Bayer

Q2 Earnings
Investor Conference Call

27 July 2017

Opening Remarks

Oliver Maier

Head of Investor Relations, Bayer AG

Great. Thank you very much, Emma. Much appreciated. I would like to welcome all of you to the Bayer AG earnings call for the second quarter and half-year 2017. Also, a warm welcome to the ones joining us on the web today. We very much appreciate your interest. With me on the call, Werner Baumann, our CEO and Johannes Dietsch, our CFO. Ladies first, Consumer Health is represented by Erica Mann, Pharma is represented by Dieter Weinand and Crop Science/Animal Health by Liam Condon.

We are very well aware that it is a very busy day for most of you today on the sell side and on the buy side with all the companies disclosing and the respective news flow, and because of that, and having in mind that we've issued a release on 30 June identifying the issues to be expected for Q2, we're going to keep the prepared remarks as crisp as possible and focus on the Q&A today. As always, I would like to start our call by mentioning the cautionary language that is in our safe harbour statement of our presentation and the material that we have provided and distributed today. With no further ado, I would like to hand it over to you, Werner.

See disclaimer

Q2 Performance

Werner Baumann

CEO, Bayer AG

Very good. Thank you, Oliver. Good afternoon, ladies and gentlemen. It's my pleasure to welcome you all on behalf of my colleagues to our conference call to talk about Q2 performance and certainly also our 30 June announcement that was already mentioned by Oliver. Before I go into Q2, let me briefly say a few words on 30 June. It was very important to us to make sure that you have full transparency of the situation, and hence we did not only cover the trigger for the ad hoc, which was actually driven by the inventory situation that we had full transparency on at that point in time in Brazil; we also want to make sure that you're not surprised in our Q2 release with the situation and performance of Consumer Health and of course with currency that is going to weigh on us going forward, based on where the euro has moved against most other currencies.

So with that, let me enter into Q2. First of all, on Life Sciences, Pharma showed again a very strong development and showed strong growth, both in earnings and margin improvement, but also top line with 4.4% growth year over year. There's a few technical elements in there that we will cover later on that had a growth effect compared to Q1.

Consumer Health on the other hand was weaker than we expected and hoped for, mainly – and this is a continuing theme – due to a persistently difficult situation of our business, but also competitive and retail environment in the US. Crop Science was negatively affected, as already mentioned, by the situation in Brazil. Animal Health has done well with some growth you have seen, and then 16% growth in EBITDA. That had also had a portfolio effect in there with the acquisition of Cydectin. That has been part of our business since January of this year. Last but not least, still consolidated Covestro continues to do very well – posted an increase in revenues of about 16% and a profit increase of almost 50% on the back of very, very strong performance of their polyurethane business. That, of course, is part of our consolidated numbers in Q2.

So, based on where we are now in Q2 and with expectations for the remainder of the year, we are adjusting our guidance for 2017 for the Group. With regard to our innovation pipeline at Pharma, we continue to progress here as well, with Xarelto with some new flow coming during Q3 – Stivarga and Vilaprisan. On the other hand, as you have seen, we did have a set back with Anetumab, where our study in phase two in mesothelioma did not meet its primary end point for progression free survival.

Briefly on Monsanto, we continue to be on track. Also on 30 June we submitted our filing in Europe. That was actually the last jurisdiction that was missing. We are now in phase one review. There is no reason to expect that we are going to receive clearance after phase one, so phase two is to be expected, but we are in very good discussions with the Commission. Last but not least, in terms of Covestro and our stake, we have also further reduced our stake in Covestro by about 12% to a remaining stake of just about 41% by now.

Now briefly on Q2 and where we are with some key figures. Top line, of course, was burdened overall by Brazil because we had to adjust the top line with some of the returns in Crop Science, so a meagre 2%, looking at it from a portfolio and currency adjusted basis. Looking at reported EBIT and adjusted EBITDA, we were just about at prior year levels. Of course, the softness in Life Science with one-off hits we took was offset one side with very good earnings progression – Pharma and Life Science on the other hand, of course, with the strong posted growth of earnings with our Covestro business that is still consolidated.

Reported EBIT included roughly €200 million in special items, mainly driven by some impairments and then of course charges that are related to the Monsanto acquisition. Adjusted EBITDA of about €3.1 billion for the quarter was affected mainly by the negative earnings impact of Crop Science. The amount of it that relates to Brazil is about €355 million in the quarter and the positive earnings contributions we had, particularly in Pharma, in Covestro, but also Animal Health did compensate for that impact. Core earnings – you see a reduction of 13%. There is a technical effect in there. It doesn't relate to our underlying earnings. Mostly it's actually driven by the reduced stake in Covestro that Bayer consolidated fully. That's seen adjustment for minority stakes in our core earnings per share.

Let me with that move on to the key themes we have in the second quarter. First of all, as I already mentioned, Pharma is very solidly on track. Top line grew by 4.4% – very pleasing growth we continue to see with our top products. The top 15 products grew by about 8%. If you look at our

top products, the main growth drivers – all of them posted growth in the double digits and with that continue to drive also the growth of Pharma overall and we are very, very pleased with that.

Sales in Xarelto increased again significantly, mostly driven by Europe and China. Also, the licensing income from J&J in the US developed positively. Also noteworthy is that Xarelto continues to maintain and defend its leadership position globally. We do very well. It's the sixth biggest drug globally by now and in any case the biggest cardiovascular drug in the world. We are very, very optimistic that there is more to come.

Sales development in Eylea was mainly driven by Europe, Canada and Australia. The performance of Eylea continues to be supported by the very good real work evidence data we have in AMD and of course, the uptake in DME, BRVO and MCNV in Europe. Also here, we continue to maintain and further expand our leadership position and Dieter will for sure shed some further light on it. Growth could have been even better, so what you see in our quarterly numbers is not the underlying in market growth. There are two effects that held growth back on an as-reported basis. One is a rebate accrual in Germany of about €20 million that was a rebate adjustment for multiple periods and the other one was the order pattern of our partner, Santen, in Japan.

Kogenate decline was mainly a consequence of lower order volumes from CSL. It's also very important in this context to note that the agreement with CSL, and with that somewhat erratic and also eroding order patter is related to the contract expiration that is going to happen – the distribution contract we have with them by the end of 2017.

Underlying profitability, EBITDA margin, is very well developing, as already mentioned. On a quarterly basis we saw an EBITDA growth that was a little bit more than twice sales growth, so just about 10%, very much driven by volume expansion, lower COGS and lower R&D. We'll see certainly a backloaded investment pattern in R&D for the second half of the year. Underlying margin – 150 basis points improved to 34.4%. Half year we are even higher at 34.8%, also very, very strong and very pleasing.

Let me now say a few words to pipeline. We are of course disappointed that the phase two trial with Anetumab did not meet its primary end point on progression-free survival in second line treatment of mesothelioma. We are now in the middle of the data analysis because we do think that because of the sickness we are seeing that it's worthwhile to continue to develop Anetumab with the basket trial that is ongoing and we'll share with you the data once we have it available. It's certainly too early at this point in time.

For Stivarga we got approvals in the US and Japan for second line treatment of hepatocellular cancer. In Europe we also got a positive CHMP recommendation for the same indication. We also received a positive CHMP recommendation for the use of Xarelto in combination with single antiplatelet therapeutic treatment of patients with atrial fibrillation requiring oral anticoagulation and undergoing percutaneous coronary intervention with stent placements. Also, for Xarelto and based on the results of the EINSTEIN CHOICE trial we submitted an additional dose option to the FDA to reduce the risk of recurrent venous thromboembolism.

As a reminder for you, as already mentioned, on 27 August we will present the full data sets on COMPASS with Xarelto at the ESC. We also plan to host an analyst and investor call on 28 August to discuss the data and the perspective on PAD and CAD with you. Last but not least, we started the phase three programme with Vilaprisan for the treatment of symptomatic uterine fibroids.

Now to the second topic and that is the performance of Consumer Health for the quarter. Sales were down by about 2% and that's mainly driven by North America, where sales declined by about 8%. Outside of North America our business continues to grow. Overall, if you take regions for the rest of the world we're just about 2%, so we do continue to have, as I mentioned already, an issue in the US, which is multifactorial and requires all hands on deck by Erica and her management.

Now, looking at the main brands that drove the performance of the US in the second quarter, it was Claritin, it was Aleve and Coppertone – all of them actually receding by double digits. Claritin was impacted by the season, which was a very mild one, and that was actually also affecting patients with very mild symptoms, which weighed on Claritin. In addition, we had a second quarter last year with the launch of ClariSpray, so there is a little bit of a cycling element, but also significantly intensifying competitive pressure. Sales of Aleve were also impacted by one of our competitors' relaunch and we have seen quite a bit of pressure on Aleve in the context of that relaunch.

Last but not least, after the strong quarter one, the positive development of Coppertone with the filling of the distribution with our renovated – not complete relaunch, but renovated – Coppertone seasonal suncare product line – we saw a weaker than expected season – actually fairly bad weather and we hope that there is still a little bit of summer to come now in quarter three. But clearly, not in line with our expectations in Q2. Last but not least, Aspirin, including cardio and also Bepanthen, grew by more than 5% each.

Underlying EBITDA in Consumer of course suffered with the soft top line performance and we saw it recede by about 4%, driven by both lower volumes and higher cost of goods. So, that also means that for the remainder of the year we simply have to adjust our expectations for our consumer health business. Very importantly, we are focusing also with our investments on the turnaround in the US and that means that we have to actually drive further also promotional and trade investments for our key brands in the US. It also means that longer term, of course, we are looking at further market investment and strengthening our retail partnership programmes – that we continue to invest into our innovation pipeline and with it also e-commerce and new channel opportunities to actually reignite growth.

Now let me come to Crop and the specific situation in Brazil. We finalised the physical stock take in Brazil and while we knew that we did have some overstocking, we actually did not know that we had it to that extent and that's very much also driven by our product portfolio that exposes us more than others to the volatility of the Brazilian market. In line with that, we decided to take significantly higher provisions of product returns, particularly for insecticides and fungicides in Brazil. That of course had a negative top line effect of about 16% overall for Crop Science in the quarter. The amount that is attributed to Brazil in top line effect is just about €428 million, to give you the exact number. We see very much the same in the bottom line, so the Brazil effect, which includes both lower sell-in and then the one-offs we have taken, amounts to €355 million in the quarter. If you just eliminate and adjust for Brazil we do see and continue to see growth in our Crop business also in the second quarter, and then of course we also assume to resume growth in the second half of the year. So, the issues in Brazil is something that will for sure be covered by Liam going forward in our call and he can shed more light on also what we are going to do in order to make sure that we have more transparency and a better handle going forward on the situation that evolved over the last two years in Brazil.

Let me now move to the outlook for 2017. As already mentioned, we do need to adjust our fiscal 2017 forecast due to the business situation that I described, but also due to currency. If you recall, we had a very, very strong basket against the euro as of the end of quarter one. As a reference point, the dollar was at about 1.07 on 30 March, whereas now it is at 1.14. And in terms of

sensitivity, that means on an annualised basis with a one percentage point move of the entire currency basket we are moving top line by about €300 million, plus and minus depending on where things go, and the bottom line effect is on EBITDA about €80 million. So the significant strengthening of the euro does have an effect on our overall business.

So with that, top line is now expected to increase to more than €49 billion – it used to be €51 billion at the end of quarter one, which also corresponds to a mid-single digit percent increase on a currency and portfolio adjusted basis. EBITDA before special items is now targeted to increase by a high single digit percentage for the year. We are also aiming to grow core earnings per share from continuing operations by a low to mid-single percentage for 2017. Please also know in that context that that includes, of course, the reduced contribution from Covestro, in line with the reduction of the stake to a level of 41% as of June this year. Excluding capital and portfolio measures, net financial debt is going to be at about €7 billion at the end of 2017.

Looking at Life Sciences, we expect a sales level of about €35 to 36 billion and EBITDA before special items to be slightly above the level of prior year. On a divisional level, we confirm our forecast for Pharma, despite the weakening currency environment, which means underlying performance is stronger than you saw it as of the end of Q1, but that is offset with the weakening currency environment and that leads net net to us confirming the guidance for Pharma, both top and bottom line.

Consumer Health – we expect a weak second half of 2017 and in line with that we now expect full year sales to be just about €6 billion and with that in line with prior year on both of a reported and also on a currency- and portfolio-adjusted basis. We also expect EBITDA before special items to decline by a high single digit percentage compared to prior year and that is a perspective on a somewhat more difficult second half of 2017, which we can also elaborate on further. For Crop, we are budgeting sales of below €10 billion. By now it's due to be above €10 billion and that means that on a currency- and portfolio-adjusted basis we see a decline of our business. That is driven by Brazil. We also expect EBITDA before special items to decline by a mid-teens percentage compared to 2016.

So, let me now briefly guide you towards the main topics to focus on in the second half of 2017. We expect first of all Pharma to continue the positive development and, as already mentioned, we are very much looking forward to sharing the COMPASS data with you at the end of August. In Consumer Health it is all around focusing on the turnaround of the US business to reignite growth. Third, Crop Science is actually positioned to resume growth in the second half of the year, after having taken the one-off as of Q2, as already explained.

Regarding Monsanto and the completion of the acquisition of Monsanto, we continue to anticipate that we will be able to close this transaction by the end of the year. Certainly, it was very important to file, in line with our expectations, by the end of June with the European Commission.

Ladies and gentlemen, this concludes my remarks and with that we are now happy to take your questions. Thank you.

Questions and Answers

Oliver Maier

Great. Thank you, Werner. Thanks for the update and for all the remarks. I think we can open up for the Q&A session.

Florent Cespedes, Societe Generale

Good afternoon, gentlemen. Thank you very much for taking my questions – three quick ones. First for Liam on Crop, could you elaborate on why you believe the crop protection business should recover during the second half of this year and notably in Latin America? Second question for Erica: could you give us more colour how you will fix the situation in the US on Consumer? Some colour would be great? And last question on Pharma: could you give us a little bit more colour on the performance of the emerging markets and notably LATAM was weaker than Q1 this quarter and also some colour on the situation in China? Thank you.

Werner Baumann

Very good. So, we'll start with Liam.

Liam Condon, Head of Crop Science, Bayer AG

Yeah, thank you, Laurent. Maybe let me try to frame the question why we think crop protection should actually recover in the second half of the year, particularly now in Brazil. The issue is that we have right now is basically an overloaded channel. The background to this overload channel, as Werner said, has to do with our product portfolio, particularly fungicides and insecticides. With Brazil being a tropical climate, where pest and disease infestation comes and goes at different times, it's very hard to predict and a very complex distribution system. We deal with over 400 distributors in the country, and due to the nature of our products, particularly our big sellers – Belt insecticide and Fox fungicide – these are products where there are very few alternatives.

Where we had been on allocation in the years '13 and '14 due to extremely high demand because of high pest infestation on the one side and disease infestation with Asian soybean rust on the other – and distributors didn't want to be caught out not having enough product. What happened basically in '15 was that pest infestation level went down without an according adjustment in demand pattern from distributors and in '16 there was a pretty severe drought in key parts of the country, particularly in north-east Brazil, which had a severe impact on fungicide demand, again, without the corresponding immediate change in distribution buying orders because the distributors want to simply be able to fulfil the needs of their growers.

And we knew all along that we were carrying some excess stocks. It's not unusual in this market given the high volatility in the market to either be carrying a little bit too much or not enough product, because it's very hard to predict exactly how much will be required in the market. Normally this can work itself out of the system. In this case, when we did the channel inventory review with an external – a third party audited stock take in May – it became clear that this issue was simply too big this year to actually be able to work itself out and that it would be a much more prudent thing now to simply clean it up right now, particularly also because there is demand for our product in different parts of the country, but a lot of stock is sitting with distributors who don't

actually need it right now, so this is why we have decided to have a policy of returns now. We check the quality of the goods and then we will wherever demand is available and the quality is ensured we would resell then those products, of course, to very different customers.

The underlying demand in Brazil is actually robust. We're assuming that consumption – demand in the market is in the ballpark mid-single-digit growth. What we have been experiencing is a problem on the sell in side because of overstocking, but on the sell out side – the actual market demand – this is, as I say, relatively robust and we could start then from the second quarter participating in that demand uptake as well. The only issue in the second half of the year we will also be adjusting our sell in to have it at a level that is below the consumption to ensure that we are not carrying an additional stocks going into next year, because we want to have as healthy a channel as possible. But the demand is there in the market and it's now a matter of just making sure that the inventories are at a safe and reasonable and prudent level.

Werner Baumann

Thank you. Very good. So then we come to the US situation and what needs to be done, Erica.

Erica Mann, Head of Consumer Health, Bayer AG

So Florent, thank you. Before answering your question, could you please allow me just to make some comments in order to frame the issue that has influenced the Q2 performance for Consumer Health, which I believe will also have impact on the balance of the year? Now, if you reflect on Q2 sales, you'll notice that they were largely impacted by North America, mainly the United States business, which was down about 8% on a currency-adjusted basis year on year. However, the rest of the world was up 2.2% for the same time period and also currency adjusted.

Now, the obvious issue for us is to focus on our US business and if you look at the overall market softness in the US, which is one of the important drivers and has been what has impacted the development in the quarter, but I also expect will be impacting the quarters coming ahead of us. Now, the North America region is of particular importance for us because it generates over 40% of our global revenues on a full-year basis. Market swings, therefore, impact our performance much more gravely than they potentially could on other market participants and sales declines of our three brands hampered the US development in the second quarter, those being Claritin, Aleve and Coppertone.

Now, this shortfall in top line is due to the market environment and the lower demand based on a weaker season and competitive activity. As a result of this, we have been affected by increased write-offs and the underutilisation of our production facilities, leading to an overall above-average increased cost of goods. It's clear that we need to focus on managing the turnaround of the US business and it is of upmost importance that we actively manage sell out consumption of the brands in the US. What I mean by that is that brands are being bought by and being consumed by the consumer, which is what we commonly refer to as sell out, versus just stocking retailers, in the trade often referred to as sell in. And we have to also address the rapidly shifting retail landscape.

Now, to do so we have to strongly execute on the already initiated short-term promotional measures, as well as our mid to long-term strategy. Now, by focusing on the short-term efforts these can be measured by our sell out improvements, including the following actions: continued promotional support on both Claritin and Coppertone to offset the currently weak season, implementing a new direct to consumer campaign on arthritis for our Aleve product in order to combat competitive relaunches and also to stabilise our market share, as well as enhancing our

distribution and launching a consumer activation plan for Dr Scholl's to regain market share And here we are seeing the first indication that makes us, I'd say, cautiously optimistic that we are on the right path, knowing full well that a quarter does not make a trend. Now, since the beginning of July we have new packaging on the shelf, new advertising on air and as expected retailers seem to have shifted their focus away from grooming to health and wellness items.

If I turn to the longer-term efforts, including addressing the rapidly retailing landscape, we see that value retailers serve a growing and so far underserved lower consumer base and that the OTC consumer buying behaviours is also shifting towards e-commerce channels, as you have probably also seen in other industries.

So strategically we'll focus on new retail trade partnership programmes, which will include new shelf sets to improve in store visibility, increase in store promotional support for our seasonal products and also co-creation on brand innovation opportunities. In addition to this, we'll focus on developing a very aggressive innovation pipeline and we'll also accelerate new channel strategies, such as e-commerce, to address the changes that are happening in the US retail environment. Obviously there is a tonne of work still for us to do and clearly this requires our full attention because the environment in this highly dynamic market is changing rapidly, but with that said, the long-term outlook remains positive.

Now, if I turn to your question about what are we doing in the US market to turn it around, first of all, we are working on addressing a number of issues and are actively facing these challenges. In the short term we are increasing our promotional support on Claritin and Coppertone to offset the weak season. We are restaging Aleve with the new direct to consumer campaign. This is to combat the competitive relaunches that have taken place. We are expanding our distribution and direct to consumer activations for the Dr Scholl's product and we are continuing to drive share growth on brands like One a Day and Alka-Seltzer Plus. We are also working on continually upgrading our capabilities, such as those that can deal with channel shifts, like e-commerce and in particular Amazon and also supporting the US team through this very difficult time to make sure that they can face these challenges head on.

Werner Baumann

Alright. Thank you, Erica. Now Dieter on Latin America, emerging markets, China.

Dieter Weinand, Head of Pharmaceuticals, Bayer AG

So let me begin by saying – Latin America – we're pleased with the performance we are seeing. We have continuing very good momentum there. It is obviously a little bit of a mix of markets when you look at Latin America, Asia without Australia, Japan, New Zealand and so on – Africa, Middle-East, so focus on the major markets. Growth in China – we are the number one growing multinational company now, according to the IMS. We have experienced year-to-date 16.8% growth. The last quarter was 13.4%. So I would focus on the year-to-date numbers because there's always fluctuations in these markets quarter-on-quarter. That growth is driven to a large extent by our more established products: Adalat, 16%; Aspirin, 16%; Glucobay, 16%, Xarelto grew 43%. So a very healthy growth there driven by volumes. A very good performance in China. I'm very pleased with that.

If I look at Latin America, we have 6.8% growth year-to-date. Mexico is growing very nicely – over 6.6%. Brazil had a little bit of a tougher economy at the beginning of the year, but growing nicely. Xarelto in Brazil growing 13.4% – already the largest product there on the market. Mirena,

55.1% [inaudible]; Eylea, 31.5%. So Brazil – our key core products continue to perform very well, driving with Mexico our Latin America business. CONOSUR markets up 22%, so doing well as well.

Looking at Russia, on a year-to-date basis currency adjusted it's 8.9% growth, driven by Xarelto, 41% growth; Mirena, 13% growth. Offset by Eylea's competition – generic competition we have there. There was a bit of order pattern fluctuation, so we saw a higher first quarter and some restocking occurring after a price decrease – price increase in the first quarter. In the second quarter, therefore, it was a little bit lower. Also impacted by an order that was not shipped in June but shipped thereafter, so we had a double technical impact there and overall we expect the market in Russia go grow in the high single digits and local currency has been performing continuously well, so good momentum. Some technical impacts there, either with currency or so on, but overall very pleased with the performance in our emerging markets, particularly with our growth driver products.

Florent Cespedes

Dieter, just a follow up. Could you then assume that the first-half performance is more reflecting the long-term trend on the emerging markets rather than the second quarter?

Dieter Weinand

I would not expect any unusual one-offs to occur in the second half of the year. We would maintain momentum that we have. I don't see anything unusual coming.

Florent Cespedes

Okay. Thank you very much.

Michael Leuchten, UBS

Thank you. It's Michael Leuchten from UBS. Three questions please. One for Dieter: on the dynamics of the underlying Pharma guidance upgrade, in the opening remarks it was mentioned that Eylea had a bit of a headwind, so could have been stronger, yet the profitability was very strong in the second quarter. Kogenate was a bit softer, yet the profitability was strong. What's driving the underlying performance that continues to be very good that allows you to upgrade the guidance for the full year and what does that mean for your 2018 aspiration or target of 32-34% EBITDA margin?

The second question on Consumer – just in terms of the inventory write-downs that actually did go through in the quarter, which products did you actually decide to write off? If I read your interim report appropriately there were some write-offs in there. And then a broader question on the debt and the debt ratings. Have you actually had a meeting with the debt rating agencies to go through the updated numbers ahead of the closing of the Monsanto acquisition? Thank you.

Werner Baumann

Okay. Let's start with Dieter.

Dieter Weinand

So let me start with a little bit of an explanation on Kogenate. We had guidance on Kogenate previously on par with prior year and if you exclude Helixate and look at the products that we market – Kogenate and Kovaltry we are actually right on guidance – on par with prior year. As a matter of fact, in the US we have grown our base 22-23% for the quarter, 11% year-to-date, because in Kogenate there's always fluctuation, so you should always look at a longer period than quarter on quarter. We have gone year-to-date 11% in the US with our brand in the hemophilia franchise. In Germany 8%, in Canada year-to-date 7.4%, so we have good momentum with Kogenate and Kovaltry. That is impacted primarily by the lower order volume, as Werner eluded, by our partner, CSL, that we are trying to compensate for. The good news here is although it is a slow-switching market, more than 60% of Helixate switch has come to us, either through Kogenate or Kovaltry. So we are switching as fast as we can.

You alluded to Eylea headwinds. Actually, I would address Eylea slightly differently. We have now actually expanded our market leadership position from a 50 point – 2% or so to over 52% now, so we have now 52% market share, again expanding our market leadership position. We have market shares ranging between 38% and 71%, depending on the country. In-market performance is actually continuing with good momentum. That is why we raised our guidance to high-teens percentage growth versus mid-teens previously, so we remain confident in Eylea performance.

Now relative to the guidance for the remainder of the year, we remain very comfortable with our guidance for the remainder of the year, both top line and bottom line, because in market momentum on top line is intact and continues to perform well. In our bottom line guidance – includes some launch investments that we previously mentioned – COMPASS, for example COPANLISIB; the roll-out of Kyleena and so on and some additional R&D investments have also been previously mentioned, with Vilaprisan moving into phase three and so on. So that is all included in our guidance. That is why we remain very comfortable with the guidance that we have provided. In 2018 we don't guide at this point. We do that, as we always do, later on.

Werner Baumann

No change to mid-term here on Pharma. So then we come to the next question on Consumer Health and inventory write-offs. Erica –

Erica Mann

The bulk of the write-offs came from the re-staging of Coppertone and Dr Scholl. Now, what we are making sure is that first of all we continue to stay close to inventory forecast, making sure that we continue to optimise our costs, including our cost of goods. We're looking at insourcing technologies and products that are currently outsourced to make sure that our plants are fully utilised. I just want to point out again that quarter two and quarter three are very heavy investment quarters in order to support the sell out of seasonal brands, like Coppertone and Claritin.

Werner Baumann

Okay. Thank you, Erica. And then we come to Hanno on debt ratings and discussions with the agencies.

Johannes Dietsch, Chief Financial Officer, Bayer AG

Of course, we have our regular meetings with the rating agencies. The annual meetings took place on the second quarter. We again met with both agencies and we continue to be very optimistic that a downgrade in the debt ratings will not be larger than two notches on the current levels of A-, A3. Even with the situation we are in right now, a downgrade by just one notch cannot be ruled out either.

Jeremy Redenius, Bernstein

Thanks for taking the questions. A couple of questions on Crop Science please. The first one is – I heard Liam mention the potential to resell some of the products that you're getting back, which kind of led me to the bigger picture question of: we've seen the EBITDA impact today, but what will the actual cash impact be in the end? Because I see part of it is impairments etc. and if there's potential to resell some I wonder if the cash impact might be a little bit less at the end of the day. And then, secondly, I understood that the absence of pest pressure and the absence of soy bean rust led to the build-up of inventories over the last couple of years. I'm curious – have you had any estimates of how much of the reduce in insecticide demand was due to Monsanto's insecticidal trait, the Intacta product. I'm wondering if you think that might have had a meaningful impact on demand for insecticide that wasn't foreseen as well. Thanks very much.

Liam Condon

Maybe I'll take the second question first, and Johannes will take the question on the cash impact. So specifically the introduction of Intacta from Monsanto is basically in line with what our forecasts were – our original forecasts. There's been no surprise about the penetration, which has been confirmed very strong and high, and successful penetration of Intacta, as confirmed by Monsanto. But this was in line with our expectations and the big surprise was really the degree to which the pest infestation declined, at the speed with which the pest infestation declined, even ahead of the launch of Intacta. And of course the impact of Intacta is that there's less sprays required anyway, and the less sprays required was factored in, but the speed of the decline in pest infestation was really the big surprise in the market. So Intacta per se was not the surprise from a penetration point of view.

Johannes Dietsch

On the provisioning we set up additional provisions in Brazil of more than €300 million in Q2. This provisioning per se will not change the cash flow profile; it is cash flow neutral. And you will see a lower EBITDA but a compensating effect in the other working capital if you look at the cash flow statement. Over time of course, if we take back the materials we have logistics, we have costs for destroying the material, and we want to spend, of course, compensating lower sell-in which will then also to have an impact on the cash flow profile through the next couple of months.

Jeremy Redenius

I heard you say for the second half of the year you expected volume growth again in this business. That's already taking into account the effect of lower sell in Brazil in the coming quarters, is that right?

Liam Condon

Yes, that's correct.

Tim Race, Deutsche Bank

So I have a few questions if I can. First of all, starting off with Erica, hopefully, on consumer health. We've heard Glaxo, J&J and now yourselves talk about a slowdown in consumer health, and each company has given slightly different reasons. Obviously there's a general consumer slowdown in the US, but we've also heard China and India mentioned. Perhaps you could talk about the different regions and what we are seeing there, and whether yours is solely located in the US. It's a little bit confusing from the outside world, given that we don't have that much disclosure from any of the players in these sorts of markets. And perhaps you could just talk to us about your confidence of overall consumer health growth in the next three to five years on a CAGR sort of basis, and perhaps help us understand what you expect for the US and some of the other markets.

And perhaps just moving to Liam and the crop science division; we talked about Brazil, which perhaps is a bit of a muddy field at the moment, but when we talked about green shoots earlier in the year I'd just like to understand what you've seen so far from some of the European and US harvests, and what you expect to see for the rest of the seasons and perhaps into 2018. Any sort of green shoots or positive signs that you've seen for a change in fortune here would be nice to comment on.

And then perhaps on the Pharma pipeline, if we could just talk about the relative merits of the pipeline now. Obviously Anetumab, from back in September, accounted for about a third of your peak sales estimates from your key products. You've had some progress on Vilaprisan moving into phase three; I'd like you to perhaps talk about some of your confidence from the phase two study here, and what you've seen that's given you more confidence to move into such a big phase three programme. And perhaps just what's the next phase for Anetumab or your oncology pipeline going forward. Thank you.

Werner Baumann

Okay, thank you very much Tim. We start, as you wish, with Erica.

Erica Mann

Thank you, Tim. Just to your question on the regions, I will try and break it down as we see it. As you heard from our competitors the US market is under tremendous pressure, and there's a number of factors that is changing that. We see consumers driving more for value based products. There is a lot of pressure on consumers in the lower and middle income area, and then of course the retailers are under tremendous pressure going from e-commerce channels and shifts that are happening. And so there is a big scramble in that market and a lot of efforts to improve working capital, so reducing inventory etc, and more [inaudible].

If we go beyond the US we do definitely see some slowdown in places like China. The data I have, year-to-date April market growth for China, which comes from IMA, so it's roughly a 1.4% growth in the OTC market. We see some bright spots in places like in Europe – Germany up 3%, whereas, on a counterbalance the France market down 1% in that same timeframe. We do see the Russian Federation having recovered somewhat, back to growth of about 7.5% in that April year-to-date

period. And then of course if we go to the Latin American region we see continued softness in the Brazilian market, the macroeconomic environment that is impacting that market. But we see some good performances coming out of others like Argentina. Some of this is inflation driven; we saw that market up 30% in the year-to-date performance, and of course Mexico fairly stable at a 7.7% growth in the period. So I hope that helps with you with a little bit more insight around the market.

Tim Race

Yes, what about the outlook going forward? Do you still feel 3-5% is a reasonable expectation for the consumer market overall, or have those expectations lowered?

Erica Mann

When we look at the overall market we think it will be a low single digit growth in the coming years. And that's averaged, if you look over a 10-year period at the marketplace, you'll see that it would vary anything between a 3-5% CAGR over a 10-year period. For the coming years my instincts and references that I have is indicating lower mid-single digits.

Werner Baumann

Okay, thank you Erica. So then let's move onto the next question; Brazil, and our situation out in the US and the prospective on that. Liam?

Liam Condon

Thanks a lot, Tim. Thanks for moving us from the muddy fields to potential green shoots. So overall from a global point of view it's always important to point out demand is steadily growing, basically because all the long-term drivers are intact. What we're seeing around the world, basically the stock-to use ratios for corn and soy is the big value-creating commodities, or at least stabilising partially decreasing. We haven't reached a turning point where a supply shock happens, i.e. that there's a significant harvest failure somewhere due to weather reasons, for example too much drought. But if we look at the Chicago Board of Trade futures for corn, soy and wheat they're at least stabilising, if not trending up, and again this is on the back of a steady demand increase. So I guess the crop development over the next few months now in the northern hemisphere will determine commodity prices going forward. It is very dry in the US now. This can potentially negatively impact the harvest, which would have a positive impact on commodity prices.

But this, we simply have to see what the quality of the harvest is going to be. I think what you're in general seeing as well is the big seed companies who have reported, but also us with our seed portfolio. We're seeing pretty robust growth, also in SeedGrowth if you take out the Brazil impact. And usually CP, crop protection, then follows. You've got to get the seed in the ground first and then the crop protection follows, so a lot depends now on the quality of the harvests to come, but the underlying demand is basically there. So we still continue to believe that it will be a slow return to growth, and given the fragile balance between supply and demand it doesn't take much to flip that balance and then start moving into a more positive part of the cycle.

Werner Baumann

Okay. Thank you, Liam. And then on the Pharma pipeline.

Dieter Weinand

So Tim, let me start with Anetumab first. Obviously, mesothelioma is a notoriously difficult to treat tumour, and we had hoped for a different outcome based on what we had seen in the phase one data, where still have some patients alive after a number of years. The drug failed to demonstrate superiority versus Vinorelbine in second-line mesothelioma in a very different to treat tumour type. The study continues – as you may know – for the secondary endpoint, overall survival. So it's not like we have not seen activity; we have seen activity in this study, just it's not – it doesn't meet the primary endpoint of superiority to Vinorelbine.

So based on that data we are committed to the continuing the development of Anetumab across multiple tumour types, most of them that have demonstrated a higher sensitivity to a [inaudible] directed agents, as our toxophore in this case. So with Anetumab, although disappointing, it is not like we have not seen activity. It just is not separate – it doesn't prove the primary endpoint of superiority to Vinorelbine in this trial. We are currently analysing all the data to better understand exactly what tumour types, what patient types and so on are responding and which are not.

You asked about Vilaprisan, about the programme, so as I mentioned prior several times, it has greater receptor specificity in binding affinity than ulipristal. It is five times more potent and it has demonstrated a better bleeding profile. We have previously already published the phase two data for ASTEROID 1, where we had with doses over 1mg controlled bleeding in 97-100% of patients and achieve amenorrhoea in 87-92% of patients, and up to 40% of patients had reductions in fibrid volumes, which is very important as you know. No treatment emerged as critical in [inaudible] findings either, so based on that we felt very comfortable doing a phase two trial, ASTEROID 2 versus ulipristal. The data has not been published yet; we'll be publishing that data in an upcoming scientific conference. And based on these two datasets – the head-to-head vs ulipristal phase two, and ASTEROID 2 and ASTEROID 1 data, which I just described – we felt very comfortable moving into phase three with Vilaprisan.

The number of studies we're conducting are directly related to the fact that we are comparing to local or regional competitors in that sense to be very competitive in the market once we come out. But we feel we have the potential for a best-in-class product. Overall we feel comfortable with our pipeline in mesothelioma. I'm only represents a very small piece of Anetumab, as you know.

Tony Jones, Redburn

I've got three. So firstly for Liam – Crop Science. You say that you've got 400 distributors and quite a complex supply chain, so how can you really be confident that you've fully cleared the decks and we don't have any more inventory coming back to haunt us later in the year? For Erica, I appreciate the detail on the turnaround plan. That was very good, but what do we need to factor into the model in terms of extra promotional costs, A&P spends, that kind of thing, and maybe even some capex for internalising logistics?

And then finally for Dieter, on Mirena we've seen three very strong double-digit quarters of growth, but not this quarter with a big setback in terms of the growth rate. Is that due to the gains from Kyleena over, or is it just phasing or something else we need to think about? Thanks very much.

Werner Baumann

Alright. So Liam, supply chain visibility and level of comfort on inventory situation.

Liam Condon

Thanks a lot Tony; it's a great question. Maybe just up front, one-third of the market in Brazil is direct customers, and two-thirds is to either distribution or cooperatives, so we have no issues whatsoever on the direct side. This is particularly usually seed, but also big customers for crop protection. That's fully okay. The issue is related to where we have distribution and co-operatives, and that's where we have the 400 distributors.

What we do in the physical stocktaking is basically we go through each and every customer product by product, so we have complete transparency and know exactly what we need to do to make sure that the channel is clean. And I think possibly even more importantly going forward, we do have in most countries around the world a pretty sophisticated inventory management system that links our own inventory management to those that – basically the systems of our distributors. We were in the process of rolling this out in Brazil. In Brazil it simply takes longer because it's a much more complicated logistics channel than anywhere else, with many more distributors. But we're accelerating the introduction of this system now, which would in the future allow us also a much higher degree of transparency on what's actually happening in the distribution system. So I think that's both related now to cleaning up the situation – we have good confidence, but more importantly going forward we believe we're putting in place a system that would really help prevent such an issue happening again.

Werner Baumann

Let me briefly answer the question on resource on Consumer, Tony. The point is that we are, as Erica mentioned, in a turnaround situation in the US. We have decided that we need to continue to invest behind some of the turnaround brands, and we have mentioned them earlier. Of course with Dr Scholl's and Coppertone with the relaunch on one side, we need to further invest behind Claritin as the season still extends into Q3. And last but not least, also in terms of competitive response, we do need to do more on Aleve in order to regain some of the territory that we have lost in the second quarter. That does not mean that the elevated investment level that we are going to see, particularly in Q3, is going to sustain itself going forward. I think that's somewhat premature to take such a conclusion, and in terms of capex and other investments there's nothing that we see outside of the ordinary course of the business that would alter the profile of the consumer business, given the situation we have in the US.

Last but not least, as you would also rightfully expect there's quite a number of activities going on in terms of optimising our investment and spend profile, also looking at further margin contributions. One relates unfortunately always a little bit longer term, so not immediately accretive as in the next few quarters, to our logistics and supply chain optimisation. The other one – this is a multi-year programme – the other one that I'll spell out is the net revenue management optimisation that we are also working on, but with virtually no effect for the remainder of 2017; that is to come 2018 and in following years.

Tony Jones

Thank you. Yeah, there was just one follow-up actually for Dieter. The question on Mirena.

Dieter Weinand

Actually the Mirena should be reported in the Mirena family, and within that we're doing really well. Mirena continues to grow. Kyleena is really off to a very good start, and going forward we continue to roll out Kyleena launches in additional countries. So the quarter was 4.5%, but year-to-date 13.4%. But in-market performance is actually quite good. The US orders we got in the first quarter impacted the second quarter. That is the aberration that we see here. In-market performance is strong, which is also why we raised our guidance to low teens percentage growth from mid to high single digits. That should be the indicator of what we see the in-market performance.

Oliver Maier

Thank you, Dieter.

Richard Vosser, JP Morgan

Just one follow-up on Crop to start with. I think Liam, you mentioned – or provision was mentioned as €300 million, and Liam, you mentioned obviously there will be impacts in the second half on demand. Could we expect over the multi-years of this build-up that it's about €150 million a year of sales that we're not going to get on an annual basis going forward? So just some colour there on the amount would be great.

Then a few Pharma questions, please. Firstly going back to Anetumab; there's been a lot of problems with antibody drug conjugates, that the therapeutic window is not wide enough for these products, i.e. that you can't actually beat chemotherapy. I realise you said that the base for tubulin chemotherapies is lower, but what really gives you the confidence that you've got a wide enough therapeutic window for this product? And then secondly, just on factor VIII. Obviously at ISTH, there was was very good ACE910 emicizumab data in the inhibitor setting, but we've got non-inhibitors coming. So just your thoughts on the competitive pressure from that. And perhaps just on your anti-TFPI product in phase one. We saw some data there from concizumab from Novo which had some D-dimer increases at higher dose, which I think is quite a nasty sign in terms of clotting, so just your thoughts about how realistic this target is and what you're seeing. Thanks very much.

Oliver Maier

Richard, hi. It's Oliver. You lost me on the first question for Liam actually, can you reiterate that one more time? Sorry.

Richard Vosser

Yes, apologies. So the question on Liam was just – you've obviously put a provision in for returns and it's going to affect ongoing demand going forward. Given the multi-year nature of the inventory build-up, should we be thinking about ongoing demand affected by something like €150 million on an annual basis?

Liam Condon

I'll try and answer, then let me know if this addresses the issue. I think what we basically saw was a stocking demand from distributors based on a high level of pest and disease infestation, which then didn't materialise in two seasons in the market. This will at some stage materialise again in the future, so this is – I think in the nature of the business, particularly in Brazil, that there will be at different points in time a higher and lower demand. It's impossible to predict exactly when it comes, but you can be pretty sure given the tropical nature of the climate that it will come back. So this isn't a set amount, or rebasing from a sales point of view that sales has gone from a forward projecting point of view.

Werner Baumann

Maybe before we go to Dieter on Anetumab ACE910 and the anti-TFPI, I think what is also important, just adding to what Liam said, is that the crop market is actually quite cyclical. You cannot simply straight line in terms of a trend growth on what might have been sell-in; that is not going to come back in terms of predictive trending going forward for a top line in a market like Brazil. I just want to share with you two numbers that illustrate the volatility of the Brazilian market in particular. Just look at the years 2015 and 2016. 2015 the [CP] market receded by 11%, the overall market. And then there was another one in 2016 with an additional 2%, and as you've also seen from our competitors there is more to come which is market volatility induced, not necessarily trend growth induced. So I hope that helps to shed a little more colour on how to look at the effects that we have adjusted for. And with that, I turn it over to Dieter.

Dieter Weinand

Thank you. So let me start with Anetumab. Like I said, we remain confident in the data that we're seeing. That's why we're taking it forward. I also mention that we still have patients that have been on the drug now for several years doing well. We just need to figure out – and that's what is ongoing now – exactly analyse the data, looking at mesothelin expression, look at influx pump, look at various phenotypes of tumours and so on. These allow us to analyse that and we'll get back to you, but we remain confident in the product. That's why we continue to develop that.

You alluded a little bit to ACE910 in haemophilia. As you know, the trial for now that they have come up with shows competitive data, and when you look at our data with damoctocog-alpha, you see that we have actually quite similar data in terms of efficacy to what they have demonstrated, although they demonstrated in inhibitor population. It remains to be seen how they will do in the non-inhibitor population, but thus far the data looks quite comparable. So we believe with the familiarity of a factor VIII replacement product we will be in a competitive position with damoctocog alpha.

You also mentioned anti-TFP. That is in phase one currently, and you alluded to the Novo compound. While I don't want to comment on a competitor's data per se, it is a different mechanism of action and it is being studied in a healthy patient population, whereas we are studying our product in a patient population, so actually haemophilia patients, in a dose-escalating study in phase one. So I think that development is progressing very effectively and efficiently for our product, and I look forward to seeing that data.

Werner Baumann

Okay, thanks Dieter.

Peter Verdult, Citi

Three questions, please. Firstly for Dieter on Xarelto. The red carpet seems to be rolled out for COMPASS, judging by the agenda at ESC in August. I realise you can't discuss the data per se, but I would like to know what expectations you are working on regarding timing and guideline changes, and also just trying to ascertain how quickly you think you might be in a position to commercialise the opportunity in PAD and CAD, and when investments to capture the opportunity will be made. That's question number one.

Question number two for Liam or Werner, on Monsanto. The message since you've signed the deal has been consistent – close by year-end. Is this still feasible if the European regulators move to a phase two review, and are you in a position to give us any more detail on timelines or where we are with negotiations in the US and CFIUS?

And then lastly on consumer for Werner. A blunt and maybe prickly question, but what level of confidence do you have that the situation in the US can be turned around with the assets you have in play at the moment, especially in the context of continuing disappointments over the past few quarters?

Werner Baumann

Thank you Peter. So we'll start with Xarelto and the red carpet that Dieter's going to walk on.

Dieter Weinand

Thank you very much, Werner, and thank you Peter for the question. I have not seen the data for very obvious reasons, because we want to maintain data integrity. I'm as curious about the data as you are, and very optimistic and hopeful. Once we see that data we can more accurately gauge the opportunity. Suffice to say that we are well prepared for all possibilities and outcomes, and the necessary investments are included in our guidance and reflected in our guidance that we have provided. So we want to get out there as fast as possible. We don't control prescribing guidelines; that is obviously an independent body that does that, so we cannot time that, but we assume if the data is the data that's strong enough it will be happening quickly. We will do everything we can to get the data out as fast as we are doing and file it as fast as we can. I just don't have any more information at this point.

Werner Baumann

Okay, thank you Dieter. So then on Monsanto maybe I can take it quickly and Liam can chime in. First of all, we have always expected that in Europe we might go into a phase two because it is a large and complex deal. Just by the pure magnitude of data we submitted to the commission it is clear that they have a lot of reviewing to do. In that context, we are confident that we can keep what we have said since the announcement of us having come to an agreement with Monsanto that we close by the end of the year. Why do I say that? The discussions with the European commission has been very, very intense – detailed, but also very constructive. We have I think established a very good rapport with the case team. There's a mutual level of respect and trust, also

in terms of some of the white papers we have prepared for them and so on, and what is in there. But also due to the fact that the completeness of our filing allows the commissioner to do a thorough review and they still half a year left. So we are looking first of all at the action date that is going to come up in August for phase one. We'll see what it is that the Commission has concluded in terms of discussion of potential remedies and then we take it from there, but given where we are right now there is absolutely no reason to doubt that this transaction cannot close by the end of this year.

You also asked on the US and both DoJ and CFIUS. On CFIUS, the process is somewhat more extended compared to what we anticipated, and we are working on getting more clarity with CFIUS, what is eventually missing. It might simply be the fact that given where the US administration is overall, not everybody who has a part in the review and the discussion is up to the level of staffing they need, also in terms of decision making in the different ministries to allow a more swift review with a final outcome. Our perspective on CFIUS in and by itself has not changed either. After the CFIUS clearance of the Syngenta-ChemChina transaction, and given the setting we have here with two western companies where most of what is related to Monsanto will of course stay in the US – also technology base and everything – there's nothing that would make us concerned that this transaction cannot clear CFIUS. Actually, to the contrary.

Last but not least, the progress with the DoJ. We filed already in December because the process happens to be different from Europe, and continued to be in good and constructive discussions there as well. This means the joint teams from Bayer and Monsanto, our lawyers both internal and external that support us, and of course the case team of the DoJ. Very fair pressure on the level of confidence in the US, and the Consumer business is no different from any other business but there's a few things that I think that are worth mentioning.

First of all, while we ourselves are disappointed with the performance in the US – absolutely no sugarcoating here – we do see signs of improvement. It is also important to note that Natalie Bartner joined in late 2015, and she has worked on changing the organisation, putting new people in place, upgrading the skill base and the results do come. That's what we fully expect, but it does take longer. And after about 20 months it is too early to say, 'Well you know, it hasn't worked; we think that the contrary is going to be the case'; we just need to give it more time, but clearly we do need to see the results, and we cannot wait forever to see a more sustained turnaround going forward.

Just two data points on that. Consumption erosion in 2016 in the first half of the year was about 4.5% in the US. While we have not returned to growth as of yet, the first half of 2017 we are just about flat with 2016. We have stopped the erosion now. It is all about reigniting growth.

Luisa Hector, Exane

So I still have a couple more for Liam on Crop and Brazil, please. So you talked about potentially reselling some of the excess inventory, so I'm just wondering what the shelf life is, and if you can't resell whether we might see some further write-downs in connection with this. And then in your statement in June on the crop situation I think you mentioned that part of the charge was connected to preparation for Monsanto, so just wondered if there's any more colour on that.

And then perhaps an overriding question pulling it all together – so we look at consumer where you're suffering it seems from acute issues, which is the market changing, with e-commerce etc. but also perhaps a bit of lack of due diligence on the Merck acquisition. So I just wondered whether you can give us some comfort that the Monsanto acquisition is quite different in this

regard, and that you're more comfortable on both of those aspects of the market and your ability to then do due diligence.

Werner Baumann

Okay, thank you Luisa. So Liam first on Brazil, inventory and also your comments on Monsanto. I think you can clarify this very easily.

Liam Condon

Thanks a lot, Luisa. Regarding potential reselling and shelf life, each product is a little bit longer or has different shelf lives. This can be in the region between two and three years. What we actually have done is, in our physical stock taking, we have gone through customer by customer, product by product, and identified which product can actually be resold from a quality point of view and which products, because of a limited shelf life, actually have to be written down. And there's already a provision for write-downs within the provisions that we made in Q2. So that's all already taken care of, and you shouldn't expect any more surprises from that side going forward.

On the question on Monsanto within the €355 billion bottom line that was announced related to Brazil, none of that is related to Monsanto integration.

Werner Baumann

Okay. Thank you, Liam. So Luisa, on your question regarding a read through of what we see currently in Consumer to what it means, and do we see the risk of seeing the same into the integration of Monsanto, let me maybe elaborate a little bit more on that. First of all, if we go back to the acquisition of the Consumer Health business, the due diligence process was quite different with Consumer compared to what we experienced with Monsanto. The management presentation and the confirmatory due diligence with Monsanto, the Monsanto people went out of their way to provide us with transparency, data and visibility to the most critical questions we had that also relate to value and the composition of our business case, because they wanted to convince us to pay a higher price compared to what was on the table. And the process was different in terms of competitive pressure compared to what we saw with Merck.

With Merck we were one of the bidding parties. I also have to say and repeat and reiterate we were not the highest paying. We acquired because of the fact that we could also offer a jointly value-creating partnerships on the sGC that has since paid off for both parties very well. Having said that, the issue was that we did not get full transparency on the new product development pipeline, and some of the newly launched products in the US already, which led to two things: a) we had to essentially completely write off the innovation pipeline. That also leads to the dampened growth profile we see right now, because what was in the pipeline was actually not useable, or, even worse, what was launched had to be discontinued. Secondly, when we took over the business – so we signed in May and we actually closed quarter four – it was already eroding compared to our assumption, which was already substantially discounted to the case that was presented by Merck, and that has continued. Last, I will also say this. I think in some areas we could have seen a little bit more, and should not have had the same level of surprise we are talking about right now, particularly with Dr Scholl's and Coppertone. Some of that could have potentially been seen. We did not see it, but that was only one contributing factor.

So now let's switch to the situation with Monsanto. While all of us are anxious to close the transaction as soon as possible, the good thing of having to wait more than a year is that we see the standalone performance of the company we are interested in. I can only say with a lot of respect that Hugh and this entire team, and the entire organisation at Monsanto do a fabulous job. They have just upgraded their guidance to the upper end of what their guidance was for their fiscal 2017. Things are going well at their end; they have solid growth, very strong also improvement in their profitability, so you can see on a standalone basis that the value we saw when we inked the deal obviously – in the early days, which is always very important going forward – is represented in the numbers that they report.

Secondly, it is all about people who have to make it happen afterwards and also alignment. I've been through a number of those situations, as some of my colleagues, and also Liam has in the past. And what we see here is somewhat unusual but very pleasing, and that is that both organisations did actually follow the same strategy and now as a joint organisation we don't have to convince ourselves about different strategies that the companies might have pursued before. So there's total and full alignment on where the combined organisation is going to go. Huge benefit. What it also turns into is – we also see a very, very good level of cooperation and collaboration. We see people that actually share the same values, also the same perspective on the market, and that of course drives also execution going forward. So we are very confident that what is going to come together here is a business that will run and operate very well, also in terms of the value creation we see going forward. So it is somewhat different, although the question of course is I think very appropriate. And of course, as always in life, we don't know what we don't know. But given the perspective we have today with what I've just shared with you in terms of existing evidence, we have a very high level of comfort.

Marietta Miemietz, Primavenue

I have a couple of questions on Eylea. Could you please give us a rough split of sales by indication at the moment, and also the average intervals between treatment by indication in the real world? And then a quick question on the non-operating results. In Q2 that was burdened by a special item of €164 million. Did I hear you say that was Monsanto-related, and what was that exactly? And what is the run rate of the non-operating result going forward, given that you had a lot of moving parts in Q2?

And just coming back to the Consumer margin, can you just quantify the underlying cost of goods improvement from supply chain improvement that you're expecting, and how fast you expect that to phase in? Because I do appreciate the dampening effect of capacity underutilisation and inventory write-off on the margins, but I was actually expecting a pretty substantial underlying improvement and relatively fast, because I understood that that's really what gave you confidence in your original 2018 aspirational margin target in the mid-20s, which I assume is now unrealistic anyway. It would be great if you could confirm if that's the right way of looking at it as well. Thank you very much.

Werner Baumann

Thank you Marietta. So the first question on Eylea by location and further details. Dieter?

Dieter Weinand

We don't really disclose sales by indication for Eylea, but it would be – probably to say that wet AMD is probably the biggest, with DME second, and the other ones being smaller. We assume that the dosing intervals are as they are in label, including treat and extent.

Werner Baumann

Okay. So then – thank you Dieter, and then let's come to the question on Consumer.

Erica Mann

So when you talk about the impact on margin, special items declined by 0.7%, is €314 million, which resulted in a 20.4% margin. Now, the lower earnings were due to unfavourable sales volumes coming out of the United States, as well as the lower than expected volume growth out of the US which lead to this higher idle cost and inventory write-off on the price that we were restaging Coppertone and Dr Scholl's. So what are we doing now to overcome that? We are optimising costs, including focusing in on our cost to goods. We are actively managing our PS[?] footprint. As I said earlier, we are looking at insourcing a number of key products and technologies, and we want to obviously address the issue of top-line growth to make sure that we continue to ignite growth on the right key grounds in the US that will contribute to margin improvement. Again, I just point out that Q2 and Q3 are heavy investment quarters for us, and so just take that into consideration.

Marietta Miemietz

I was really just looking to understand the underlying cost of goods improvement that you're looking to make from supply chain improvements and how fast. I don't think that's anything new; I was really just referring to the underlying improvement that you had already been talking about at the Meet management.

Erica Mann

It's roughly about a 1-2% improvement that we have to get in the coming years, but as you know that's not something that you do in just one quarter. So it's a lot of activity that we have to put behind, giving at least a 1-2% out of that cost of the client.

Werner Baumann

And of course at the time it was also predicated on a different volume growth that is now postponed, and with that it just takes a little bit longer, given where we are with top-line performance. So coming to your question on non-operating results Q2 and what the underlying is.

Johannes Dietsch

For the financial side, it came in in the second quarter as minus €405 million which varies from the year before, although on the interest we are better off than the year before. The reason for that partly is special items in the financial side of €164 million. As you mentioned, that includes,

number one, the cost for bridge financing of the Monsanto acquisition, that we took €50 million, and we had another one for the hedging position of the financing, and here we also recognise fair value accounting of roughly €50 million. And then we had also a situation with minority interests, which also led to another booking related to the minority piece of Currenta. All in all that were some of the special items here in the financial result.

Marietta Miemietz

So going forward should we just strip that out and then what you get afterwards is going to be the run rate?

Johannes Dietsch

The fair value accounting of some options might fluctuate depending on the market development of exchange rate and interest rates. For the bridge financing you can expect the €50 million to come every quarter, and for the minority interest that should be a one-time effect for the Q2 only.

Marietta Miemietz

Okay. Thank you.

Oliver Maier

Okay, thank you. Thank you so much. Thank you everybody for participating. Great Q&A, great call. Looking forward to talking to you next time.

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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.