1,970)
(Decrease) increase in trade accounts payable	(893)	(694)
Changes in other working capital, other noncash items	452	534
Net cash provided by (used in) operating activities from continuing operations	**552**	**826**
Net cash provided by (used in) operating activities from discontinued operations	770	15
Net cash provided by (used in) operating activities (total)	**1,322**	**841**
Cash outflows for additions to property, plant, equipment and intangible assets	(363)	(415)
Cash inflows from the sale of property, plant, equipment and other assets	21	54
Cash inflows from divestitures	–	–
Cash inflows from (outflows for) noncurrent financial assets	(252)	(54)
Cash outflows for acquisitions less acquired cash	2	(158)
Interest and dividends received	22	20
Cash inflows from (outflows for) current financial assets	108	(583)
Net cash provided by (used in) investing activities (total)	**(462)**	**(1,136)**
Proceeds from shares of Covestro AG	–	1,460
Dividend payments	–	–
Issuances of debt	4,322	292
Retirements of debt	(3,413)	(1,036)
Interest paid including interest-rate swaps	(101)	(114)
Interest received from interest-rate swaps	15	9
Cash outflows for the purchase of additional interests in subsidiaries	–	–
Net cash provided by (used in) financing activities (total)	**823**	**611**
Change in cash and cash equivalents due to business activities (total)	**1,683**	**316**
Cash and cash equivalents at beginning of period	**1,859**	**1,899**
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	11	9
Cash and cash equivalents at end of period	**3,552**	**2,224**

2016 figures restated

Bayer Group Consolidated Statements of Changes in Equity

B 5

€ million	Capital stock	Capital reserves	Other reserves	Equity attributable to Bayer AG stockholders	Equity attributable to non-controlling interest	Equity
Dec. 31, 2015	**2,117**	**6,167**	**15,981**	**24,265**	**1,180**	**25,445**
Equity transactions with owners						
Capital increase / decrease						
Dividend payments						
Other changes						
Total comprehensive income			(641)	(641)	(31)	(672)
March 31, 2016	**2,117**	**6,167**	**15,340**	**23,624**	**1,149**	**24,773**
Dec. 31, 2016	**2,117**	**9,658**	**18,558**	**30,333**	**1,564**	**31,897**
Equity transactions with owners						
Capital increase / decrease						
Dividend payments						
Other changes			995	995	465	1,460
Total comprehensive income			2,289	2,289	211	2,500
March 31, 2017	**2,117**	**9,658**	**21,842**	**33,617**	**2,240**	**35,857**

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

Key Data by Segment and Region

B 6

Key Data by Segment

	Pharmaceuticals		Consumer Health		Crop Science		Animal Health	
€ million	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017
Net sales (external)	3,889	4,263	1,520	1,601	2,936	3,120	408	440
Change [1]	+ 9.2%	+ 9.6%	− 2.3%	+ 5.3%	− 2.3%	+ 6.3%	+ 5.7%	+ 7.8%
Currency-adjusted change [1]	+ 12.2%	+ 7.4%	+ 2.2%	+ 2.6%	+ 1.3%	+ 3.2%	+ 8.8%	+ 4.7%
Intersegment sales	7	10	1	5	9	8	1	1
Net sales (total)	3,896	4,273	1,521	1,606	2,945	3,128	409	441
EBIT [1]	698	1,219	243	278	955	970	114	126
EBIT before special items [1]	929	1,255	275	287	958	1,007	115	126
EBITDA before special items [1]	1,261	1,502	383	392	1,089	1,115	122	135
Net cash provided by operating activities	734	973	197	265	(666)	(679)	(20)	(31)
Depreciation, amortization, impairment losses / loss reversals	563	280	121	106	131	121	7	9
Number of employees (as of March 31) [2]	40,315	37,840	13,297	12,040	23,224	21,256	3,853	3,598

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

B 6 continued

Key Data by Segment

	Reconciliation									
	All Other Segments		Corporate Functions and Consolidation		Life Sciences		Covestro		Group	
€ million	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017
Net sales (external)	250	252	1	4	9,004	9,680	2,850	3,564	11,854	13,244
Change [1]	− 6.7%	+ 0.8%	–	–	+ 2.6%	+ 7.5%	− 5.4%	+ 25.1%	+ 0.5%	+ 11.7%
Currency-adjusted change [1]	− 6.3%	+ 2.0%	–	–	+ 6.0%	+ 5.0%	− 4.7%	+ 23.6%	+ 3.3%	+ 9.4%
Intersegment sales	425	710	(464)	(756)	–	–	21	22	–	–
Net sales (total)	675	962	(463)	(752)	–	–	2,871	3,586	11,854	13,244
EBIT [1]	3	(26)	(29)	(140)	1,984	2,427	336	689	2,320	3,116
EBIT before special items [1]	6	(8)	(27)	(138)	2,256	2,529	336	672	2,592	3,201
EBITDA before special items [1]	53	45	(25)	(135)	2,883	3,054	504	839	3,387	3,893
Net cash provided by operating activities	(3)	(167)	141	190	383	551	169	275	552	826
Depreciation, amortization, impairment losses / loss reversals	47	53	2	3	871	572	168	158	1,039	730
Number of employees (as of March 31) [2]	19,067	24,535	729	590	100,485	99,859	15,740	15,719	116,225	115,578

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

B 7

Key Data by Region

€ million	Europe/Middle East/Africa Q1 2016	Europe/Middle East/Africa Q1 2017	North America Q1 2016	North America Q1 2017	Asia/Pacific Q1 2016	Asia/Pacific Q1 2017
Net sales (external) – by market	5,028	5,413	3,422	3,755	2,536	3,156
Change [1]	+ 1.9%	+ 7.7%	+ 2.5%	+ 9.7%	+ 1.9%	+ 24.4%
Currency-adjusted change [1]	+ 4.1%	+ 7.0%	+ 2.2%	+ 5.6%	+ 3.0%	+ 21.9%
Net sales (external) – by point of origin	5,203	5,655	3,358	3,664	2,486	3,080
Change [1]	+ 1.9%	+ 8.7%	+ 2.0%	+ 9.1%	+ 2.8%	+ 23.9%
Currency-adjusted change [1]	+ 4.1%	+ 8.1%	+ 1.7%	+ 4.8%	+ 3.9%	+ 21.3%
Interregional sales	2,665	2,853	1,044	1,108	198	249
EBIT [1]	1,587	2,042	489	669	232	596
Number of employees (as of March 31) [2]	59,181	60,290	16,140	15,873	28,106	27,215

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

B 7 continued

Key Data by Region

€ million	Latin America Q1 2016	Latin America Q1 2017	Reconciliation Q1 2016	Reconciliation Q1 2017	Total Q1 2016	Total Q1 2017
Net sales (external) – by market	868	920	–	–	11,854	13,244
Change [1]	– 15.6%	+ 6.0%	–	–	+ 0.5%	+ 11.7%
Currency-adjusted change [1]	+ 3.3%	+ 2.3%	–	–	+ 3.3%	+ 9.4%
Net sales (external) – by point of origin	807	845	–	–	11,854	13,244
Change [1]	– 17.4%	+ 4.7%	–	–	+ 0.5%	+ 11.7%
Currency-adjusted change [1]	+ 2.6%	+ 0.9%	–	–	+ 3.3%	+ 9.4%
Interregional sales	71	88	(3,978)	(4,298)	–	–
EBIT [1]	41	(51)	(29)	(140)	2,320	3,116
Number of employees (as of March 31) [2]	12,798	12,200	–	–	116,225	115,578

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

Explanatory Notes

Accounting policies

The consolidated interim financial statements as of March 31, 2017, were prepared in condensed form in compliance with IAS 34 according to the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, which are endorsed by the European Union, and the Interpretations of the IFRS Interpretations Committee in effect at the closing date.

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

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 8

Exchange Rates for Major Currencies

				Closing rate		Average rate
€1		Dec. 31, 2016	March 31, 2016	March 31, 2017	Q1 2016	Q1 2017
BRL	Brazil	3.43	4.12	3.37	4.30	3.35
CAD	Canada	1.42	1.47	1.43	1.51	1.41
CHF	Switzerland	1.07	1.09	1.07	1.10	1.07
CNY	China	7.35	7.36	7.35	7.22	7.31
GBP	United Kingdom	0.86	0.79	0.86	0.77	0.86
JPY	Japan	123.36	127.90	119.46	127.02	121.07
MXN	Mexico	21.78	19.59	20.01	19.85	21.61
RUB	Russia	64.30	76.31	60.28	82.15	62.59
USD	United States	1.05	1.14	1.07	1.10	1.06

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

B 9

Discount Rate for Pension Obligations

%	Dec. 31, 2016	March 31, 2017
Germany	1.80	1.90
United Kingdom	2.65	2.55
United States	3.70	3.80

Segment reporting

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

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

B 10

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

€ million	Q1 2016	Q1 2017
EBITDA before special items of segments	3,412	4,028
EBITDA before special items of Corporate Functions and Consolidation	(25)	(135)
EBITDA before special items [1]	**3,387**	**3,893**
Depreciation, amortization and impairment losses before special items of segments	(793)	(689)
Depreciation, amortization and impairment losses before special items of Corporate Functions and Consolidation	(2)	(3)
Depreciation, amortization and impairment losses before special items	**(795)**	**(692)**
EBIT before special items of segments	2,619	3,339
EBIT before special items of Corporate Functions and Consolidation	(27)	(138)
EBIT before special items [1]	**2,592**	**3,201**
Special items of segments	(270)	(83)
Special items of Corporate Functions and Consolidation	(2)	(2)
Special items [1]	**(272)**	**(85)**
EBIT of segments	2,349	3,256
EBIT of Corporate Functions and Consolidation	(29)	(140)
EBIT [1]	**2,320**	**3,116**
Financial result	(315)	(349)
Income before income taxes	**2,005**	**2,767**

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

Scope of consolidation

Changes in the scope of consolidation

The consolidated financial statements as of March 31, 2017, included 298 companies (December 31, 2016: 301 companies). As in the statements as of December 31, 2016, one of these companies was accounted for as a joint operation in line with Bayer's interest in its assets, liabilities, revenues and expenses in accordance with IFRS 11 (Joint Arrangements). Six (December 31, 2016: six) joint ventures and five (December 31, 2016: five) associates were accounted for in the consolidated financial statements using the equity method according to IAS 28 (Investments in Associates and Joint Ventures).

Acquisitions, divestitures and discontinued operations

Acquisitions

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

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

B 11

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

€ million	Q1 2017
Goodwill	51
Trademarks	85
Production rights	4
Inventories	18
Net assets	**158**
Changes in noncontrolling interest	–
Purchase price	**158**
Net cash outflow for acquisitions	**158**

Planned acquisitions

On September 14, 2016, Bayer signed a definitive merger agreement with Monsanto Company, St. Louis, Missouri, United States, which provides for Bayer's acquisition of all outstanding shares in Monsanto Company against a cash payment of US$128 per share. At the time this corresponded to an expected transaction volume of approximately US$66 billion, comprising an equity value (purchase price) of approximately US$56 billion and net debt to be assumed in an amount of US$10 billion, which includes pension obligations as of May 31, 2016, as well as liabilities for payments under stock-based compensation programs. Bayer thus has a contingent financial commitment in the amount of approximately US$56 billion to acquire Monsanto's entire outstanding capital stock. The agreed transaction has been partially hedged against the euro/U.S. dollar currency risk using derivatives contracts.

The transaction brings together two different, but highly complementary businesses. Monsanto is a leading global provider of agricultural products, including seeds and seed technologies, herbicides, and digital platforms to give farmers agronomic recommendations. The combined business will offer a comprehensive range of products and solutions for farmers, including enhanced solutions in high-quality seeds and traits, digital farming, and crop protection. The combination also brings together both companies' leading innovation capabilities and R&D technology platforms.

The stockholders of Monsanto Company approved the merger with the requisite majority on December 13, 2016. The transaction remains subject to customary closing conditions, including relevant antitrust and other regulatory approvals. Closing of the transaction is currently expected by the end of 2017.

The merger agreement provides for payment by Bayer of a US$2 billion reverse break fee including, in particular, in the event that the necessary antitrust approvals are not granted by June 14, 2018, and Bayer or Monsanto therefore terminates the merger agreement.

Divestments

On February 17, 2017, Covestro agreed to sell a North American spray polyurethane foam system house to Accella Polyurethane Systems LLC, Maryland Heights, United States. A purchase price of €47 million was agreed. In connection with the sale, €12 million in assets was classified as held for sale according to IFRS 5. Closing of the transaction is expected in the second quarter of 2017.

On April 1, 2017, Consumer Health completed the sale of a production facility in Pointe-Claire, Canada, to Famar Montréal Inc., Montréal, Canada. The related assets of €6 million were recognized as held for sale in the statement of financial position as of March 31, 2017.

A further amount of €10 million was recognized as assets held for sale in the statement of financial position as of March 31, 2017.

Discontinued operation

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

The sale of the Diabetes Care business also comprises further significant obligations by Bayer that will be fulfilled over a period of up to two years subsequent to the date of divestment. The sale proceeds will be recognized accordingly over this period and reported as income from discontinued operations. Deferred income has been recognized in the statement of financial position and will be dissolved as the obligations are fulfilled. An amount of €117 million was recognized in sales in the first quarter of 2017.

The obligations to be fulfilled over a period of up to two years after the divestment of the Diabetes Care business are also reported as discontinued operations in the income statement and the statement of cash flows. They resulted in sales of €11 million in the first quarter of 2017.

The items in the statement of financial position pertaining to the Diabetes Care business are shown in the segment reporting under “All Other Segments.” In addition to the aforementioned deferred income (€351 million), the statement of financial position includes other receivables (net: €52 million), deferred tax assets (net: €53 million), income tax liabilities (€60 million) and miscellaneous provisions (€4 million).

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

B 12

Income Statements for Discontinued Operations

€ million	Diabetes Care		CS Consumer		Total	
	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017
Net sales	**149**	**128**	**87**	**–**	**236**	**128**
Cost of goods sold	(96)	(7)	(42)	–	(138)	(7)
Gross profit	**53**	**121**	**45**	**–**	**98**	**121**
Selling expenses	(3)	(1)	(26)	–	(29)	(1)
Research and development expenses	(2)	–	(1)	–	(3)	–
General administration expenses	(7)	(2)	(2)	–	(9)	(2)
Other operating income / expenses	2	5	(1)	–	1	5
EBIT[1]	**43**	**123**	**15**	**–**	**58**	**123**
Financial result	**–**	**–**	**–**	**–**	**–**	**–**
Income before income taxes	**43**	**123**	**15**	**–**	**58**	**123**
Income taxes	(4)	(24)	(4)	–	(8)	(24)
Income after income taxes	**39**	**99**	**11**	**–**	**50**	**99**

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

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

B 13

Statements of Cash Flows for Discontinued Operations

€ million	Diabetes Care		CS Consumer		Total	
	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017
Net cash provided by (used in) operating activities (net cash flow)	819	15	(49)	–	770	15
Net cash provided by (used in) investing activities	–	–	–	–	–	–
Net cash provided by (used in) financing activities	(819)	(15)	49	–	(770)	(15)
Change in cash and cash equivalents	**–**	**–**	**–**	**–**	**–**	**–**

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

Financial instruments

B 14

Carrying Amounts and Fair Values of Financial Instruments

						March 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	13,020					13,020
Loans and receivables	13,020					13,020
Other financial assets	4,148	375	2,657	790		7,970
Loans and receivables	4,050		[4,043]	[16]		4,050
Available-for-sale financial assets	33	373	2,092	780		3,278
Held-to-maturity financial assets	65		[68]			65
Derivatives		2	565	10		577
Other receivables	651			60	2,062	2,773
Loans and receivables	651		[651]			651
Available-for-sale financial assets				60		60
Nonfinancial assets					2,062	2,062
Cash and cash equivalents	2,224					2,224
Loans and receivables	2,224		[2,224]			2,224
Total financial assets	**20,043**	**375**	**2,657**	**850**		**23,925**
of which loans and receivables	19,945					19,945
of which available-for-sale financial assets	33	373	2,092	840		3,338
Financial liabilities	18,453		534			18,987
Carried at amortized cost	18,453	[15,550]	[3,404]			18,453
Derivatives			534			534
Trade accounts payable	5,566				124	5,690
Carried at amortized cost	5,566					5,566
Nonfinancial liabilities					124	124
Other liabilities	802	2	238	23	2,114	3,179
Carried at amortized cost	802		[802]			802
Carried at fair value (nonderivative)				8		8
Derivatives		2	238	15		255
Nonfinancial liabilities					2,114	2,114
Total financial liabilities	**24,821**	**2**	**772**	**23**		**25,618**
of which carried at amortized cost	24,821					24,821
of which derivatives		2	772	15		789

[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.

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Carrying Amounts and Fair Values of Financial Instruments

Dec. 31, 2016

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

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

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

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

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

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

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

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

Currency and commodity forward contracts are measured individually at their forward rates or forward prices on the closing date. These depend on spot rates or prices, including time spreads. The fair values of interest-rate hedging instruments and cross-currency interest-rate swaps are 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 estimated using unobservable inputs are categorized within Level 3 of the fair value hierarchy. This applies to certain available-for-sale debt or equity instruments, in some cases to the fair values of embedded derivatives, and to obligations for contingent consideration in business combinations. Credit risk is frequently the principal unobservable input used to determine the fair values of debt instruments classified as available-for-sale financial assets by the discounted cash flow method. Here the credit spreads of comparable issuers are applied. A significant increase in credit risk could result in a lower fair value, whereas a significant decrease could result in a higher fair value. However, a relative change of 10% in the credit spread does not materially affect the fair value.

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

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

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Development of Financial Assets and Liabilities (Level 3)

€ million	Available-for-sale financial assets	Derivatives (net)	Liabilities carried at fair value (non-derivative)	Total
				2017
Carrying amounts of net assets (net liabilities), January 1	**851**	**(8)**	**(8)**	**835**
Gains (losses) recognized in profit or loss	4	3	–	7
of which related to assets / liabilities recognized in the statements of financial position	4	3	–	7
Gains (losses) recognized outside profit or loss	(18)	–	–	(18)
Additions of assets (liabilities)	3	–	–	3
Settlements of (assets) liabilities	–	–	–	–
Carrying amounts of net assets (net liabilities), March 31	**840**	**(5)**	**(8)**	**827**

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

Interest held in Covestro reduced to 53.3%

In a move effective March 3, 2017, 22 million shares of Covestro AG were sold to institutional investors at a price of €66.50 per share, thereby reducing Bayer's interest from 64.2% to 53.3% of the issued shares. The sale had a €1.5 billion positive effect on Bayer Group equity.

Legal risks

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

Mirena™: As of April 12, 2017, lawsuits from approximately 2,900 users of Mirena™, an intrauterine system providing long-term contraception, had been served upon Bayer in the United States. Plaintiffs allege personal injuries resulting from the use of Mirena™, including perforation of the uterus, ectopic pregnancy or idiopathic intracranial hypertension, and seek compensatory and punitive damages. Additional lawsuits are anticipated. In April 2017, most of the cases pending in U.S. federal courts in which plaintiffs allege idiopathic intracranial hypertension were consolidated in a second multidistrict litigation proceeding for common pre-trial management. The first multidistrict litigation proceeding concerns perforation cases.

Xarelto™: As of April 12, 2017, U.S. lawsuits from approximately 18,600 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. As of April 12, 2017, ten Canadian lawsuits relating to Xarelto™ seeking class action certification had been served upon Bayer.

Essure™: As of April 12, 2017, U.S. lawsuits from approximately 5,200 users of Essure™, a medical device offering permanent birth control with a nonsurgical procedure, had been served upon Bayer. Plaintiffs allege personal injuries from the use of Essure™, including hysterectomy, perforation, pain, bleeding, weight gain, nickel sensitivity, depression and unwanted pregnancy, and seek compensatory and punitive damages. Additional lawsuits are anticipated. As of April 12, 2017, two Canadian lawsuits relating to Essure™ seeking class action certification had been served upon Bayer.

Related parties

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

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

Events After the End of the Reporting Period

Pharmaceuticals

On April 6, 2017, Bayer decided to terminate its option right relating to the late-stage development and commercialization of biopharmaceutical Wnt pathway inhibitors under its collaboration with OncoMed Pharmaceuticals Inc., United States. In this connection, impairment losses of €69 million were recognized at the start of the second quarter of 2017.

Repayment of financial liabilities

On April 5, 2017, Bayer Holding Ltd., Japan, repaid on schedule a bond with a nominal volume of JPY 30 billion.

Leverkusen, April 25, 2017
Bayer Aktiengesellschaft

The Board of Management

Werner Baumann

Liam Condon | Johannes Dietsch | Dr. Hartmut Klusik

Kemal Malik | Erica Mann | Dieter Weinand

Review Report

To Bayer Aktiengesellschaft, Leverkusen/Germany

We have reviewed the condensed interim consolidated financial statements – comprising the income statement and the statement of comprehensive income, the statement of financial position, the statement of cash flows, the condensed statement of changes in equity as well as selected explanatory notes to the financial statements – and the interim group management report for the period from 1 January 2017 until 31 March 2017 of Bayer AG, which are components of the quarterly financial report under § 37w WpHG (Wertpapierhandelsgesetz: German Securities Trading Act).

Review Report on the Condensed Interim Consolidated Financial Statements

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

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

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

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

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

Conclusion on the Condensed Interim Consolidated Financial Statements

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

Other Legal and Regulatory Requirements

Review Report on the Interim Group Management Report

Management Board’s Responsibility for the Interim Group Management Report

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

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

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

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

Conclusion on the Interim Group Management Report

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

Leverkusen, Germany, 26 April 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

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

Financial Calendar

Annual Stockholders' Meeting 2017	April 28, 2017
Planned dividend payment date	May 4, 2017
Q2 2017 Interim Report	July 27, 2017
Q3 2017 Interim Report	October 26, 2017
2017 Annual Report	February 28, 2018
Q1 2018 Interim Report	May 3, 2018
Annual Stockholders' Meeting 2018	May 25, 2018

Masthead

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

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