Science For A Better Life

Q1

Interim Report

First Quarter of 2016

Bayer Group Key Data

€ million	Q1 2015	Q1 2016	Change %	Full Year 2015
Sales	**11,879**	**11,941**	**+0.5**	**46,324**
Change (adjusted for currency and portfolio effects)			+3.2	+2.7%
Change in sales				
Volume	+2.7%	+5.2%		+4.4%
Price	−0.1%	−2.0%		−1.7%
Currency	+7.4%	−2.7%		+5.9%
Portfolio	+4.8%	0.0%		+3.5%
EBITDA[1]	**2,745**	**3,376**	**+23.0**	**9,583**
Special items	(196)	(28)		(683)
EBITDA before special items[2]	**2,941**	**3,404**	**+15.7**	**10,266**
EBITDA margin before special items[3]	24.8%	28.5%		22.2%
EBIT[4]	**1,944**	**2,335**	**+20.1**	**6,250**
Special items	(244)	(272)		(819)
EBIT before special items[5]	**2,188**	**2,607**	**+19.1**	**7,069**
Financial result	**(274)**	**(315)**	**−15.0**	**(1,005)**
Net income (from continuing and discontinued operations)	**1,334**	**1,511**	**+13.3**	**4,110**
Earnings per share (from continuing and discontinued operations) (€)[6]	1.62	1.83	+13.0	4.97
Core earnings per share (from continuing operations) (€)[7]	2.08	2.37	+13.9	6.83
Gross cash flow[8]	**2,011**	**2,576**	**+28.1**	**6,999**
Net cash flow from continuing and discontinued operations[9]	**724**	**1,322**	**+82.6**	**6,890**
Cash outflows for capital expenditures	**345**	**363**	**+5.2**	**2,517**
Research and development expenses	**946**	**1,110**	**+17.3**	**4,281**
Depreciation, amortization and impairments	**801**	**1,041**	**+30.0**	**3,333**
Number of employees at end of period[10]	**117,987**	**116,482**	**−1.3**	**116,800**
Personnel expenses (including pension expenses)	2,880	2,838	−1.5	11,203

2015 figures restated

[1] EBITDA = EBIT plus the amortization of intangible assets and the depreciation of property, plant and equipment, plus impairment losses and minus impairment loss reversals, recognized in profit or loss during the reporting period. This indicator is not defined in the International Financial Reporting Standards. For details see Chapter 7 “Calculation of EBIT(DA) Before Special Items.”

[2] EBITDA before special items = EBITDA plus special charges, minus special gains. This indicator is not defined in the International Financial Reporting Standards. For details see Chapter 7 “Calculation of EBIT(DA) Before Special Items.”

[3] The EBITDA margin before special items is calculated by dividing EBITDA before special items by sales. This indicator is not defined in the International Financial Reporting Standards. For details see Chapter 7 “Calculation of EBIT(DA) Before Special Items.”

[4] EBIT = income after income taxes, plus income taxes, plus financial result. This indicator is not defined in the International Financial Reporting Standards.

[5] EBIT before special items = EBIT plus special charges, minus special gains. This indicator is not defined in the International Financial Reporting Standards. For details see Chapter 7 “Calculation of EBIT(DA) Before Special Items.”

[6] Earnings per share as defined in IAS 33 = net income divided by the average number of shares

[7] Core earnings per share = earnings per share, plus / minus amortization and impairment losses / impairment loss reversals of intangible assets, impairment losses / impairment loss reversals on property, plant and equipment, plus special charges, minus special gains (other than amortization and impairment losses / impairment loss reversals), plus / minus the related tax effects and the share of the adjustments attributable to noncontrolling interest. This indicator facilitates the comparability of performance over time. It is not defined in the International Financial Reporting Standards. For details see Chapter 8 “Core Earnings Per Share.”

[8] Gross cash flow = income after income taxes, plus income taxes, plus financial result, minus income taxes paid or accrued, plus depreciation, amortization and impairment losses, minus impairment loss reversals, plus / minus changes in pension provisions, minus gains / plus losses on retirements of noncurrent assets, minus gains from the remeasurement of already held assets in step acquisitions. The change in pension provisions includes the elimination of non-cash components of EBIT. It also contains benefit payments during the year. Gross cash flow is not defined in the International Financial Reporting Standards. For details see Chapter 9.1 “Statements of Cash Flows.”

[9] Net cash flow = cash flow from operating activities according to IAS 7

[10] Full-time equivalents

Contents

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 IFRSs published by the IASB. The interim group management report should be read in conjunction with our Annual Report 2015, which contains a detailed description of our business operations.

First Quarter of 2016

Bayer off to a Successful Start in 2016

> Group sales increase by 3.2% (Fx & portfolio adj.) to €11.9 billion, EBITDA before special items by 15.7% to €3.4 billion

> Substantial sales growth at Pharmaceuticals

> Earnings expand in all segments

> Forecast for 2016 confirmed

Bayer got off to a successful start in the new fiscal year. In the first quarter of 2016, the Bayer Group improved sales by 3.2% (Fx & portfolio adj.) to €11.9 billion and EBITDA before special items by 15.7% to €3.4 billion. All segments improved their operating performance. At Pharmaceuticals, we again benefited from the very good development of our recently launched products. Business with our Consumer Health products developed positively. Crop Science outperformed the prior-year quarter despite a weak market environment. Animal Health posted substantial gains. Our Life Science businesses therefore showed encouraging development. Sales at Covestro declined as anticipated, while EBITDA before special items rose significantly. We are confirming our forecast.

1. Overview of Sales, Earnings and Financial Position

First quarter of 2016

Sales of the Bayer Group increased by 3.2% to €11,941 million in the first quarter of 2016 after adjusting for currency and portfolio changes (Fx & portfolio adj.; reported: + 0.5%). Germany accounted for €1,367 million of this figure.

Pharmaceuticals posted encouraging sales growth of 12.2% (Fx & portfolio adj.) to €3,889 million, due mainly to the very good development of our recently launched products. Sales of Consumer Health rose by 2.2% (Fx & portfolio adj.) to €1,520 million. Crop Science also expanded business, by 1.2% (Fx & portfolio adj.) to €3,023 million, despite a weak market environment. Sales of Animal Health rose by 8.8% (Fx & portfolio adj.) to €408 million. Taken together, sales of the Life Science businesses expanded by 5.9% (Fx & portfolio adj.) to €9,091 million, while those of Covestro declined by 4.7% (Fx & portfolio adj.) to €2,850 million.

Group EBITDA before special items improved by a substantial 15.7% to €3,404 million. All segments contributed to this increase. The good development of business was partly offset by higher expenditures for research and development at Pharmaceuticals and Crop Science and by negative currency effects of about €60 million.

At Pharmaceuticals, EBITDA before special items improved by 16.2% to €1,261 million, due mainly to the very good development of our recently launched products. EBITDA before special items rose by 3.8% to €383 million at Consumer Health. At Crop Science, EBITDA before special items increased by 6.3% to €1,106 million and at Animal Health by 19.6% to €122 million. Taken together, EBITDA before special items of the Life Science businesses amounted to €2,900 million (+ 15.2%). Covestro also registered a significant 18.9% increase in EBITDA before special items to €504 million. Earnings of the reconciliation rose considerably year on year, largely on account of lower expenses for long-term stock-based compensation.

EBIT of the Bayer Group climbed significantly, increasing by 20.1% to €2,335 million (Q1 2015: €1,944 million) after special charges of €272 million (Q1 2015: €244 million). These mainly comprised impairment losses on intangible assets of €231 million, €18 million for the integration of acquired businesses and €16 million for efficiency improvement measures.

After a financial result of minus €315 million (Q1 2015: minus €274 million), income before income taxes was €2,020 million (Q1 2015: €1,670 million). After income tax expense of €478 million (Q1 2015: €375 million), income from discontinued operations after income taxes and noncontrolling interest, net income in the first quarter of 2016 came to €1,511 million (Q1 2015: €1,334 million). Earnings per share were €1.83 (Q1 2015: €1.62). Core earnings per share for continuing operations advanced by 13.9% to €2.37 (Q1 2015: €2.08).

Gross cash flow from continuing operations in the first quarter of 2016 advanced by 28.1% to €2,576 million (Q1 2015: €2,011 million), due mainly to the expansion of business. Net cash flow (total) was diminished by an increase in cash tied up in working capital but rose by 82.6% to €1,322 million (Q1 2015: €724 million), mainly because of the inflow from the divestiture of the Diabetes Care business. We paid income taxes of €549 million in the first quarter of 2016 (Q1 2015: €444 million).

Net financial debt declined by €1.1 billion, from €17.4 billion on December 31, 2015, to €16.3 billion on March 31, 2016. The net defined benefit liability for post-employment benefits – the difference between benefit obligations and plan assets – increased from €10.8 billion to €13.3 billion over the same period, due especially to a decline in long-term capital market interest rates for high-quality corporate bonds in Germany and the United States.

The number of people employed by the Bayer Group declined by 1.3% from 117,987 on March 31, 2015, to 116,482 on March 31, 2016. Personnel expenses decreased by 1.5% in the same period, from €2,880 million to €2,838 million.

2. Economic Outlook

Economic Outlook[1]

Table 1

	Growth 2015	Growth forecast 2016
World	+ 2.6%	+ 2.6%
European Union	+ 1.9%	+ 1.8%
of which Germany	+ 1.4%	+ 1.9%
United States	+ 2.4%	+ 2.1%
Emerging Markets[2]	+ 3.8%	+ 3.9%

[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 April 2016

We expect global economic growth in 2016 to match the prior-year level. Very low interest rates overall worldwide will continue to stimulate the economy. We anticipate ongoing steady growth in the European Union, with Germany especially contributing to this development. The U.S. economy is expected to grow at a slightly slower pace than in the previous year. By contrast, we anticipate slightly stronger growth in the Emerging Markets, although the Chinese economy is predicted to lose further momentum.

Economic Outlook for the Segments[1]

Table 2

	Growth 2015	Growth forecast 2016
Pharmaceuticals market	+ 10%	+ 7%
Consumer health market	+ 5%	+ 4%
Seed and crop protection market	– 1%	0%
Animal health market	+ 5%	+ 4%

[1] Bayer's estimate, except pharmaceuticals and consumer health; source for pharmaceuticals market: IMS Health, IMS Market Prognosis, copyright 2016; source for consumer health market in 2015: Nicholas Hall, copyright 2015; all rights reserved; currency-adjusted
As of April 2016

Covestro continues to anticipate an improved economic climate in 2016 for its **main customer industries**.

3. Sales and Earnings Forecast

Based on the business development described in this report and taking into account the potential risks and opportunities as well as the prevailing currency environment, we are confirming the forecast we published in February (see Annual Report 2015, Chapter 18.2).

4. Changes to the Corporate Structure

As described in detail in Chapter 1.2 of the Annual Report 2015, a new organizational structure was introduced effective January 1, 2016, dividing the business into five reporting segments: the Pharmaceuticals, Consumer Health and Crop Science divisions; the Animal Health business unit; and the legally and economically independent company Covestro AG, over which Bayer AG continues to exercise control.

5. Business Development by Segment and Region

5.1 Pharmaceuticals

Key Data – Pharmaceuticals Table 3

€ million	Q1 2015	Q1 2016	Change % Reported	Change % Fx & p adj.
Sales	**3,562**	**3,889**	**+9.2**	**+12.2**
Change in sales				
Volume	+7.3%	+12.7%		
Price	–0.3%	–0.5%		
Currency	+8.1%	–3.0%		
Portfolio	–0.7%	0.0%		
			Reported	**Fx adj.**
Sales by region				
Europe	1,232	1,379	+11.9	+13.5
North America	899	989	+10.0	+9.1
Asia/Pacific	1,014	1,130	+11.4	+11.4
Latin America/Africa/Middle East	417	391	–6.2	+17.0
EBITDA[1]	**1,061**	**1,261**	**+18.9**	
Special items	(24)	–		
EBITDA before special items[1]	**1,085**	**1,261**	**+16.2**	
EBITDA margin before special items[1]	30.5%	32.4%		
EBIT	**747**	**698**	**–6.6**	
Special items	(24)	(231)		
EBIT before special items[1]	**771**	**929**	**+20.5**	
Gross cash flow[2]	**754**	**961**	**+27.5**	
Net cash flow[2]	**812**	**734**	**–9.6**	

2015 figures restated; Fx & p adj. = currency- and portfolio-adjusted; Fx adj. = currency-adjusted
[1] For definition see Chapter 7 "Calculation of EBIT(DA) Before Special Items."
[2] For definition see Chapter 9.1 "Statements of Cash Flows."

Sales

Sales of Pharmaceuticals rose by a very encouraging 12.2% (Fx & portfolio adj.) to €3,889 million in the first quarter of 2016. This was largely attributable to the continued strong development of our recently launched products. Xarelto™, Eylea™, Xofigo™, Stivarga™ and Adempas™ posted total combined sales of €1,187 million (Q1 2015: €898 million). Our Pharmaceuticals business expanded significantly in all regions on a currency-adjusted basis.

Best-Selling Pharmaceuticals Products

Table 4

€ million	Q1 2015	Q1 2016	Change % Reported	Change % Fx adj.
Xarelto™	482	617	+ 28.0	+ 31.5
of which U.S.A.	78	86	+ 10.3	+ 9.9
Eylea™	253	372	+ 47.0	+ 48.9
of which U.S.A.[1]	0	0	.	.
Kogenate™ / Kovaltry™	261	296	+ 13.4	+ 13.7
of which U.S.A.	74	96	+ 29.7	+ 26.7
Mirena™ product family	232	248	+ 6.9	+ 7.2
of which U.S.A.	154	169	+ 9.7	+ 7.6
Nexavar™	196	213	+ 8.7	+ 10.8
of which U.S.A.	71	81	+ 14.1	+ 11.4
Betaferon™ / Betaseron™	208	190	− 8.7	− 7.9
of which U.S.A.	93	100	+ 7.5	+ 6.0
YAZ™ / Yasmin™ / Yasminelle™	181	172	− 5.0	+ 3.1
of which U.S.A.	33	40	+ 21.2	+ 19.0
Adalat™	162	160	− 1.2	+ 4.6
of which U.S.A.	1	1	.	− 11.7
Glucobay™	130	139	+ 6.9	+ 10.1
of which U.S.A.	0	1	.	.
Aspirin™ Cardio	136	137	+ 0.7	+ 6.0
of which U.S.A.	0	0	.	.
Avalox™ / Avelox™	110	98	− 10.9	− 5.4
of which U.S.A.	0	0	.	.
Gadovist™	69	82	+ 18.8	+ 20.2
of which U.S.A.	21	27	+ 28.6	+ 21.9
Xofigo™	54	75	+ 38.9	+ 36.7
of which U.S.A.	41	50	+ 22.0	+ 21.1
Ultravist™	73	71	− 2.7	+ 2.6
of which U.S.A.	2	1	− 50.0	− 38.5
Stivarga™	71	67	− 5.6	− 5.3
of which U.S.A.	46	35	− 23.9	− 25.1
Total best-selling products	**2,618**	**2,937**	**+ 12.2**	**+ 15.0**
Proportion of Pharmaceuticals sales	73%	76%		
Total best-selling products in U.S.A.	**614**	**687**		

Fx adj. = currency-adjusted
[1] Marketing rights owned by Regeneron Pharmaceuticals Inc., U.S.A.

Sales by product

> Our oral anticoagulant **Xarelto™** once again posted encouraging sales gains on a currency-adjusted basis. This was mainly attributable to volume increases in Europe and Japan. Business with Xarelto™ also developed positively in the United States, where it is marketed by a subsidiary of Johnson & Johnson.
> We registered considerably higher sales of the eye medicine **Eylea™** in all regions, particularly in Europe, Canada and Japan.
> Sales of the blood-clotting medicine **Kogenate™** posted significant gains compared with the weak prior-year quarter. We also began marketing our new hemophilia medicine **Kovaltry™** in Europe and the United States in the first quarter of 2016.
> Business with the hormone-releasing intrauterine devices of the **Mirena™** product family – Mirena™ and Jaydess™/Skyla™ – benefited especially from expanded volumes in the United States.
> We achieved substantial sales gains for the cancer drug **Nexavar™**, particularly in the United States.
> Sales of our multiple sclerosis product **Betaferon™/Betaseron™** were down overall, due partly to changes in sales phasing for tender businesses in Latin America. By contrast, sales rose in the United States.
> Currency-adjusted sales of our **YAZ™/Yasmin™/Yasminelle™** line of oral contraceptives were up slightly against the prior-year quarter. This was mainly attributable to positive development in the United States and China. In Europe, on the other hand, sales receded due to lower demand.
> Sales increases for **Adalat™** for the treatment of hypertension and coronary heart disease and the oral diabetes treatment **Glucobay™** resulted mainly from gains in China.
> We registered a decline in sales of the antibiotic **Avalox™/Avelox™**, especially in Canada following patent expiration.
> Our MRI contrast agent **Gadovist™** posted substantial sales gains on a currency-adjusted basis, particularly in the United States. The launch of the product in Japan also played a major part in this development.
> Our cancer drug **Xofigo™** benefited mainly from good business development in the United States and Europe.
> Sales of the cancer drug **Stivarga™** receded due to intensified competition in the United States.
> Sales of the pulmonary hypertension treatment **Adempas™** amounted to €56 million (Q1 2015: €38 million) and reflected the proportionate recognition of the one-time payment resulting from the sGC collaboration with Merck & Co., United States. Business developed positively, especially in the United States.

Earnings

We raised **EBITDA before special items** by 16.2% to €1,261 million in the first quarter of 2016. This substantial increase in earnings was due largely to the very good business performance. As expected, however, higher investments in research and development and negative currency effects of around €30 million had a diminishing effect.

EBIT of Pharmaceuticals declined by 6.6% to €698 million, including special charges of €231 million for impairment losses on intangible assets (Essure™; Q1 2015: €24 million).

5.2 Consumer Health

Key Data – Consumer Health Table 5

€ million	Q1 2015	Q1 2016	Change % Reported	Change % Fx & p adj.
Sales	**1,556**	**1,520**	**–2.3**	**+2.2**
Changes in sales				
Volume	+5.4%	–1.5%		
Price	+2.8%	+3.7%		
Currency	+5.7%	–4.5%		
Portfolio	+54.4%	0.0%		
			Reported	**Fx adj.**
Sales by region				
Europe	456	411	–9.9	–7.0
North America	681	677	–0.6	–1.6
Asia / Pacific	180	201	+11.7	+14.4
Latin America / Africa / Middle East	239	231	–3.3	+21.8
EBITDA[1]	**280**	**364**	**+30.0**	
Special items	(89)	(19)		
EBITDA before special items[1]	**369**	**383**	**+3.8**	
EBITDA margin before special items[1]	23.7%	25.2%		
EBIT	**174**	**243**	**+39.7**	
Special items	(89)	(32)		
EBIT before special items[1]	**263**	**275**	**+4.6**	
Gross cash flow[2]	**227**	**285**	**+25.6**	
Net cash flow[2]	**285**	**197**	**–30.9**	

2015 figures restated; Fx & p adj. = currency- and portfolio-adjusted; Fx adj. = currency-adjusted
[1] For definition see Chapter 7 “Calculation of EBIT(DA) Before Special Items.”
[2] For definition see Chapter 9.1 “Statements of Cash Flows.”

Sales

Sales of Consumer Health rose by 2.2% (Fx & portfolio adj.) in the first quarter of 2016, to €1,520 million. The business posted significant gains in Latin America / Africa / Middle East and in Asia / Pacific, while sales were down in Europe due mainly to the macroeconomic situation in Russia. Sales declined slightly in the United States.

Best-Selling Consumer Health Products Table 6

€ million	Q1 2015	Q1 2016	Change % Reported	Change % Fx adj.
Claritin™	202	187	−7.4	−7.4
Aspirin™	120	116	−3.3	+1.7
Bepanthen™ / Bepanthol™	94	92	−2.1	+10.4
Aleve™	97	90	−7.2	−5.8
Coppertone™	83	81	−2.4	−2.9
Canesten™	64	64		+21.1
Dr Scholl's™ [1]	58	60	+3.4	+2.1
Alka-Seltzer™ product family	66	57	−13.6	−14.5
Berocca™	39	49	+25.6	+31.6
One A Day™	43	44	+2.3	+2.5
Total	**866**	**840**	**−3.0**	**+0.8**
Proportion of Consumer Health sales	56%	55%		

2015 figures restated; Fx adj. = currency-adjusted
[1] Trademark rights and distribution only in certain countries outside the European Union

Sales by product

- Sales of the antihistamine **Claritin™** declined cycling over a strong prior-year quarter due to shifts in order volumes in China. The encouraging sales development in the United States was not sufficient to offset this effect.
- Sales of **Aspirin™** were up slightly year on year on a currency-adjusted basis. The declines in sales in Europe resulting from the weak cold season were offset by sales growth in Latin America / Africa / Middle East. Including business with Aspirin™ Cardio, which is reported under Pharmaceuticals, sales climbed by 4.0% (Fx adj.) to €253 million (Q1 2015: €256 million).
- We posted significant currency-adjusted sales gains for our **Bepanthen™ / Bepanthol™** wound and skin care products, particularly in the Emerging Markets and Western Europe.
- Business with our analgesic **Aleve™** declined overall as a result of increased competitive pressure in the United States.
- Sales of our sunscreen product **Coppertone™** moved back slightly against the prior-year quarter, due mainly to changes in sales phasing in North America.
- The considerable increase in sales of the antifungal **Canesten™** is attributable to expanded volumes in all regions.
- The **Alka-Seltzer™** family of products to treat gastric complaints and cold symptoms registered a sharp decline in demand, due particularly to a weaker cold season in the United States.
- The substantial growth in sales of our multivitamin product **Berocca™** resulted chiefly from advance sales in Asia.

Earnings

EBITDA before special items improved by 3.8% to €383 million in the first quarter of 2016 (Q1 2015: €369 million). Alongside earnings contributions from positive sales development, cost synergies had a favorable effect. By contrast, negative currency effects amounted to about €20 million.

EBIT of Consumer Health climbed by a substantial 39.7% to €243 million, including special charges of €32 million (Q1 2015: €89 million). These reflected charges of €18 million for the integration of acquired businesses and €13 million for efficiency improvement measures.

5.3 Crop Science

Key Data – Crop Science

Table 7

€ million	Q1 2015	Q1 2016	Change % Reported	Change % Fx & p adj.
Sales	**3,092**	**3,023**	**–2.2**	**+1.2**
Change in sales				
Volume	–2.2%	–0.5%		
Price	+3.2%	+1.7%		
Currency	+5.1%	–3.5%		
Portfolio	+0.5%	+0.1%		
			Reported	**Fx adj.**
Sales by region				
Europe	1,378	1,348	–2.2	+0.7
North America	943	952	+1.0	+3.8
Asia / Pacific	360	342	–5.0	–2.5
Latin America / Africa / Middle East	411	381	–7.3	+1.0
EBITDA[1]	**998**	**1,103**	**+10.5**	
Special items	(42)	(3)		
EBITDA before special items[1]	**1,040**	**1,106**	**+6.3**	
EBITDA margin before special items[1]	33.6%	36.6%		
EBIT	**874**	**970**	**+11.0**	
Special items	(47)	(3)		
EBIT before special items[1]	**921**	**973**	**+5.6**	
Gross cash flow[2]	**705**	**778**	**+10.4**	
Net cash flow[2]	**(823)**	**(715)**	**+13.1**	

Fx & p adj. = currency- and portfolio-adjusted; Fx adj. = currency-adjusted
[1] For definition see Chapter 7 “Calculation of EBIT(DA) Before Special Items.”
[2] For definition see Chapter 9.1 “Statements of Cash Flows.”

Sales

Sales of Crop Science in the first quarter of 2016 moved ahead by 1.2% (Fx & portfolio adj.) to €3,023 million. We slightly expanded business at Crop Protection / Seeds despite an ongoing weak market environment. Sales of Environmental Science developed positively.

Sales by Business Unit

Table 8

€ million	Q1 2015	Q1 2016	Change % Reported	Change % Fx & p adj.
Herbicides	906	845	– 6.7	– 3.8
Fungicides	830	827	– 0.4	+ 2.9
Insecticides	335	284	– 15.2	– 12.2
SeedGrowth	221	226	+ 2.3	+ 5.4
Crop Protection	2,292	2,182	– 4.8	– 1.7
Seeds	597	637	+ 6.7	+ 11.9
Crop Protection / Seeds	**2,889**	**2,819**	**– 2.4**	**+ 1.1**
Environmental Science	**203**	**204**	**+ 0.5**	**+ 3.0**

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

Sales by region

> Sales in **Europe** were level year on year at €1,348 million (Fx adj. + 0.7%). Sales of Seeds grew by a double-digit percentage, thanks above all to positive development for vegetable seed. We also saw a significant increase in sales of seed treatments, while business at Fungicides expanded slightly. Sales of the Insecticides business were down considerably against the prior-year quarter, due particularly to lower sales of products for application in oilseed rape / canola. Environmental Science posted a decline in sales.

> Sales in **North America** climbed by 3.8% (Fx adj.) to €952 million in the first quarter of 2016. Business at both SeedGrowth and Seeds expanded by double-digit percentages; sales of our soybean and oilseed rape / canola seeds developed especially positively. On the other hand, sales declined sharply at both Herbicides and Insecticides. Environmental Science posted encouraging growth.

> Sales in the **Asia / Pacific** region declined by 2.5% (Fx adj.) to €342 million. Business receded at Insecticides and Fungicides. Higher sales of vegetable seed and seed treatments were not sufficient to offset this trend.

> Sales in the **Latin America / Africa / Middle East** region improved by 1.0% (Fx adj.) to €381 million. We posted considerable sales gains at Fungicides, particularly with products for use in soybeans, and with vegetable seed. By contrast, sales declined especially at SeedGrowth, but also at Herbicides and Insecticides.

Earnings

EBITDA before special items improved by 6.3% to €1,106 million in the first quarter of 2016 (Q1 2015: €1,040 million). Earnings contributions from higher selling prices and lower cost of goods sold stood against higher research and development spending and a negative currency effect of €15 million.

EBIT of Crop Science increased by 11.0% to €970 million, after special charges of €3 million (Q1 2015: €47 million).

5.4 Animal Health

Key Data – Animal Health

Table 9

€ million	Q1 2015	Q1 2016	Change % Reported	Change % Fx & p adj.
Sales	**386**	**408**	**+5.7**	**+8.8**
Change in sales				
Volume	+4.9%	+8.3%		
Price	+1.5%	+0.5%		
Currency	+10.9%	−3.1%		
Portfolio	0.0%	0.0%		
			Reported	**Fx adj.**
Sales by region				
Europe	119	128	+7.6	+9.2
North America	132	162	+22.7	+20.5
Asia/Pacific	75	67	−10.7	−8.0
Latin America/Africa/Middle East	60	51	−15.0	+3.3
EBITDA[1]	**92**	**121**	**+31.5**	
Special items	(10)	(1)		
EBITDA before special items[1]	**102**	**122**	**+19.6**	
EBITDA margin before special items[1]	26.4%	29.9%		
EBIT	**65**	**114**	**+75.4**	
Special items	(32)	(1)		
EBIT before special items[1]	**97**	**115**	**+18.6**	
Gross cash flow[2]	**72**	**86**	**+19.4**	
Net cash flow[2]	**120**	**(20)**	**.**	

Fx & p adj. = currency- and portfolio-adjusted; Fx adj. = currency-adjusted
[1] For definition see Chapter 7 "Calculation of EBIT(DA) Before Special Items."
[2] For definition see Chapter 9.1 "Statements of Cash Flows."

Sales

Sales of Animal Health in the first quarter of 2016 climbed by 8.8% (Fx & portfolio adj.) to €408 million. This growth was chiefly attributable to increased demand in the United States.

Best-Selling Animal Health Products

Table 10

€ million	Q1 2015	Q1 2016	Change % Reported	Change % Fx adj.
Advantage™ product family	144	148	+2.8	+3.5
Seresto™	28	54	+92.9	+90.8
Drontal™ product family	31	32	+3.2	+7.2
Baytril™	30	28	−6.7	−3.2
Total	**233**	**262**	**+12.4**	**+13.7**
Proportion of Animal Health sales	60%	64%		

Fx adj. = currency-adjusted

Sales by product

- We posted higher sales of our **Advantage™** family of flea, tick and worm control products, mainly as a result of positive development in North America.
- Sales of our **Seresto™** flea and tick collar nearly doubled, thanks especially to higher demand in the United States and Europe.
- Business with our **Drontal™** line of wormers benefited from higher volumes in the United States.
- Sales of our antibiotic **Baytril™** fell slightly as expected because of generic competition.

Earnings

EBITDA before special items improved by 19.6% to €122 million in the first quarter of 2016 (Q1 2015: €102 million), due especially to the good development of business.

EBIT of Animal Health improved by a substantial 75.4% to €114 million, including special charges of €1 million (Q1 2015: €32 million).

5.5 Covestro

Key Data – Covestro Table 11

€ million	Q1 2015	Q1 2016	Change % Reported	Change % Fx & p adj.
Sales	**3,014**	**2,850**	**–5.4**	**–4.7**
Change in sales				
Volume	+2.3%	+5.9%		
Price	–4.4%	–10.6%		
Currency	+9.6%	–0.7%		
Portfolio	0.0%	0.0%		
			Reported	Fx adj.
Sales by region				
Europe	1,093	1,089	–0.4	–0.3
North America	718	683	–4.9	–7.1
Asia/Pacific	856	793	–7.4	–6.2
Latin America/Africa/Middle East	347	285	–17.9	–10.1
EBITDA[1]	**403**	**504**	**+25.1**	
Special items	(21)	–		
EBITDA before special items[1]	**424**	**504**	**+18.9**	
EBITDA margin before special items[1]	14.1%	17.7%		
EBIT	**219**	**336**	**+53.4**	
Special items	(42)	–		
EBIT before special items[1]	**261**	**336**	**+28.7**	
Gross cash flow[2]	**312**	**407**	**+30.4**	
Net cash flow[2]	**163**	**169**	**+3.7**	

Fx & p adj. = currency- and portfolio-adjusted; Fx adj. = currency-adjusted
[1] For definition see Chapter 7 “Calculation of EBIT(DA) Before Special Items.”
[2] For definition see Chapter 9.1 “Statements of Cash Flows.”

Sales

Sales of Covestro fell by 4.7% (Fx & portfolio adj.) in the first quarter of 2016 compared with the prior-year period, to €2,850 million. Selling prices were down significantly, due mainly to the raw material price development and primarily at Polyurethanes. Volumes were above the level of the prior-year quarter overall.

Sales by Business Unit Table 12

€ million	Q1 2015	Q1 2016	Change % Reported	Change % Fx & p adj.
Polyurethanes	1,551	1,401	–9.7	–8.7
Polycarbonates	764	786	+2.9	+3.5
Coatings, Adhesives, Specialties	534	512	–4.1	–3.9
Other Covestro business	165	151	–8.5	–7.9
Total	**3,014**	**2,850**	**–5.4**	**–4.7**

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

Sales by business unit

- At **Polyurethanes**, much lower selling prices that were not offset by higher volumes led to an 8.7% (Fx & portfolio adj.) decline in sales to €1,401 million.
- **Polycarbonates** improved sales by 3.5% (Fx & portfolio adj.) to €786 million, with higher volumes more than offsetting lower selling prices.
- Sales at **Coatings, Adhesives, Specialties** fell by 3.9% (Fx & portfolio adj.) to €512 million, as both volumes and selling prices were down slightly against the prior-year quarter.

Earnings

EBITDA before special items improved by a considerable 18.9% to €504 million in the first quarter of 2016 (Q1 2015: €424 million). Sales volumes expanded. Decreased raw material prices outweighed the lower selling prices to deliver a net increase in earnings.

EBIT of Covestro also rose year on year by a substantial 53.4% to €336 million. There were no special items (Q1 2015: minus €42 million).

6. Research, Development, Innovation

Bayer Group expenses for research and development rose by 17.4% (Fx adj.) to €1,110 million in the first quarter of 2016, with the Life Science businesses accounting for €1,046 million of this figure (Fx adj. 18.0%).

Research and Development Expenses Table 13

€ million	R&D expenses Q1 2015	R&D expenses Q1 2016	R&D expenses Change % Fx adj.	R&D expenses before special items Q1 2015	R&D expenses before special items Q1 2016	R&D expenses before special items Change % Fx adj.
Pharmaceuticals	533	700	+30.8	533	667	+24.6
Consumer Health	52	58	+11.5	50	56	+12.0
Crop Science	240	262	+10.4	240	262	+10.4
Animal Health	33	30	–9.1	33	30	–9.1
Total Life Sciences [1]	**887**	**1,046**	**+18.0**	**885**	**1,011**	**+14.2**
Covestro	59	64	+8.5	59	64	+8.5
Total Group	**946**	**1,110**	**+17.4**	**944**	**1,075**	**+14.0**

2015 figures restated
[1] Including reconciliation

Capital expenditures for property, plant and equipment and intangible assets amounted to €363 million (Q1 2015: €345 million), including €317 million (Q1 2015: €256 million) in the Life Science businesses.

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:

Research and Development Projects (Phase II)[1] Table 14

Phase II projects	Indication
Anetumab ravtansine (mesothelin ADC)	Cancer
BAY 1067197 (partial adenosine A1 agonist)	Heart failure
BAY 1142524 (chymase inhibitor)	Heart failure
BAY 2306001 (IONIS-FXIRx)	Prevention of thrombosis[2]
BAY 98-7196 + anastrozole (Intravaginal ring)	Endometriosis
Copanlisib (PI3K inhibitor)	Recurrent / resistant non-Hodgkin lymphoma (NHL)
Molidustat (HIF-PH inhibitor)	Renal anemia
Ang2 antibody + aflibercept	Serious eye diseases[3]
PDGFR-beta + aflibercept	Wet age-related macular degeneration[3]
Radium-223 dichloride	Bone metastases in breast cancer
Radium-223 dichloride	Cancer, various studies
Regorafenib	Cancer
Riociguat	Pulmonary hypertension (IIP)
Riociguat	Diffuse systemic sclerosis
Riociguat	Cystic fibrosis
Rivaroxaban	Secondary prevention of acute coronary syndrome (ACS)[4]
Vericiguat (BAY 1021189, sGC stimulator)	Chronic heart failure
Vilaprisan (S-PRM)	Symptomatic uterine fibroids
Vilaprisan (S-PRM)	Endometriosis

[1] As of April 15, 2016
[2] Sponsored by Ionis Pharmaceuticals, Inc.
[3] Sponsored by Regeneron Pharmaceuticals, Inc.
[4] Sponsored by Janssen Research & Development, LLC
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 Food and Drug Administration (FDA), European Medicines Agency (EMA) or other regulatory approvals will not be granted for these compounds. Moreover, we regularly review our research and development pipeline so that we can give priority to advancing the most promising pharmaceuticals projects.

In the first quarter of 2016, the study involving BAY 1007626 or progestin IUS (contraceptive) was ended. Clinical development of roniciclib (cancer) will be discontinued. Bayer does not intend to pursue the development of refametinib (cancer) and the project will be returned to Ardea BioSciences, Inc., United States.

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

Research and Development Projects (Phase III)[1] Table 15

Phase III projects	Indication
Amikacin Inhale	Pulmonary infection
BAY 1841788 (ODM-201, AR antagonist)	Prostate cancer
Damoctocog alfa pegol (BAY 94-9027, long-acting rFVIII)	Hemophilia A
Ciprofloxacin DPI	Pulmonary infection
Copanlisib (PI3K inhibitor)	Various forms of non-Hodgkin lymphoma (NHL)
Finerenone (MR antagonist)	Diabetic kidney disease
Radium-223 dichloride	Combination treatment of castration-resistant prostate cancer
Regorafenib	Refractory liver cancer
Riociguat	Pulmonary arterial hypertension (PAH) in patients who do not sufficiently respond to PDE-5i / ERA
Rivaroxaban	Prevention of major adverse cardiac events (MACE)
Rivaroxaban	Anticoagulation in patients with chronic heart failure[2]
Rivaroxaban	Long-term prevention of venous thromboembolism
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

[1] As of April 15, 2016
[2] Sponsored by Janssen Research & Development, LLC
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 Food and Drug Administration (FDA), European Medicines Agency (EMA) or other regulatory approvals will not be granted for these compounds. Moreover, we regularly review our research and development pipeline so that we can give priority to advancing the most promising pharmaceuticals projects.

At present, we intend to focus our development activities for finerenone on the indication of diabetic kidney disease. For this reason, a study in the indication of chronic heart failure will not be performed.

The most important drug candidates in the approval process are:

Products Submitted for Approval[1] Table 16

Project	Indication
LCS-16 (ULD LNG Contraceptive System)	E.U., U.S.A.; contraception
Rivaroxaban[2]	U.S.A.; secondary prophylaxis of acute coronary syndrome (ACS)

[1] As of April 15, 2016
[2] Submitted by Janssen Research & Development, LLC

In February 2016, Bayer received approval from the European Commission for Kovaltry™ (Bay 81-8973) for the treatment of hemophilia A in patients of all age groups. Kovaltry™ is an unmodified recombinant factor VIII product that in clinical trials has demonstrated efficacy and tolerability as an on-demand therapy and for prophylactic use two or three times per week by hemophilia A patients. In March 2016, Kovaltry™ was approved by the U.S. Food and Drug Administration (FDA) and the Japanese Ministry of Health, Labour and Welfare (MHLW).

In March 2016, the Japanese MHLW granted marketing authorization for Xofigo™ (radium-223 dichloride) for the treatment of adult patients with castration-resistant prostate cancer and bone metastases.

In February 2016, we launched our fifth global crowdsourcing initiative with Grants4Indications™.

In March 2016, we expanded our existing cooperation with Regeneron Pharmaceuticals, Inc., United States, to jointly develop a combination therapy of the angiopoietin2 (Ang2) antibody nesvacumab and aflibercept for the treatment of serious eye diseases. Two ongoing Phase II clinical studies are evaluating the combination therapy as a coformulated single intravitreal injection in patients with wet age-related macular degeneration or diabetic macular edema.

Consumer Health

At Consumer Health, research and development activities focus on the development of nonprescription (over-the-counter = OTC) medications for pain and allergy relief, as well as skin and foot care products, sunscreens, dietary supplements and other self-care products.

In the first quarter of 2016, we expanded our MiraLax™ product line to include the laxative MiraFiber™. This fiber-based dietary supplement is available in the United States in drink powder and tablet form.

Crop Science

In February 2016, Crop Science announced that it had acquired the Germany-based diagnosis and warning service provider proPlant Gesellschaft für Agrar- und Umweltinformatik mbH. The company develops and markets IT solutions for the European agricultural sector and will operate in the future as Bayer Digital Farming GmbH. The acquisition continues the expansion of the division's activities in the field of digitization in agriculture.

Animal Health

In January 2016, Animal Health submitted an application to the E.U. regulatory authorities for approval of a new product to protect honey bees against the Varroa mite. It is based on the proven active substance flumethrin.

Covestro

In March 2016, Covestro announced a collaboration with Tokyo-based NANODAX Co., Ltd., to develop innovative polycarbonate composites reinforced with glass wool for which NANODAX has developed a special production process. Both companies see good prospects for future use of the reinforced plastics in automotive, IT and electronics applications.

7. Calculation of EBIT(DA) Before Special Items

EBIT (income after income taxes, plus income taxes, plus financial result), which is not defined in the International Financial Reporting Standards, is influenced by one-time special effects and by the amortization of intangible assets and depreciation of property, plant and equipment, along with impairment losses and impairment loss reversals. To elucidate the effects of these parameters on the operational business and facilitate the comparability of operational earning power over time, we determine additional indicators: EBITDA, EBIT before special items, EBITDA before special items and the EBITDA margin before special items. These indicators also are not defined in the International Financial Reporting Standards.

> EBITDA (EBIT plus the amortization of intangible assets and the depreciation of property, plant and equipment, plus impairment losses and minus impairment loss reversals, recognized in profit or loss during the reporting period) serves to characterize the operational business irrespective of the effects of amortization, depreciation or impairment losses / impairment loss reversals.
> EBIT before special items and EBITDA before special items show the development of the operational business irrespective of the effects of special items – those that are nonrecurring or do not regularly recur or attain similar magnitudes. EBIT before special items and EBITDA before special items are determined by adding special charges and subtracting special gains. They constitute relevant key data for Bayer.
> The EBITDA margin before special items, which is calculated by dividing EBITDA before special items by sales, serves as an indicator of relative operational earning power for purposes of internal and external comparison.

Special Items Reconciliation Table 17

€ million	EBIT Q1 2015	EBIT Q1 2016	EBITDA Q1 2015	EBITDA Q1 2016
Before special items	**2,188**	**2,607**	**2,941**	**3,404**
Pharmaceuticals	**(24)**	**(231)**	**(24)**	**–**
Restructuring	(9)	(2)	(9)	(2)
Litigations	(13)	2	(13)	2
Integration costs	(2)	–	(2)	–
Impairment losses / impairment loss reversals	–	(231)	–	–
Consumer Health	**(89)**	**(32)**	**(89)**	**(19)**
Restructuring	–	(14)	–	(1)
Integration costs	(89)	(18)	(89)	(18)
Crop Science	**(47)**	**(3)**	**(42)**	**(3)**
Litigations	(1)	(3)	(1)	(3)
Divestitures	(46)	–	(41)	–
Animal Health	**(32)**	**(1)**	**(10)**	**(1)**
Restructuring	(32)	(1)	(10)	(1)
Reconciliation	**(10)**	**(5)**	**(10)**	**(5)**
Restructuring	(10)	(5)	(10)	(5)
Covestro	**(42)**	**–**	**(21)**	**–**
Restructuring	(42)	–	(21)	–
Total special items	**(244)**	**(272)**	**(196)**	**(28)**
of which cost of goods sold	(186)	(183)	(143)	(8)
of which selling expenses	(26)	(41)	(21)	(5)
of which research and development expenses	(2)	(35)	(2)	(2)
of which general administration expenses	(20)	(13)	(20)	(13)
of which other operating income / expenses	(10)	–	(10)	–
After special items	**1,944**	**2,335**	**2,745**	**3,376**

2015 figures restated

Depreciation, amortization and impairments were 30.0% higher in the first quarter of 2016 at €1,041 million (Q1 2015: €801 million), comprising €668 million (Q1 2015: €424 million) in amortization and impairments on intangible assets and €373 million (Q1 2015: €377 million) in depreciation and impairments on property, plant and equipment. The impairments totaled €260 million (Q1 2015: €48 million), of which €244 million (Q1 2015: €48 million) constituted special items.

8. Core Earnings Per Share

Earnings per share according to IFRS are affected by the purchase price allocation for acquisitions and other special factors. To demonstrate the impact of these effects on earnings and facilitate the comparability of our performance over time, we determine additional indicators – core EBIT, core net income and core earnings per share – which are not defined in the International Financial Reporting Standards.

Core Earnings per Share — Table 18

€ million	Q1 2015	Q1 2016
EBIT (as per income statements)	**1,944**	**2,335**
Amortization and impairment losses / loss reversals on intangible assets	424	668
Impairment losses / loss reversals on property, plant and equipment	36	18
Special items (other than amortization and impairment losses / loss reversals)	196	28
Core EBIT	**2,600**	**3,049**
Financial result (as per income statements)	(274)	(315)
Special items in the financial result	(3)	(10)
Income taxes (as per income statements)	(375)	(478)
Tax effects related to amortization, impairment losses / loss reversals and special items	(221)	(218)
Income after income taxes attributable to noncontrolling interest (as per income statements)	(6)	(70)
Above-mentioned adjustments attributable to noncontrolling interest	–	(2)
Core net income from continuing operations	**1,721**	**1,956**
Shares		
Number of issued ordinary shares	**826,947,808**	**826,947,808**
€		
Core earnings per share from continuing operations	**2.08**	**2.37**
Core earnings per share from discontinued operations	0.06	0.05
Core earnings per share from continuing and discontinued operations	2.14	2.42

2015 figures restated

Core EBIT is determined by first eliminating from EBIT (income after income taxes, plus income taxes, plus financial result), which is not defined in the International Financial Reporting Standards, all amortization and impairment losses / impairment loss reversals on intangible assets, impairment losses / impairment loss reversals on property, plant and equipment, and special items (other than amortization and impairment losses/impairment loss reversals). This core EBIT is then used to calculate core net income, which comprises the financial result (as per income statements), income taxes (as per income statements), income after income taxes attributable to noncontrolling interest (as per income statements), special items in the financial result, special items in income taxes, tax effects related to amortization, impairment losses / impairment loss reversals and special items, and the above-mentioned adjustments attributable to noncontrolling interest.

From this core net income we calculate core earnings per share in the same way as earnings per share. Core earnings per share form the basis for our dividend policy. They are determined for both continuing and discontinued operations. In the first quarter of 2016, we improved core earnings per share from continuing operations by 13.9% to €2.37 (Q1 2015: €2.08).

9. Financial Position of the Bayer Group

9.1 Statements of Cash Flows

Bayer Group Summary Statements of Cash Flows Table 19

€ million	Q1 2015	Q1 2016	Change %
Gross cash flow [1]	**2,011**	**2,576**	**+ 28.1**
Changes in working capital / other noncash items	(1,334)	(2,073)	– 55.4
Net cash provided by (used in) operating activities (net cash flow), continuing operations	**677**	**503**	**– 25.7**
Net cash provided by (used in) operating activities (net cash flow), discontinued operations	47	819	.
Net cash provided by (used in) operating activities (net cash flow) (total)	**724**	**1,322**	**+ 82.6**
Net cash provided by (used in) investing activities (total)	**(595)**	**(462)**	**+ 22.4**
Net cash provided by (used in) financing activities (total)	**(410)**	**823**	**.**
Change in cash and cash equivalents due to business activities	**(281)**	**1,683**	**.**
Cash and cash equivalents at beginning of period	**1,853**	**1,859**	**+ 0.3**
Change due to exchange rate movements and to changes in scope of consolidation	35	10	– 71.4
Cash and cash equivalents at end of period	**1,607**	**3,552**	**+ 121.0**

2015 figures restated
[1] Gross cash flow = income after income taxes, plus income taxes, plus financial result, minus income taxes paid or accrued, plus depreciation, amortization and impairment losses, minus impairment loss reversals, plus / minus changes in pension provisions, minus gains / plus losses on retirements of noncurrent assets, minus gains from the remeasurement of already held assets in step acquisitions. The change in pension provisions includes the elimination of noncash components of EBIT. It also contains benefit payments during the year. Gross cash flow is not defined in the International Financial Reporting Standards.

Net cash provided by operating activities (net cash flow)

> Gross cash flow from continuing operations in the first quarter of 2016 climbed by a substantial 28.1% to €2,576 million, primarily due to the expansion of business.
> The net cash flow (total) was diminished by an increase in cash tied up in working capital but rose by 82.6% to €1,322 million, mainly because of the inflow from the divestiture of the Diabetes Care business.
> The net cash flow (total) reflected income tax payments of €549 million (Q1 2015: €444 million).

Net cash provided by (used in) investing activities

> Cash outflows for property, plant and equipment and intangible assets were 5.2% higher in the first quarter of 2016 at €363 million (Q1 2015: €345 million) and included €141 million (Q1 2015: €95 million) at Pharmaceuticals, €39 million (Q1 2015: €11 million) at Consumer Health, €97 million (Q1 2015: €96 million) at Crop Science, €5 million (Q1 2015: €4 million) at Animal Health and €46 million (Q1 2015: €89 million) at Covestro.

Net cash provided by (used in) financing activities

> In the first quarter of 2016, there was a net cash inflow of €823 million from financing activities, including net borrowings of €909 million (Q1 2015: net loan repayments of €323 million).
> Net interest payments were 4.9% higher at €86 million (Q1 2015: €82 million).

9.2 Liquid Assets and Net Financial Debt

Net Financial Debt[1] Table 20

€ million	Dec. 31, 2015	March 31, 2016	Change %
Bonds and notes / promissory notes	15,547	16,153	+3.9
of which hybrid bonds[2]	4,525	4,526	.
Liabilities to banks	2,779	2,805	+0.9
Liabilities under finance leases	474	449	–5.3
Negative fair values of hedges of recorded transactions	753	632	–16.1
Other financial liabilities	369	255	–30.9
Positive fair values of hedges of recorded transactions	(350)	(265)	–24.3
Financial liabilities	**19,572**	**20,029**	**+ 2.3**
Cash and cash equivalents	(1,859)	(3,552)	+91.1
Current financial assets[3]	(264)	(154)	–41.7
Net financial debt	**17,449**	**16,323**	**– 6.5**

[1] Net financial debt is not defined in the International Financial Reporting Standards and is calculated as shown in this table.
[2] Classified as debt according to IFRS
[3] 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 and held-to-maturity financial investments that were recorded as current on initial recognition.

> Net financial debt of the Bayer Group declined by €1.1 billion between December 31, 2015, and the end of the first quarter, due mainly to cash inflows from the sale of the Diabetes Care business.
> 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 Standard & Poor's. The hybrid bonds thus have a more limited effect on the Group's rating-specific debt indicators than conventional borrowings.

- In March 2016, Covestro AG issued three tranches of bonds with a nominal volume of €500 million each under its newly established Debt Issuance Program: one tranche with a fixed-rate coupon of 1.00% and a maturity of five-and-a-half years; one tranche with a fixed-rate coupon of 1.75% and a maturity of eight-and-a-half years; and one tranche with a floating-rate coupon of 60 basis points over three-month Euribor and a maturity of two years.
- In January 2016, Bayer AG redeemed at maturity a bond with a nominal volume of €500 million issued under its Debt Issuance Program (previously known as the multi-currency European Medium Term Notes program).
- The other financial liabilities as of March 31, 2016, included commercial paper of €146 million.
- Standard & Poor's gives Bayer a long-term issuer rating of A– with stable outlook, while Moody's gives us a long-term rating of A3 with stable outlook. The short-term ratings are A–2 (Standard & Poor's) and P–2 (Moody's). These investment-grade ratings document good creditworthiness.

9.3 Asset and Capital Structure

Bayer Group Summary Statements of Financial Position Table 21

€ million	Dec. 31, 2015	March 31, 2016	Change %
Noncurrent assets	50,096	49,903	– 0.4
Current assets	23,624	26,718	+ 13.1
Assets held for sale	197	8	– 95.9
Total current assets	**23,821**	**26,726**	**+ 12.2**
Total assets	**73,917**	**76,629**	**+ 3.7**
Equity	**25,445**	**24,773**	**– 2.6**
Noncurrent liabilities	31,492	34,428	+ 9.3
Current liabilities	16,868	17,428	+ 3.3
Liabilities directly related to assets held for sale	112	–	.
Total current liabilities	16,980	17,428	+ 2.6
Liabilities	**48,472**	**51,856**	**+ 7.0**
Total equity and liabilities	**73,917**	**76,629**	**+ 3.7**

- Between December 31, 2015, and March 31, 2016, total assets increased by €2.7 billion to €76.6 billion. Noncurrent assets were almost level year on year at €49.9 billion. The carrying amount of current assets climbed by €2.9 billion to €26.7 billion, due mainly to an increase in cash and cash equivalents and trade accounts receivable.
- Equity decreased by €0.7 billion compared with December 31, 2015, to €24.8 billion. Income after income taxes of €1.6 billion was offset by the €1.8 billion increase – recognized outside profit or loss – in post-employment benefit obligations and negative exchange differences of €0.5 billion. The equity ratio (equity coverage of total assets) as of March 31, 2016, was 32.3% (December 31, 2015: 34.4%).
- Liabilities increased by €3.4 billion in the first quarter of 2016 to €51.9 billion. Provisions for pensions and other post-employment benefits rose by €2.5 billion and other provisions increased by €0.4 billion. Financial liabilities moved higher by €0.4 billion.

Net Defined Benefit Liability for Post-Employment Benefits Table 22

€ million	Dec. 31, 2015	March 31, 2016	Change %
Provisions for pensions and other post-employment benefits	10,873	13,343	+ 22.7
Net defined benefit asset	(30)	(30)	.
Net defined benefit liability for post-employment benefits	**10,843**	**13,313**	**+ 22.8**

> The net defined benefit liability for post-employment benefits increased by €2.5 billion in the first quarter of 2016, to €13.3 billion, due mainly to a decrease in long-term capital market interest rates for high-quality corporate bonds in Germany and the United States.

10. Opportunities and Risks

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

Bayer regards opportunity and risk management as an integral part of corporate governance. Our risk management process and the opportunities / risks outlined in detail in the Annual Report 2015 (Combined Management Report, Chapter 18.3) are materially unchanged. 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 2015 (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, 2016

Bayer Group Consolidated Income Statements

Table 23

€ million	Q1 2015	Q1 2016
Net sales	**11,879**	**11,941**
Cost of goods sold	(5,476)	(5,086)
Gross profit	**6,403**	**6,855**
Selling expenses	(2,920)	(2,914)
Research and development expenses	(946)	(1,110)
General administration expenses	(471)	(497)
Other operating income	247	203
Other operating expenses	(369)	(202)
EBIT[1]	**1,944**	**2,335**
Equity-method loss	6	(5)
Financial income	12	37
Financial expenses	(292)	(347)
Financial result	**(274)**	**(315)**
Income before income taxes	**1,670**	**2,020**
Income taxes	(375)	(478)
Income from continuing operations after income taxes	**1,295**	**1,542**
Income from discontinued operations after income taxes	**45**	**39**
Income after income taxes	**1,340**	**1,581**
of which attributable to noncontrolling interest	6	70
of which attributable to Bayer AG stockholders (net income)	**1,334**	**1,511**

€		
Earnings per share		
From continuing operations		
Basic	1.56	1.78
Diluted	1.56	1.78
From discontinued operations		
Basic	0.06	0.05
Diluted	0.06	0.05
From continuing and discontinued operations		
Basic	1.62	1.83
Diluted	1.62	1.83

2015 figures restated
[1] EBIT = earnings before financial result and taxes

Bayer Group Consolidated Statements of Comprehensive Income

Table 24

€ million	Q1 2015	Q1 2016
Income after income taxes	**1,340**	**1,581**
of which attributable to noncontrolling interest	6	70
of which attributable to Bayer AG stockholders	1,334	1,511
Remeasurements of the net defined benefit liability for post-employment benefit plans	(1,205)	(2,563)
Income taxes	386	756
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**(819)**	**(1,807)**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**(819)**	**(1,807)**
Changes in fair values of derivatives designated as cash flow hedges	(341)	53
Reclassified to profit or loss	61	(16)
Income taxes	82	–
Other comprehensive income from cash flow hedges	**(198)**	**37**
Changes in fair values of available-for-sale financial assets	14	12
Reclassified to profit or loss	1	–
Income taxes	(3)	(4)
Other comprehensive income from available-for-sale financial assets	**12**	**8**
Changes in exchange differences recognized on translation of operations outside the eurozone	1,387	(509)
Changes in exchange differences recognized on translation of operations outside the eurozone, relating to associates accounted for using the equity method	(41)	18
Reclassified to profit or loss	–	–
Other comprehensive income from exchange differences	**1,346**	**(491)**
Other comprehensive income that may be reclassified subsequently to profit or loss	**1,160**	**(446)**
Effects of changes in scope of consolidation	**–**	**–**
Total other comprehensive income [1]	**341**	**(2,253)**
of which attributable to noncontrolling interest	15	(101)
of which attributable to Bayer AG stockholders	326	(2,152)
Total comprehensive income	**1,681**	**(672)**
of which attributable to noncontrolling interest	21	(31)
of which attributable to Bayer AG stockholders	1,660	(641)

[1] Total changes recognized outside profit or loss

Bayer Group Consolidated Statements of Financial Position

Table 25

€ million	March 31, 2015	March 31, 2016	Dec. 31, 2015
Noncurrent assets			
Goodwill	16,405	15,814	16,096
Other intangible assets	16,367	14,371	15,178
Property, plant and equipment	11,924	11,928	12,251
Investment property	175	128	124
Investments accounted for using the equity method	253	493	246
Other financial assets	1,214	1,148	1,092
Other receivables	400	380	430
Deferred taxes	4,982	5,641	4,679
	51,720	**49,903**	**50,096**
Current assets			
Inventories	8,776	8,504	8,550
Trade accounts receivable	11,466	11,554	9,933
Other financial assets	848	550	756
Other receivables	1,587	2,121	2,017
Claims for income tax refunds	667	437	509
Cash and cash equivalents	1,607	3,552	1,859
Assets held for sale	–	8	197
	24,951	**26,726**	**23,821**
Total assets	**76,671**	**76,629**	**73,917**
Equity			
Capital stock of Bayer AG	2,117	2,117	2,117
Capital reserves of Bayer AG	6,167	6,167	6,167
Other reserves	13,482	15,340	15,981
Equity attributable to Bayer AG stockholders	**21,766**	**23,624**	**24,265**
Equity attributable to noncontrolling interest	128	1,149	1,180
	21,894	**24,773**	**25,445**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	13,594	13,343	10,873
Other provisions	1,515	1,633	1,740
Financial liabilities	16,921	17,119	16,513
Income tax liabilities	553	373	475
Other liabilities	1,055	1,151	1,065
Deferred taxes	876	809	826
	34,514	**34,428**	**31,492**
Current liabilities			
Other provisions	5,720	5,589	5,045
Financial liabilities	6,512	3,191	3,421
Trade accounts payable	5,211	4,977	5,945
Income tax liabilities	591	1,198	923
Other liabilities	2,229	2,473	1,534
Liabilities directly related to assets held for sale	–	–	112
	20,263	**17,428**	**16,980**
Total equity and liabilities	**76,671**	**76,629**	**73,917**

2015 figures restated

Bayer Group Consolidated Statements of Cash Flows

Table 26

€ million	Q1 2015	Q1 2016
Income from continuing operations after income taxes	1,295	1,542
Income taxes	375	478
Financial result	274	315
Income taxes paid or accrued	(633)	(698)
Depreciation, amortization and impairments	801	1,041
Change in pension provisions	(87)	(100)
(Gains) losses on retirements of noncurrent assets	(14)	(2)
Gross cash flow	**2,011**	**2,576**
Decrease (increase) in inventories	61	(130)
Decrease (increase) in trade accounts receivable	(1,949)	(1,731)
(Decrease) increase in trade accounts payable	(491)	(889)
Changes in other working capital, other noncash items	1,045	677
Net cash provided by (used in) operating activities (net cash flow) from continuing operations	**677**	**503**
Net cash provided by (used in) operating activities (net cash flow) from discontinued operations	47	819
Net cash provided by (used in) operating activities (net cash flow) (total)	**724**	**1,322**
Cash outflows for additions to property, plant, equipment and intangible assets	(345)	(363)
Cash inflows from the sale of property, plant, equipment and other assets	25	21
Cash inflows from divestitures	–	–
Cash inflows from (outflows for) noncurrent financial assets	(259)	(252)
Cash outflows for acquisitions less acquired cash	(33)	2
Interest and dividends received	11	22
Cash inflows from (outflows for) current financial assets	6	108
Net cash provided by (used in) investing activities (total)	**(595)**	**(462)**
Dividend payments and withholding tax on dividends	(5)	–
Issuances of debt	2,521	4,322
Retirements of debt	(2,844)	(3,413)
Interest paid including interest-rate swaps	(92)	(101)
Interest received from interest-rate swaps	10	15
Cash outflows for the purchase of additional interests in subsidiaries	–	–
Net cash provided by (used in) financing activities (total)	**(410)**	**823**
Change in cash and cash equivalents due to business activities (total)	**(281)**	**1,683**
Cash and cash equivalents at beginning of period	**1,853**	**1,859**
Change in cash and cash equivalents due to changes in scope of consolidation	3	(1)
Change in cash and cash equivalents due to exchange rate movements	32	11
Cash and cash equivalents at end of period	**1,607**	**3,552**

2015 figures restated

Bayer Group Consolidated Statements of Changes in Equity

Table 27

€ million	Capital stock of Bayer AG	Capital reserves of Bayer AG	Other reserves	Equity attributable to Bayer AG stockholders	Equity attributable to non-controlling interest	Equity
Dec. 31, 2014	**2,117**	**6,167**	**11,822**	**20,106**	**112**	**20,218**
Equity transactions with owners						
Capital increase / decrease						
Dividend payments					(5)	(5)
Other changes						
Total comprehensive income			1,660	1,660	21	1,681
March 31, 2015	**2,117**	**6,167**	**13,482**	**21,766**	**128**	**21,894**
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**

2015 figures restated

Notes to the Condensed Consolidated Interim Financial Statements of the Bayer Group as of March 31, 2016

Key Data by Segment and Region

Key Data by Segment

Table 28

	Pharmaceuticals		Consumer Health		Crop Science		Animal Health	
€ million	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016
Net sales (external)	3,562	3,889	1,556	1,520	3,092	3,023	386	408
Change	+14.3%	+9.2%	+68.6%	−2.3%	+6.6%	−2.2%	+17.0%	+5.7%
Currency-adjusted change	+6.2%	+12.2%	+62.8%	+2.2%	+1.5%	+1.3%	+6.1%	+8.8%
Intersegment sales	10	7	1	1	10	9	1	1
Net sales (total)	3,572	3,896	1,557	1,521	3,102	3,032	387	409
EBIT	747	698	174	243	874	970	65	114
EBIT before special items	771	929	263	275	921	973	97	115
EBITDA before special items	1,085	1,261	369	383	1,040	1,106	102	122
Gross cash flow	754	961	227	285	705	778	72	86
Net cash flow	812	734	285	197	(823)	(715)	120	(20)
Depreciation, amortization and impairments	314	563	106	121	124	133	27	7
Number of employees (as of March 31)[1]	40,739	40,315	14,591	13,297	23,662	23,481	3,786	3,853

2015 figures restated
[1] Full-time equivalents

Key Data by Segment

Table 28 continued

	All Other Segments		Reconciliation: Corporate Functions and Consolidation		Life Sciences		Covestro		Group	
€ million	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016
Net sales (external)	268	250	1	1	8,865	9,091	3,014	2,850	11,879	11,941
Change	−3.9%	−6.7%	–	–	+17.4%	+2.5%	+7.5%	−5.4%	+14.8%	+0.5%
Currency-adjusted change	−5.0%	−6.3%	–	–	+10.9%	+5.9%	−2.1%	−4.7%	+7.4%	+3.2%
Intersegment sales	537	425	(572)	(464)	–	–	13	21	–	–
Net sales (total)	805	675	(571)	(463)	–	–	3,027	2,871	11,879	11,941
EBIT	19	3	(154)	(29)	1,725	1,999	219	336	1,944	2,335
EBIT before special items	25	6	(150)	(27)	1,927	2,271	261	336	2,188	2,607
EBITDA before special items	70	53	(149)	(25)	2,517	2,900	424	504	2,941	3,404
Gross cash flow	49	79	(108)	(20)	1,699	2,169	312	407	2,011	2,576
Net cash flow	(28)	(3)	148	141	514	334	163	169	677	503
Depreciation, amortization and impairments	45	47	1	2	617	873	184	168	801	1,041
Number of employees (as of March 31)[1]	19,876	19,067	739	729	103,393	100,742	14,594	15,740	117,987	116,482

2015 figures restated
[1] Full-time equivalents

Key Data by Region

Table 29

€ million	Europe Q1 2015	Europe Q1 2016	North America Q1 2015	North America Q1 2016	Asia / Pacific Q1 2015	Asia / Pacific Q1 2016
Net sales (external) – by market	4,526	4,591	3,375	3,465	2,489	2,536
Change	+ 5.6%	+ 1.4%	+ 28.7%	+ 2.7%	+ 17.0%	+ 1.9%
Currency-adjusted change	+ 8.2%	+ 3.0%	+ 10.8%	+ 2.5%	+ 2.2%	+ 3.0%
Net sales (external) – by point of origin	4,925	4,963	3,327	3,401	2,420	2,487
Change	+ 5.3%	+ 0.8%	+ 29.8%	+ 2.2%	+ 16.3%	+ 2.8%
Currency-adjusted change	+ 7.7%	+ 2.3%	+ 11.3%	+ 1.9%	+ 1.3%	+ 3.9%
Interregional sales	2,588	2,821	960	1,044	183	198
EBIT	1,502	1,556	351	494	207	232
Number of employees (as of March 31)[1]	55,208	56,337	16,056	16,190	30,030	28,106

2015 figures restated
[1] Full-time equivalents

Key Data by Region

Table 29 continued

€ million	Latin America / Africa / Middle East Q1 2015	Latin America / Africa / Middle East Q1 2016	Reconciliation Q1 2015	Reconciliation Q1 2016	Total Q1 2015	Total Q1 2016
Net sales (external) – by market	1,489	1,349	–	–	11,879	11,941
Change	+ 13.1%	– 9.4%	–	–	+ 14.8%	+ 0.5%
Currency-adjusted change	+ 6.2%	+ 6.0%	–	–	+ 7.4%	+ 3.2%
Net sales (external) – by point of origin	1,207	1,090	–	–	11,879	11,941
Change	+ 17.0%	– 9.7%	–	–	+ 14.8%	+ 0.5%
Currency-adjusted change	+ 8.6%	+ 9.5%	–	–	+ 7.4%	+ 3.2%
Interregional sales	133	95	(3,864)	(4,158)	–	–
EBIT	38	82	(154)	(29)	1,944	2,335
Number of employees (as of March 31)[1]	16,693	15,849	–	–	117,987	116,482

2015 figures restated
[1] Full-time equivalents

Explanatory Notes

Accounting Policies

Pursuant to Section 37w Paragraph 3 of the German Securities Trading Act (WpHG), the consolidated interim financial statements as of March 31, 2016, have been prepared in condensed form according to the International Financial Reporting Standards (IFRS) – including IAS 34 – 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 2015 fiscal year, particularly with regard to the main recognition and measurement principles, except for the financial reporting standards that have been applied for the first time in 2016 and an accounting policy change.

Financial reporting standards applied for the first time in 2016 and changes in accounting methods

The first-time application of the following amended financial reporting standards had no impact, or no material impact, on the presentation of the Group’s financial position or results of operations, or on earnings per share.

In May 2014, the IASB published amendments to IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets) entitled “Clarification of Acceptable Methods of Depreciation and Amortisation.” These amendments clarify that revenue-based depreciation of property, plant and equipment or amortization of intangible assets is inappropriate. The amendments are to be applied for annual periods beginning on or after January 1, 2016.

In May 2014, the IASB published amendments to IFRS 11 (Joint Arrangements) entitled “Accounting for Acquisitions of Interests in Joint Operations.” The amendments clarify the accounting for the acquisition of an interest in a joint operation in which the activity constitutes a business. They are to be applied for annual periods beginning on or after January 1, 2016.

In June 2014, the IASB issued amendments to IAS 16 (Property, Plant and Equipment) and IAS 41 (Agriculture) entitled “Agriculture: Bearer Plants.” The amendments clarify that plants used solely to grow agricultural produce are to be accounted for according to IAS 16 (Property, Plant and Equipment). The amendments are to be applied for annual periods beginning on or after January 1, 2016.

In September 2014, the IASB published “Annual Improvements to IFRSs 2012-2014 Cycle.” The amendments address details of the recognition, measurement and disclosure of business transactions and serve to standardize terminology. They consist mainly of editorial changes to existing standards. They are to be applied for annual periods beginning on or after January 1, 2016.

In December 2014, the IASB published its Disclosure Initiative containing amendments to IAS 1 (Presentation of Financial Statements), which are intended to clarify the disclosure requirements. They relate to materiality, line-item aggregation, subtotals, the structure of the notes to the financial statements, the identification of significant accounting policies and the separate disclosure of the other comprehensive income of associates and joint ventures. The amendments are to be applied for annual periods beginning on or after January 1, 2016.

Financial reporting standards not applied in 2016 that the IASB had decided must be applied for annual periods beginning on or after January 1, 2016

In January 2014, the IASB issued IFRS 14 (Regulatory Deferral Accounts). This standard addresses the accounting for regulatory deferral account balances by first-time adopters of the IFRS and therefore does not apply to entities that already prepare their financial statements according to the IFRS. IFRS 14 is to be applied for annual periods beginning on or after January 1, 2016. As this standard will only apply for a transitional period until a final standard is published, the E.U. endorsement process will not begin until the final standard has been adopted by the IASB. IFRS 14 will have no impact on the presentation of the Group's financial position or results of operations.

In December 2014, the IASB issued amendments to IFRS 10 (Consolidated Financial Statements), IFRS 12 (Disclosure of Interests in Other Entities) and IAS 28 (Investments in Associates and Joint Ventures) entitled "Investment Entities: Applying the Consolidation Exception." The amendments largely clarify which subsidiaries an investment entity must consolidate and which must be recognized at fair value through profit or loss. The amendments are to be applied for annual periods beginning on or after January 1, 2016. The amendments have not yet been endorsed by the European Union. The changes currently have no impact on the presentation of Bayer's financial position or results of operations.

Changes in accounting methods

The legal and economic independence of Covestro results in changes to the global annual impairment tests for Covestro. In the future, from the perspective of the Bayer Group, the strategic business entities of Covestro will be subjected to impairment testing as a group of cash-generating units because the goodwill of Covestro will be monitored by Bayer Group management at this aggregated level from now on.

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:

Exchange Rates for Major Currencies Table 30

		Closing rate			Average rate	
€1		Dec. 31, 2015	March 31, 2015	March 31, 2016	Q1 2015	Q1 2016
BRL	Brazil	4.31	3.50	4.12	3.21	4.30
CAD	Canada	1.51	1.37	1.47	1.40	1.51
CHF	Switzerland	1.08	1.05	1.09	1.07	1.10
CNY	China	7.06	6.67	7.36	7.04	7.22
GBP	United Kingdom	0.73	0.73	0.79	0.74	0.77
JPY	Japan	131.07	128.95	127.90	134.42	127.02
MXN	Mexico	18.91	16.51	19.59	16.86	19.85
RUB	Russia	80.67	62.44	76.31	70.80	82.15
USD	United States	1.09	1.08	1.14	1.13	1.10

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

Discount Rate for Pension Obligations Table 31

%	Dec. 31, 2015	March 31, 2016
Germany	2.40	1.70
United Kingdom	3.80	3.45
United States	4.00	3.50

Segment reporting

In September 2015, it was decided to introduce a new organizational structure effective January 1, 2016, in line with Bayer's focus on the Life Science businesses. The former Bayer HealthCare subgroup was dissolved and the Radiology business is now assigned to the Pharmaceuticals Division. The Consumer Health Division now consists entirely of the Consumer Care business. Animal Health has become a separate reportable segment. The Bayer CropScience subgroup is now the Crop Science Division. Since January 1, 2016, therefore, 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 of the reconciliation to income before income taxes of the Group:

Reconciliation of Segments' EBITDA Before Special Items to Group Income Before Income Taxes Table 32

€ million	Q1 2015	Q1 2016
EBITDA before special items of segments	3,090	3,429
EBITDA before special items of Corporate Functions and Consolidation	(149)	(25)
EBITDA before special items	**2,941**	**3,404**
Depreciation, amortization and impairment losses before special items of segments	(752)	(795)
Depreciation, amortization and impairment losses before special items of Corporate Functions and Consolidation	(1)	(2)
Depreciation, amortization and impairment losses before special items	**(753)**	**(797)**
EBIT before special items of segments	2,338	2,634
EBIT before special items of Corporate Functions and Consolidation	(150)	(27)
EBIT before special items	**2,188**	**2,607**
Special items of segments	(240)	(270)
Special items of Corporate Functions and Consolidation	(4)	(2)
Special items	**(244)**	**(272)**
EBIT of segments	2,098	2,364
EBIT of Corporate Functions and Consolidation	(154)	(29)
EBIT	**1,944**	**2,335**
Financial result	(274)	(315)
Income before income taxes	**1,670**	**2,020**

2015 figures restated

The special items of the segments include an impairment loss of €231 million in the Pharmaceuticals segment. An impairment loss was recognized on intangible assets connected with the product Essure™ due to the current assessment of the market environment and lower revenue expectations.

Scope of consolidation

Changes in the scope of consolidation

The consolidated financial statements as of March 31, 2016, included 307 companies (December 31, 2015: 307 companies). As in the statements as of December 31, 2015, 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). Four (December 31, 2015: three) joint ventures and four (December 31, 2015: four) 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

In connection with the global purchase price allocation of SeedWorks India Pvt. Ltd., India, which was acquired in July 2015, improved information about the acquired assets led to a decline in intangible assets and a corresponding increase in goodwill in the opening statement of financial position in the first quarter of 2016. In addition, the purchase price declined by €2 million as a result of the final purchase price negotiations.

In the first quarter of 2016, the effects of this and other, smaller adjustments to purchase price allocations relating to previous years' transactions on the Group's assets and liabilities as of the respective acquisition or adjustment dates are shown in the table. Net of acquired cash and cash equivalents, the adjustments resulted in the following cash outflow:

Acquired Assets, Assumed Liabilities and Adjustments (Fair Values at the Respective Acquisition Dates) Table 33

€ million	Q1 2016
Goodwill	12
Patents and technologies	–
Other intangible assets	(23)
Property, plant and equipment	–
Inventories	–
Other current assets	–
Cash and cash equivalents	–
Deferred tax assets	–
Provisions for pensions and other post-employment benefits	1
Other provisions	–
Financial liabilities	–
Other liabilities	–
Deferred tax liabilities	8
Net assets	**(2)**
Changes in noncontrolling interest	–
Purchase price	**(2)**
Net cash outflow for acquisitions	**(2)**

Adjustment of purchase price allocation in the previous year

The global purchase price allocation for the consumer care business of Merck & Co., Inc., United States, which was acquired in 2014, was completed in September 2015. For the first quarter of 2015, this resulted in an increase in deferred tax assets of €957 million and a corresponding decrease in goodwill of €926 million in the statement of financial position. In the income statements, income after income taxes increased by €31 million. For the first quarter of 2015, this adjustment led to an increase of €0.04 in earnings per share for continuing operations, to €1.56.

Divestitures and discontinued operations

The sale of the Diabetes Care business to Panasonic Healthcare Holdings Co., Ltd., Tokyo, Japan, for around €1 billion was completed on January 4, 2016. The transaction 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 effect of this divestiture in the first quarter of 2016 is shown in the table:

Divestitures — Table 34

€ million	Q1 2016
Assets held for sale	183
Liabilities directly related to assets held for sale	(112)
Divested net assets	**71**

The sale of the Diabetes Care business also comprises further significant obligations by Bayer that will be fulfilled over a two-year period subsequent to the date of divestiture. The sale proceeds will be recognized accordingly over a two-year period and reported as income from discontinued operations. Deferred income has been recognized in the statements of financial position and will be dissolved as the obligations are fulfilled. An amount of €125 million was recognized in sales in the first quarter of 2016. The €71 million outflow of net assets is shown in the cost of goods sold.

The obligations to be fulfilled over the next two years in connection with the divestiture of the Diabetes Care business are also reported as discontinued operations in the income statements and statements of cash flows. They resulted in sales of €24 million in the first quarter of 2016. This information is provided from the standpoint of the Bayer Group and does not present these activities as a separate entity, which means it is not possible to compare these sales against the proceeds from operational product sales achieved in the first quarter of 2015.

The items in the statements of financial position pertaining to the Diabetes Care business are shown in the segment reporting under other segments. In addition to the aforementioned deferred income (€833 million), the statements of financial position include other receivables (net: €64 million), deferred tax assets (net: €89 million) and income tax liabilities (€20 million).

The income statements for the discontinued operation are given below:

Income Statements for Discontinued Operations Table 35

€ million	Q1 2015	Q1 2016
Net sales	**238**	**149**
Cost of goods sold	(90)	(96)
Gross profit	**148**	**53**
Selling expenses	(85)	(3)
Research and development expenses	(10)	(2)
General administration expenses	(12)	(7)
Other operating income / expenses	13	2
EBIT [1]	**54**	**43**
Financial result	**–**	**–**
Income before income taxes	**54**	**43**
Income taxes	(9)	(4)
Income after income taxes	**45**	**39**

[1] EBIT = earnings before financial result and taxes

The discontinued operation affected the Bayer Group statements of cash flows as follows:

Cash Flows of Discontinued Operations Table 36

€ million	Q1 2015	Q1 2016
Net cash provided by (used in) operating activities (net cash flow)	47	819
Net cash provided by (used in) investing activities	–	–
Net cash provided by (used in) financing activities	(47)	(819)
Change in cash and cash equivalents	**–**	**–**

Financial instruments

Carrying Amounts and Fair Values of Financial Instruments

Table 37

	March 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 unobserv- able 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	11,554					11,554
Loans and receivables	11,554					11,554
Other financial assets	190	252	421	835		1,698
Loans and receivables	77		[70]	[16]		77
Available-for-sale financial assets	37	252		822		1,111
Held-to-maturity financial assets	76		[80]			76
Derivatives			421	13		434
Other receivables	540			64	1,897	2,501
Loans and receivables	540		[540]			540
Available-for-sale financial assets				64		64
Nonfinancial assets					1,897	1,897
Cash and cash equivalents	3,552					3,552
Loans and receivables	3,552		[3,552]			3,552
Total financial assets	**15,836**	**252**	**421**	**899**		**17,408**
of which loans and receivables	15,723					15,723
of which available-for-sale financial assets	37	252		886		1,175
Financial liabilities	19,661		649			20,310
Carried at amortized cost	19,661	[16,482]	[3,938]			19,661
Derivatives			649			649
Trade accounts payable	4,897				80	4,977
Carried at amortized cost	4,897					4,897
Nonfinancial liabilities					80	80
Other liabilities	849		122	44	2,609	3,624
Carried at amortized cost	849		[849]			849
Carried at fair value (nonderivative)				37		37
Derivatives			122	7		129
Nonfinancial liabilities					2,609	2,609
Total financial liabilities	**25,407**		**771**	**44**		**26,222**
of which carried at amortized cost	25,407					25,407
of which derivatives			771	7		778

[1] The exemption provisions under IFRS 7.29a were applied for information on specific fair values.

Carrying Amounts and Fair Values of Financial Instruments

Table 38

						Dec. 31, 2015
	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 unobserv-able 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	9,933					9,933
Loans and receivables	9,933					9,933
Other financial assets	185	363	509	791		1,848
Loans and receivables	72		[64]	[18]		72
Available-for-sale financial assets	40	363		774		1,177
Held-to-maturity financial assets	73		[74]			73
Derivatives			509	17		526
Other receivables	506			59	1,882	2,447
Loans and receivables	506		[506]			506
Available-for-sale financial assets				59		59
Nonfinancial assets					1,882	1,882
Cash and cash equivalents	1,859					1,859
Loans and receivables	1,859		[1,859]			1,859
Total financial assets	**12,483**	**363**	**509**	**850**		**14,205**
of which loans and receivables	12,370					12,370
of which available-for-sale financial assets	40	363		833		1,236
Financial liabilities	19,169		765			19,934
Carried at amortized cost	19,169	[15,440]	[4,121]			19,169
Derivatives			765			765
Trade accounts payable	5,680				265	5,945
Carried at amortized cost	5,680					5,680
Nonfinancial liabilities					265	265
Other liabilities	606		117	45	1,831	2,599
Carried at amortized cost	606		[606]			606
Carried at fair value (nonderivative)				37		37
Derivatives			117	8		125
Nonfinancial liabilities					1,831	1,831
Total financial liabilities	**25,455**		**882**	**45**		**26,382**
of which carried at amortized cost	25,455					25,455
of which derivatives			882	8		890

[1] The exemption provisions under IFRS 7.29a were applied for information on specific fair values.

The tables on the preceding page show the carrying amounts and fair values of financial assets and liabilities by category of financial instrument and a reconciliation to the corresponding line item in the statements of financial position. Since the line items “Other receivables,” “Trade accounts payable” and “Other liabilities” contain both financial instruments and non-financial 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 “Non-financial 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 did not significantly differ from the fair values.

The fair values of loans and receivables, held-to-maturity financial investments and financial liabilities carried at amortized cost that are given for information are the present values of the respective future cash flows. The present values were 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 was available, however, this was deemed to be the fair value.

The fair values of available-for-sale financial assets correspond to quoted prices in active markets (Level 1) or are measured as the present value of the respective future cash flows using unobservable inputs (Level 3).

The fair values of derivatives for which no publicly quoted prices existed in active markets (Level 1) were 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 were determined to allow for the contracting party’s credit risk.

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

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

Embedded derivatives are separated from their respective host contracts, which are generally sales or purchase agreements relating to the operational business, and cause the cash flows from the contracts to vary with fluctuations in exchange rates or prices, for example. 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 amount of financial assets and liabilities recognized at fair value based on unobservable inputs (Level 3) for each individual financial instrument category were as follows:

Changes in the Amount of Financial Assets and Liabilities Recognized at Fair Value Based on Unobservable Inputs Table 39

	2016			
€ million	**Available-for-sale financial assets**	**Derivatives (net)**	**Liabilites carried at fair value (non-derivative)**	**Total**
Carrying amounts of net assets (net liabilities), Jan. 1	**833**	**9**	**(37)**	**805**
Gains (losses) recognized in profit or loss	5	(3)	–	2
of which related to assets / liabilities recognized in the statements of financial position	5	(3)	–	2
Gains (losses) recognized outside profit or loss	13	–	–	13
Additions of assets (liabilities)	35	–	–	35
Settlements of (assets) liabilities	–	–	–	–
Carrying amounts of net assets (net liabilities), March 31	**886**	**6**	**(37)**	**855**

Changes recognized in profit or loss were included in other operating income or expenses and in interest income.

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 2015, which can be downloaded free of charge at www.bayer.com. Since the Bayer Annual Report 2015, the following significant changes have occurred in respect of the legal risks:

Pharmaceuticals

Yasmin™ / YAZ™: As of April 15, 2016, the number of claimants in the pending lawsuits and claims in the United States totaled about 1,800 (excluding claims already settled). Claimants allege that users have suffered personal injuries, some of them fatal, from the use of Bayer's drospirenone-containing oral contraceptive products such as Yasmin™ and / or YAZ™ or from the use of Ocella™ and / or Gianvi™, generic versions of Yasmin™ and YAZ™, respectively, marketed by Barr Laboratories, Inc. in the United States.

As of April 15, 2016, Bayer had reached agreements, without admission of liability, to settle approximately 10,400 claims in the United States for venous clot injuries (primarily deep vein thrombosis or pulmonary embolism) for a total amount of about U.S. $2.06 billion. Bayer will continue to consider the option of settling such claims after a case-specific analysis of medical records. At present, about 200 such claims are under review.

In August 2015, Bayer reached an agreement to settle, without admission of liability, lawsuits and claims in which plaintiffs allege an arterial thromboembolic injury (primarily strokes and heart attacks) for a total maximum aggregate amount of U.S. $56.9 million. The participation thresholds have been met (97.5% of those who are eligible, and 96% of those who are eligible and allege death or catastrophic injuries). Thus, the settlement will go forward. As of April 15, 2016, about 1,160 of the 1,800 above-mentioned claimants alleged arterial thromboembolic injuries.

Xarelto™: As of April 15, 2016, U.S. lawsuits from approximately 6,000 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 15, 2016, ten Canadian lawsuits relating to Xarelto™ seeking class action certification had been served upon Bayer.

Betaferon™ / Betaseron™: Since 2010, Bayer and Biogen Idec have been litigating in U.S. federal court about the validity of a Biogen patent and its alleged infringement by the production and distribution of Betaseron™, Bayer's drug product for the treatment of multiple sclerosis. In March 2016, the U.S. federal court decided a disputed issue regarding the scope of the patent in Biogen's favor. Bayer disagrees with the decision, which may be appealed at the conclusion of the proceedings in the U.S. federal court. This development does not change Bayer's belief that it has meritorious defenses in this dispute and that it will continue to defend itself vigorously.

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 have a significant influence. They include, in particular, non-consolidated subsidiaries, joint ventures, associates, 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 to the value of €0.1 billion were procured from the associated company PO JV, LP, Wilmington, Delaware, United States, mainly in the course of normal business operations. There was no significant change in receivables vis-à-vis related parties compared with December 31, 2015. Payables increased by €0.2 billion, primarily vis-à-vis the newly established joint venture with CRISPR Therapeutics AG, Basel, Switzerland.

Events After the End of the Reporting Period

Increasing the plan assets of Bayer Pension Trust e.V.

On April 19, 2016, Bayer AG increased the coverage of Bayer Pension Trust e.V. with the deposit of 10 million of the shares it held in Covestro AG. The number of shares deposited amounted to 4.9% of the shares outstanding.

Repayment of financial liabilities

On April 4, 2016, Bayer Nordic SE repaid on schedule a bond with a nominal volume of €200 million.

Patent term extension for rivaroxaban

In April 2016, the U.S. Patent and Trademark Office granted a patent term extension for rivaroxaban (the active pharmaceutical ingredient of Xarelto™). The patent protection of the active ingredient in the United States now expires in 2024.

Leverkusen, April 22, 2016
Bayer Aktiengesellschaft

The Board of Management

Dr. Marijn Dekkers

Werner Baumann   Liam Condon   Johannes Dietsch   Dr. Hartmut Klusik

Kemal Malik   Erica Mann   Dieter Weinand

Financial Calendar

Annual Stockholders' Meeting 2016	**April 29, 2016**
Planned dividend payment date	**May 2, 2016**
Q2 2016 Interim Report	**July 27, 2016**
Q3 2016 Interim Report	**October 26, 2016**
Annual Report 2016	**February 22, 2017**
Q1 2017 Interim Report	**April 27, 2017**
Annual Stockholders' Meeting 2017	**April 28, 2017**

Masthead

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This Interim Report may contain forward-looking statements based on current assumptions and forecasts made by Bayer Group management. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. These factors include those discussed in Bayer's public reports, which are available on the Bayer website at www.bayer.com. The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

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