Q1

Interim Report First Quarter of 2018

Science for a **better life**

Bayer Group Key Data

€ million	Q1 2017	Q1 2018	Change %	Full Year 2017
Sales	**9,680**	**9,138**	**−5.6**	**35,015**
Change (adjusted for currency and portfolio effects)[1]			+2.0	+1.5%
Change in sales[1]				
Volume	+4.5%	+3.2%		+2.3%
Price	+0.4%	−1.2%		−0.8%
Currency	+2.5%	−7.5%		−1.4%
Portfolio	+0.1%	−0.1%		+0.1%
EBITDA[1]	**2,999**	**2,818**	**−6.0**	**8,563**
Special items[1]	(55)	(78)		(725)
EBITDA before special items[1]	**3,054**	**2,896**	**−5.2**	**9,288**
EBITDA margin before special items[1]	31.5%	31.7%		26.5%
EBIT[1]	**2,427**	**2,310**	**−4.8**	**5,903**
Special items[1]	(102)	(78)		(1,227)
EBIT before special items[1]	**2,529**	**2,388**	**−5.6**	**7,130**
Financial result	**(296)**	**130**	**.**	**(1,326)**
Net income (from continuing and discontinued operations)	**2,083**	**1,954**	**−6.2**	**7,336**
Earnings per share[1] from continuing and discontinued operations (€)	2.39	2.24	−6.3	8.41
Core earnings per share[1] from continuing operations (€)	2.31	2.28	−1.3	6.74
Net cash provided by operating activities (from continuing and discontinued operations)	**841**	**658**	**−21.8**	**8,134**
Cash outflows for capital expenditures	**415**	**349**	**−15.9**	**2,418**
Research and development expenses	**(1,094)**	**(1,040)**	**−4.9**	**4,504**
Depreciation, amortization and impairments	**572**	**508**	**−11.2**	**2,660**
Number of employees at end of period[2]	**99,860**	**100,110**	**+0.3**	**99,820**
Personnel expenses (including pension expenses)	2,636	2,438	−7.5	9,528

2017 figures restated

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

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

Contents

Reporting Principles

The Bayer Interim Report is a quarterly financial report that includes an interim group management report and condensed consolidated interim financial statements and satisfies the requirements of Section 115, Paragraph 2, Nos. 1 and 2, Paragraph 3 and Paragraph 4 of the German Securities Trading Act (WpHG). Bayer has prepared the condensed consolidated interim financial statements according to the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union (E.U.). The interim group management report should be read in conjunction with our Annual Report 2017, which contains a detailed description of our business operations.

First quarter of 2018

Bayer: Operational business held back by currency effects / Major progress with Monsanto acquisition

- // Group sales €9.1 billion (Fx & portfolio adj. +2.0%)
- // EBITDA before special items down year on year at €2.9 billion due to currency effects (Fx adj. level with prior-year quarter)
- // Sales increase at Pharmaceuticals (Fx & portfolio adj.)
- // Consumer Health down year on year, as expected
- // Sales of Crop Science match strong prior-year quarter (Fx & portfolio adj.)
- // Animal Health raises sales (Fx & portfolio adj.) and earnings
- // Net income €2.0 billion (–6.2%)
- // Core earnings per share €2.28 (–1.3%)
- // European Commission and additional regulators conditionally approve Monsanto acquisition
- // Currency-adjusted Group outlook for 2018 confirmed

Interim Group Management Report as of March 31, 2018

Economic Position of the Bayer Group

Sales of the Bayer Group increased by 2.0% (Fx & portfolio adj.) to €9.1 billion in the first quarter of 2018. Group EBITDA before special items declined by 5.2% to €2.9 billion. Negative currency effects of around €160 million had a particularly significant impact.

Pharmaceuticals registered an increase in sales that was driven primarily by the continued strong development of our key growth products overall. EBITDA before special items declined, however. Business at Consumer Health receded as expected, particularly in Asia / Pacific. Sales of Crop Science matched the strong level of the prior-year quarter, while EBITDA before special items declined. Animal Health increased sales and earnings.

Key Events

The European Commission conditionally approved Bayer's planned acquisition of Monsanto on March 21, 2018. The conditions cover in particular the divestment of certain Bayer businesses. BASF is the intended purchaser of these assets. Bayer expects the transaction to close in the second quarter of 2018.

In April 2018, the investment company Temasek, Singapore, subscribed to 31 million new shares of Bayer, corresponding to around 3.6% of the increased capital stock, for total gross proceeds of €3 billion.

Changes to the Corporate Structure

In connection with the planned acquisition of Monsanto and in preparation for the future combined business, the structure of the Crop Science segment was adjusted as of January 1, 2018, in line with the internal financial reporting system. In the new structure, all the strategic business entities are organizationally located directly below the Crop Science segment.

1. Overview of Sales, Earnings and Financial Position

1.1 Earnings Performance of the Bayer Group[1]

First quarter of 2018

Group sales

Group sales in the first quarter of 2018 rose by 2.0% (Fx & portfolio adj.) to €9,138 million (reported: – 5.6%). Germany accounted for €1,040 million of this figure.

Sales of Pharmaceuticals advanced by 2.9% (Fx & portfolio adj.) to €4,075 million. At Consumer Health, sales declined by 2.2% (Fx & portfolio adj.) to €1,409 million. Sales of Crop Science, at €2,861 million (Fx & portfolio adj. – 1.0%), matched the level of the strong prior-year quarter, while business at Animal Health expanded by 3.0% (Fx & portfolio adj.) to €414 million.

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

EBITDA before special items

Group EBITDA before special items was down by 5.2%, at €2,896 million. Negative currency effects held back earnings by around €160 million. EBITDA before special items at Pharmaceuticals declined by 5.8% to €1,415 million. At Consumer Health, EBITDA before special items was significantly lower year on year, at €313 million (–20.2%). EBITDA before special items at Crop Science declined by 6.5% to €1,042 million, while EBITDA before special items at Animal Health rose by 3.0% to €139 million.

Depreciation and amortization

Depreciation, amortization and impairment losses declined by 11.2% to €508 million in the first quarter of 2018 (Q1 2017: €572 million), in part due to currency effects. This figure comprised €297 million (Q1 2017: €342 million) in amortization and impairments on intangible assets and €211 million (Q1 2017: €230 million) in depreciation and impairments on property, plant and equipment. Impairment losses amounted to €21 million (Q1 2017: €47 million). In the prior-year quarter, impairment losses on intangible assets had included an effect from the discontinuation of the Phase II trial with our cooperation partner Regeneron Pharmaceuticals, Inc.

EBIT and special items

EBIT of the Bayer Group declined by 4.8% to €2,310 million (Q1 2017: €2,427 million), after special charges of €78 million (Q1 2017: €102 million). The special charges consisted primarily of expenses of €61 million in connection with the planned acquisition of Monsanto and of €13 million resulting from efficiency improvement programs. EBIT before special items declined by 5.6% to €2,388 million (Q1 2017: €2,529 million).

In the first quarter of 2018, the following special effects were taken into account in calculating EBIT and EBITDA:

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Special Items Reconciliation by Segment[1]

€ million	EBIT Q1 2017	EBIT Q1 2018	EBITDA Q1 2017	EBITDA Q1 2018
Before special items	**2,529**	**2,388**	**3,054**	**2,896**
Pharmaceuticals	**(36)**	**(1)**	**(3)**	**(1)**
Consumer Health	**(9)**	**(5)**	**(8)**	**(5)**
Crop Science	**(37)**	**(61)**	**(24)**	**(61)**
Animal Health	**–**	**–**	**–**	**–**
Reconciliation	**(20)**	**(11)**	**(20)**	**(11)**
Restructuring	(15)	(5)	(15)	(5)
Litigations/legal risks	(5)	(3)	(5)	(3)
Acquisition costs	–	(3)	–	(3)
Total special items	**(102)**	**(78)**	**(55)**	**(78)**
Impairment losses/reversals	(33)	–	–	–
Litigations/legal risks	(5)	(4)	(5)	(4)
Acquisition costs	(21)	(61)	(21)	(61)
Restructuring	(43)	(13)	(29)	(13)
After special items	**2,427**	**2,310**	**2,999**	**2,818**

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

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Special Items Reconciliation by Functional Costs[1]

€ million	EBIT Q1 2017	EBIT Q1 2018	EBITDA Q1 2017	EBITDA Q1 2018
Total special items	**(102)**	**(78)**	**(55)**	**(78)**
of which cost of goods sold	(25)	(10)	(11)	(10)
of which selling expenses	(1)	(2)	(1)	(2)
of which research and development expenses	(36)	(3)	(3)	(3)
of which general administration expenses	(35)	(58)	(35)	(58)
of which other operating income/expenses	(5)	(5)	(5)	(5)

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

Income after income taxes from discontinued operations

Income after income taxes from discontinued operations declined to €8 million (Q1 2017: €564 million) due to the deconsolidation of Covestro in the third quarter of 2017.

Net income

Including a financial result of €130 million (Q1 2017: minus €296 million), income before income taxes was €2,440 million (Q1 2017: €2,131 million). The financial result included a gain of €275 million from the sale of Covestro shares at the beginning of the year and pro-rata income of €80 million from the interest in Covestro accounted for using the equity method. The financial result included €236 million in positive special items (Q1 2017: €35 million in negative special items), primarily in connection with the aforementioned gain from the sale of Covestro shares, which was partially offset by special charges in connection with the planned acquisition of Monsanto.

After income tax expense of €494 million (Q1 2017: €424 million) and adjusting for income from discontinued operations after income taxes and noncontrolling interest, net income for the first quarter of 2018 amounted to €1,954 million (Q1 2017: €2,083 million).

Core earnings per share

Earnings per share (total) declined by 6.3% to €2.24 in the first quarter of 2018 (Q1 2017: €2.39), while core earnings per share from continuing operations decreased by 1.3% to €2.28 (Q1 2017: €2.31).

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Core Earnings per Share[1]

€ million	Q1 2017	Q1 2018
EBIT (as per income statements)	**2,427**	**2,310**
Amortization and impairment losses/loss reversals on intangible assets	342	297
Impairment losses/loss reversals on property, plant and equipment, and accelerated depreciation included in special items	13	7
Special items (other than accelerated depreciation, amortization and impairment losses/loss reversals)	55	78
Core EBIT	**2,837**	**2,692**
Financial result (as per income statements)	(296)	130
Special items in the financial result	35	(236)
Income taxes (as per income statements)	(424)	(494)
Special items in income taxes	–	–
Tax effects related to amortization, impairment losses/loss reversals and special items	(138)	(107)
Income after income taxes attributable to noncontrolling interest (as per income statements)	2	–
Above-mentioned adjustments attributable to noncontrolling interest	–	–
Core net income from continuing operations	**2,016**	**1,985**
Shares		
Weighted average number of shares	**871,387,808**	**872,467,808**
€		
Core earnings per share from continuing operations	**2.31**	**2.28**

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

Personnel expenses and employee numbers

Personnel expenses decreased by 7.5% and totaled €2,438 million (Q1 2017: €2,636 million), in part due to currency effects. As of the closing date, the number of employees in the Bayer Group was largely unchanged year on year, at 100,110 (March 31, 2017: 99,860; +0.3%).

1.2 Business Development by Segment

Pharmaceuticals

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Key Data – Pharmaceuticals

€ million	Q1 2017	Q1 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Sales	**4,263**	**4,075**	**– 4.4**	**+ 2.9**
Change in sales[1]				
Volume	+ 7.8%	+ 5.7%		
Price	– 0.4%	– 2.8%		
Currency	+ 2.2%	– 7.1%		
Portfolio	0.0%	– 0.2%		
			Reported	Fx adj.
Sales by region				
Europe/Middle East/Africa	1,606	1,611	+ 0.3	+ 2.6
North America	1,073	923	– 14.0	– 3.0
Asia/Pacific	1,312	1,303	– 0.7	+ 7.7
Latin America	272	238	– 12.5	+ 2.6
EBITDA[1]	**1,499**	**1,414**	**– 5.7**	
Special items[1]	(3)	(1)		
EBITDA before special items[1]	**1,502**	**1,415**	**– 5.8**	
EBITDA margin before special items[1]	35.2%	34.7%		
EBIT[1]	**1,219**	**1,163**	**– 4.6**	
Special items[1]	(36)	(1)		
EBIT before special items[1]	**1,255**	**1,164**	**– 7.3**	
Net cash provided by operating activities	**973**	**1,232**	**+ 26.6**	

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

First quarter of 2018

Sales

Sales of Pharmaceuticals increased by 2.9% (Fx & portfolio adj.) to €4,075 million in the first quarter of 2018. Our key growth products Xarelto™, Eylea™, Xofigo™, Stivarga™ and Adempas™ once again delivered strong performance overall, with their combined sales rising by 14.1% (Fx adj.) to €1,561 million (Q1 2017: €1,445 million). Combined sales of the 15 best-selling Pharmaceuticals products advanced by 5.8% (Fx adj.). We registered a noticeable decline in sales of Kogenate™ that resulted from the termination of an agreement with a distribution partner at the end of 2017. After adjusting for this effect, sales of Pharmaceuticals rose by 4.6% (Fx & portfolio adj.). In addition, temporary supply disruptions for some of our established products had a negative impact on sales, as expected.

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Best-Selling Pharmaceuticals Products

€ million	Q1 2017	Q1 2018	Change %[1] Reported	Change %[1] Fx adj.
Xarelto™	751	814	+ 8.4	+ 13.0
of which U.S.A.[2]	86	83	– 3.5	– 2.7
Eylea™	446	504	+ 13.0	+ 19.2
of which U.S.A.[3]	0	0	.	.
Xofigo™	100	92	– 8.0	+ 2.0
of which U.S.A.	62	51	– 17.7	– 3.9
Adempas™	73	81	+ 11.0	+ 21.2
of which U.S.A.	38	37	– 2.6	+ 14.8
Stivarga™	75	70	– 6.7	+ 3.3
of which U.S.A.	39	29	– 25.6	– 12.3
Subtotal key growth products	**1,445**	**1,561**	**+ 8.0**	**+ 14.1**
Mirena™ product family	315	317	+ 0.6	+ 13.4
of which U.S.A.	219	224	+ 2.3	+ 18.2
Kogenate™/Kovaltry™	275	214	– 22.2	– 15.9
of which U.S.A.	94	80	– 14.9	– 1.5
Adalat™	174	176	+ 1.1	+ 9.0
of which U.S.A.	0	0	.	.
Glucobay™	158	168	+ 6.3	+ 13.7
of which U.S.A.	1	0	.	.
Nexavar™	207	162	– 21.7	– 14.3
of which U.S.A.	75	43	– 42.7	– 34.0
YAZ™/Yasmin™/Yasminelle™	170	152	– 10.6	– 1.8
of which U.S.A.	20	15	– 25.0	– 13.3
Aspirin™ Cardio	157	148	– 5.7	+ 1.1
of which U.S.A.	0	0	.	.
Betaferon™/Betaseron™	171	130	– 24.0	– 16.5
of which U.S.A.	94	58	– 38.3	– 28.8
Avalox™/Avelox™	100	97	– 3.0	+ 3.6
of which U.S.A.	3	3	.	.
Gadavist™/Gadovist™	89	87	– 2.2	+ 4.7
of which U.S.A.	27	25	– 7.4	+ 6.9
Total best-selling products	**3,261**	**3,212**	**– 1.5**	**+ 5.8**
Proportion of Pharmaceuticals sales	76%	79%		
Total best-selling products in U.S.A.	**758**	**648**	**– 14.5**	**– 3.4**

Fx adj. = currency-adjusted
[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”
[2] Marketing rights owned by a subsidiary of Johnson & Johnson, U.S.A.; transactional effects had a negative impact of €12 million.
[3] Marketing rights owned by Regeneron Pharmaceuticals Inc., U.S.A.

Sales by product

- Sales of our oral anticoagulant **Xarelto™** increased markedly again, due particularly to expanded volumes in Europe and Asia/Pacific. Our license revenues – recognized as sales – in the United States, where Xarelto™ is marketed by a subsidiary of Johnson & Johnson, were down year on year.
- Business with our eye medicine **Eylea™** expanded strongly, primarily due to higher volumes in Europe.
- We registered a slight increase in sales of our cancer drug **Xofigo™**. Higher demand in Japan and Europe more than offset the decline in the United States.
- Sales of our pulmonary hypertension treatment **Adempas™** rose strongly due primarily to positive development in the United States and Europe and, as in the past, reflected the proportionate recognition of the upfront and milestone payments resulting from the sGC collaboration with Merck & Co., United States.
- We posted growth in sales of our cancer drug **Stivarga™** that was attributable to expanded volumes in Japan and China, where we benefited from the market launches in previous years. By contrast, sales declined significantly in the United States as a result of competitive pressure.

- Sales of the hormone-releasing intrauterine devices of the **Mirena™** product family (Mirena™, Kyleena™ and Jaydess™/Skyla™) rose considerably, especially in the United States, where the successful launch of Kyleena™ continued to have a positive impact.
- Business with our **Kogenate™/Kovaltry™** blood-clotting medicines was negatively impacted by the termination of an agreement with a distribution partner at the end of 2017. Adjusted for this effect, sales climbed 11.1% (Fx adj.).
- The marked rise in sales of our diabetes treatment **Glucobay™** and of **Adalat™**, our product for the treatment of hypertension and coronary heart disease, was mainly attributable to the expansion of volumes in China.
- We registered a significant decline in sales of our cancer drug **Nexavar™** that was mainly the result of lower demand in the United States.
- Sales of our **YAZ™/Yasmin™/Yasminelle™** line of oral contraceptives moved back, due chiefly to generic competition in Europe and the United States. Business developed positively in Japan and China.
- We posted a slight increase in sales of our **Aspirin™ Cardio** product for the secondary prevention of heart attacks, primarily due to the continuation of our good business performance in China. Slightly lower volumes in Europe had an opposing effect.
- Business with our multiple sclerosis product **Betaferon™/Betaseron™** moved back significantly, as expected. This was mainly due to the highly competitive market environment in the United States.
- We posted an increase in sales of our antibiotic **Avalox™/Avelox™** that resulted particularly from the good development of business in China.
- Sales of our MRI contrast agent **Gadavist/Gadovist™** rose, especially in the United States.

Earnings

EBITDA before special items of Pharmaceuticals declined by 5.8% to €1,415 million in the first quarter of 2018 (Q1 2017: €1,502 million). Adjusted for negative currency effects in the amount of €69 million, earnings were down by 1.2%. This decline was driven by a higher cost of goods sold, primarily due to higher project costs in connection with capital expenditures for production facilities, as well as an increase in research and development expenses and higher selling expenses. By contrast, positive earnings contributions primarily came from a significant expansion of volumes, particularly for our key growth products.

EBIT decreased by 4.6% to €1,163 million, after special charges of €1 million (Q1 2017: €36 million).

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Special Items[1] Pharmaceuticals

€ million	EBIT Q1 2017	EBIT Q1 2018	EBITDA Q1 2017	EBITDA Q1 2018
Restructuring	(3)	(1)	(3)	(1)
Impairment losses/reversals	(33)	–	–	–
Total special items	**(36)**	**(1)**	**(3)**	**(1)**

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

Consumer Health

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Key Data – Consumer Health

€ million	Q1 2017	Q1 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Sales	**1,601**	**1,409**	**–12.0**	**–2.2**
Changes in sales[1]				
Volume	+0.3%	–3.3%		
Price	+2.3%	+1.1%		
Currency	+2.7%	–9.8%		
Portfolio	0.0%	0.0%		
			Reported	Fx adj.
Sales by region				
Europe/Middle East/Africa	538	496	–7.8	–3.5
North America	701	596	–15.0	–2.1
Asia/Pacific	220	177	–19.5	–12.3
Latin America	142	140	–1.4	+16.9
EBITDA[1]	**384**	**308**	**–19.8**	
Special items[1]	(8)	(5)		
EBITDA before special items[1]	**392**	**313**	**–20.2**	
EBITDA margin before special items[1]	24.5%	22.2%		
EBIT[1]	**278**	**211**	**–24.1**	
Special items[1]	(9)	(5)		
EBIT before special items[1]	**287**	**216**	**–24.7**	
Net cash provided by operating activities	**265**	**173**	**–34.7**	

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

First quarter of 2018

Sales

Sales of Consumer Health declined by 2.2% (Fx & portfolio adj.) in the first quarter of 2018 to €1,409 million. This development was driven by the sharp decline in Asia/Pacific that resulted mainly from the reclassification of two of our medicated skin care brands from OTC to prescription by the Chinese authorities in the fall of 2017. Sales also developed negatively in North America and in Europe/Middle East/Africa. In Latin America, by contrast, we posted encouraging sales gains on a currency-adjusted basis.

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Best-Selling Consumer Health Products

€ million	Q1 2017	Q1 2018	Change %[1] Reported	Change %[1] Fx adj.
Claritin™	190	167	–12.1	–0.2
Aspirin™	117	109	–6.8	+3.1
Bepanthen™/Bepanthol™	95	100	+5.3	+10.7
Coppertone™	102	86	–15.7	–3.4
Aleve™	82	72	–12.2	+1.1
Canesten™	70	52	–25.7	–21.2
Alka-Seltzer™ product family	70	52	–25.7	–14.5
Elevit™	52	50	–3.8	+6.1
Dr Scholl’s™[2]	41	49	19.5	+34.8
One A Day™	55	46	–16.4	–3.0
Total	**874**	**783**	**–10.4**	**+0.2**
Proportion of Consumer Health sales	55%	56%		

Fx adj. = currency-adjusted
[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”
[2] Trademark rights and distribution only in certain countries outside the European Union

Sales by product

- // Sales of our antihistamine **Claritin™** came in at the prior-year level after adjusting for currency effects. Growth in China offset declines in Japan that arose from intense competitive pressure, as well as negative effects resulting from a slow start to the allergy season in the United States.
- // Sales of our analgesic **Aspirin™** increased, thanks mainly to gains in Latin America. Including business with Aspirin™ Cardio, which is reported under Pharmaceuticals, sales amounted to €257 million (Q1 2017: €274 million), representing currency-adjusted growth of 2.0%.
- // Business with our **Bepanthen™/Bepanthol™** wound and skin care products developed positively, especially in Brazil and Europe.
- // Sales of our sunscreen product **Coppertone™** declined due to a weaker season, particularly in the United States.
- // We registered slightly higher sales of our analgesic **Aleve™** compared with a weak prior-year quarter, primarily in Brazil and the United States.
- // Business with our **Canesten™** skin and intimate health products receded considerably, due chiefly to anticipated temporary supply disruptions.
- // We registered a noticeable decline in sales of our **Alka-Seltzer™** product family to treat gastric complaints and cold symptoms, due in part to intense competitive pressure.
- // Sales of our prenatal vitamin **Elevit™** continued to expand thanks mainly to good demand in Europe.
- // Our **Dr. Scholl's™** foot care products posted strong sales gains that were attributable particularly to the inventory reduction undertaken in the prior-year quarter in preparation for the repositioning of the brand.
- // Business with our **One A Day™** vitamin product in the United States declined against the prior-year quarter, in which we had benefited from a product line extension.

Earnings

EBITDA before special items of Consumer Health declined by a substantial 20.2% to €313 million in the first quarter of 2018 (Q1 2017: €392 million). Adjusted for negative currency effects in the amount of €34 million, earnings were down by 11.5%. This decline was driven by lower volumes that chiefly resulted from anticipated temporary supply disruptions and the reclassification of two of our brands in China. In the prior-year quarter, earnings had included one-time gains of €34 million. Positive earnings contributions in the first quarter of 2018 predominantly came from a lower cost of goods sold.

EBIT declined by 24.1% to €211 million, after net special charges of €5 million (Q1 2017: €9 million) resulting from efficiency improvement measures.

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Special Items[1] Consumer Health

€ million	EBIT Q1 2017	EBIT Q1 2018	EBITDA Q1 2017	EBITDA Q1 2018
Restructuring	(9)	(5)	(8)	(5)
Total special items	**(9)**	**(5)**	**(8)**	**(5)**

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

Crop Science

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Key Data – Crop Science

€ million	Q1 2017	Q1 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Sales	**3,120**	**2,861**	**–8.3**	**–1.0**
Change in sales[1]				
Volume	+3.4%	–0.6%		
Price	–0.2%	–0.4%		
Currency	+3.1%	–7.3%		
Portfolio	0.0%	0.0%		
			Reported	Fx adj.
Sales by region				
Europe/Middle East/Africa	1,462	1,294	–11.5	–8.8
North America	1,042	969	–7.0	+4.5
Asia/Pacific	366	368	+0.5	+10.4
Latin America	250	230	–8.0	+4.8
EBITDA[1]	**1,091**	**981**	**–10.1**	
Special items[1]	(24)	(61)		
EBITDA before special items[1]	**1,115**	**1,042**	**–6.5**	
EBITDA margin before special items[1]	35.7%	36.4%		
EBIT[1]	**970**	**892**	**–8.0**	
Special items[1]	(37)	(61)		
EBIT before special items[1]	**1,007**	**953**	**–5.4**	
Net cash used in operating activities	**(679)**	**(703)**	**–3.5**	

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

First quarter of 2018

Sales

In the first quarter of 2018, Crop Science posted sales of €2,861 million (Fx & portfolio adj. –1.0%), which was level with the strong prior-year quarter. Sales declines in Europe/Middle East/Africa were nearly offset by gains in North America, Asia/Pacific and Latin America.

A 11

Sales by Business Unit

€ million	Q1 2017	Q1 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Crop Science	**3,120**	**2,861**	**–8.3**	**–1.0**
Herbicides	912	800	–12.3	–6.6
Fungicides	787	728	–7.5	–2.0
Insecticides	301	299	–0.7	+8.0
SeedGrowth	251	210	–16.3	–8.4
Vegetable Seeds	162	144	–11.1	–6.2
Environmental Science	147	114	–22.4	–14.3
Other (Seeds & Traits)	560	566	+1.1	+12.9

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

Sales by region

- Sales in the Europe/Middle East/Africa region fell by 8.8% (Fx adj.) to €1,294 million. We recorded lower sales at Fungicides, Herbicides and Vegetable Seeds, mainly due to the weather conditions in Europe. At Fungicides, business was also held back by a substantial market decline in France. Sales at SeedGrowth were also down year on year. In contrast, sales increased at Insecticides, but this growth was insufficient to offset the declines elsewhere.
- Sales in North America advanced by 4.5% (Fx adj.) to €969 million. The canola seed business in Canada performed very well due to increased acreages. Higher demand in Canada resulted in sales gains at Herbicides. On the other hand, there was a significant decline at Environmental Science due to lower product deliveries to the purchaser of our consumer business and at Insecticides due to lower pest pressure in the United States.
- In the Asia/Pacific region, sales increased by 10.4% (Fx adj.) to €368 million. The encouraging growth at Fungicides and Insecticides was attributable especially to advance sales in China and to high pest pressure in India. By contrast, sales were down at Herbicides.
- In Latin America, sales advanced by 4.8% (Fx adj.) to €230 million. We posted double-digit percentage growth at Fungicides after a weak prior-year quarter. In Brazil, demand for our fungicides and insecticides increased, while inventories continued to normalize. However, sales at Herbicides declined, especially in Argentina.

Earnings

EBITDA before special items of Crop Science decreased by 6.5% to €1,042 million in the first quarter of 2018 (Q1 2017: €1,115 million). Adjusted for negative currency effects in the amount of €44 million, earnings were down by 2.6%. A decline in other operating income and a higher cost of goods sold were among factors that held back earnings. Lower expenses for research and development and for general administration had an opposing effect.

EBIT declined by 8.0% to €892 million, after special charges of €61 million (Q1 2017: €37 million), primarily in connection with the planned acquisition of Monsanto.

A 12

Special Items[1] Crop Science

€ million	EBIT Q1 2017	EBIT Q1 2018	EBITDA Q1 2017	EBITDA Q1 2018
Restructuring	(16)	(2)	(3)	(2)
Litigations	–	(1)	–	(1)
Acquisition costs	(21)	(58)	(21)	(58)
Total special items	**(37)**	**(61)**	**(24)**	**(61)**

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

Animal Health

A 13

Key Data – Animal Health

€ million	Q1 2017	Q1 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Sales	**440**	**414**	**–5.9**	**+3.0**
Change in sales[1]				
Volume	–0.3%	+2.5%		
Price	+3.2%	+0.5%		
Currency	+3.1%	–8.9%		
Portfolio	+1.8%	0.0%		
			Reported	Fx adj.
Sales by region				
Europe/Middle East/Africa	144	136	–5.6	–4.2
North America	177	160	–9.6	+4.5
Asia/Pacific	76	77	+1.3	+11.8
Latin America	43	41	–4.7	+7.0
EBITDA[1]	**135**	**139**	**+3.0**	
Special items[1]	–	–		
EBITDA before special items[1]	**135**	**139**	**+3.0**	
EBITDA margin before special items[1]	30.7%	33.6%		
EBIT[1]	**126**	**129**	**+2.4**	
Special items[1]	–	–		
EBIT before special items[1]	**126**	**129**	**+2.4**	
Net cash provided by (used in) operating activities	**(31)**	**13**	**.**	

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

First quarter of 2018

Sales

Sales of Animal Health in the first quarter of 2018 increased by 3.0% (Fx & portfolio adj.) to €414 million. Growth was negatively impacted by amended financial reporting standards (IFRS 15), among other factors. The Asia/Pacific region developed very positively. We also expanded business in Latin and North America on a currency-adjusted basis, while sales receded in Europe/Middle East/Africa.

A 14

Best-Selling Animal Health Products

€ million	Q1 2017	Q1 2018	Change %[1] Reported	Change %[1] Fx adj.
Advantage™ product family	136	114	–16.2	–8.2
Seresto™	76	88	+15.8	+24.8
Drontal™ product family	35	31	–11.4	–4.4
Baytril™	27	25	–7.4	+2.9
Total	**274**	**258**	**–5.8**	**+2.6**
Proportion of Animal Health sales	62%	62%		

Fx adj. = currency-adjusted
[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”

Sales by product

// Business with our **Advantage™** line of flea, tick and worm control products decreased in the Europe/Middle East/Africa and North America regions due to seasonal shifts. Volumes in North America were also negatively impacted by increased competitive pressure and the related decline in demand. Growth in Asia/Pacific was not sufficient to offset this development.

- Business with our **Seresto™** flea and tick collar once again clearly expanded in all regions. This development was mainly driven by higher demand in the United States and by price and volume increases in the Europe/Middle East/Africa region.
- We registered lower volumes of our **Drontal™** line of dewormers in the Europe/Middle East/Africa region. In addition, demand in North America was below that of the strong prior-year quarter.
- There was a slight increase in sales of our **Baytril™** antibiotic. Here we benefited from positive business development in the North America, Asia/Pacific and Latin America regions.

Earnings
EBITDA before special items of Animal Health increased by 3.0% to €139 million in the first quarter of 2018 (Q1 2017: €135 million). Adjusted for negative currency effects in the amount of €10 million, earnings were up by 10.4%. Positive contributions came from lower selling expenses, while the aforementioned effect of the first-time application of IFRS 15 had a negative impact on earnings.

EBIT improved by 2.4% to €129 million. As in the prior-year quarter, it included no special items.

1.3 Asset and Financial Position of the Bayer Group

Statement of Cash Flows

A 15

Bayer Group Summary Statements of Cash Flows

€ million	Q1 2017	Q1 2018	Change %
Net cash provided by (used in) operating activities, continuing operations	**551**	**658**	**+19.4**
Net cash provided by (used in) operating activities, discontinued operations	290	–	–100.0
Net cash provided by (used in) operating activities (total)	**841**	**658**	**–21.8**
Net cash provided by (used in) investing activities (total)	**(1,136)**	**(2,058)**	**–81.2**
Net cash provided by (used in) financing activities (total)	**611**	**(581)**	**.**
Change in cash and cash equivalents due to business activities	**316**	**(1,981)**	**.**
Cash and cash equivalents at beginning of period	**1,899**	**7,436**	**.**
Change due to exchange rate movements and to changes in scope of consolidation	9	(117)	.
Cash and cash equivalents at end of period	**2,224**	**5,338**	**+140.0**

2017 figures restated

Net cash provided by operating activities

- In the first quarter of 2018, the net cash provided by operating activities (total) declined by 21.8% to €658 million. Covestro was still included in the prior-year quarter. The net cash provided by operating activities in continuing operations rose by 19.4% to €658 million due mainly to lower additions to cash tied up in working capital.

Net cash used in investing activities

- Cash outflows for property, plant and equipment and intangible assets were 15.9% lower in the first quarter of 2018 at €349 million (Q1 2017: €415 million), and included €219 million (Q1 2017: €152 million) at Pharmaceuticals, €28 million (Q1 2017: €24 million) at Consumer Health, €63 million (Q1 2017: €99 million) at Crop Science and €5 million (Q1 2017: €6 million) at Animal Health. The prior-year figures included €74 million at Covestro.
- There was a net cash inflow of €1,802 million from the sale of further Covestro shares.
- We invested €3,712 million in current financial assets (Q1 2017: €583 million).

Net cash used in financing activities

- // In the first quarter of 2018, there was a net cash outflow of €581 million for financing activities, including net loan repayments of €507 million (Q1 2017: €744 million).
- // The prior-year-quarter figure included a net inflow of €1,460 million from the sale of Covestro shares while that company remained fully consolidated.
- // Net interest payments decreased by €31 million to €74 million.

Liquid assets and net financial debt

A 16

Net Financial Debt[1]

€ million	Dec. 31, 2017	March 31, 2018	Change (%)
Bonds and notes/promissory notes	12,436	12,290	– 1.2
of which hybrid bonds[2]	4,533	4,534	.
Liabilities to banks	534	611	+ 14.4
Liabilities under finance leases	238	248	+ 4.2
Liabilities from derivatives[3]	240	199	– 17.1
Other financial liabilities	970	686	– 29.3
Receivables from derivatives[3]	(244)	(223)	– 8.6
Financial debt	**14,174**	**13,811**	**– 2.6**
Cash and cash equivalents	(7,581)	(5,332)	– 29.7
Current financial assets[4]	(2,998)	(6,829)	+ 127.8
Net financial debt	**3,595**	**1,650**	**– 54.1**

[1] For definition see Annual Report 2017, A 2.4 "Alternative Performance Measures Used by the Bayer Group."
[2] Classified as debt according to IFRS
[3] These include the market values of interest-rate and currency hedges of recorded transactions.
[4] These include short-term loans and receivables with maturities between 3 and 12 months outstanding from banks and other companies as well as financial investments in debt and equity instruments that were recorded as current on first-time recognition.

- // Net financial debt of the Bayer Group decreased to €1.7 billion between December 31, 2017, and the end of the first quarter, due mainly to cash inflows from the sale of further Covestro shares.
- // Net financial debt includes three subordinated hybrid bonds with a total volume of €4.5 billion, 50% of which is treated as equity by Moody's and S & P Global Ratings. The hybrid bonds thus have a more limited effect on the Group's rating-specific debt indicators than senior debt.
- // The other financial liabilities as of March 31, 2018, contained €528 million related to the mandatory convertible notes issued in November 2016.
- // S & P Global Ratings and Moody's give Bayer long-term issuer ratings of A– and A3, respectively. The short-term ratings are A–2 (S & P Global Ratings) and P–2 (Moody's). These investment-grade ratings demonstrate good creditworthiness. In connection with the planned acquisition of Monsanto, both rating agencies are currently reviewing the long-term issuer ratings with regard to a potential downgrade. In addition, Moody's is currently reviewing its short-term P–2 rating.

Asset and capital structure

A 17

Bayer Group Summary Statements of Financial Position

€ million	Dec. 31, 2017	March 31, 2018	Change %
Noncurrent assets	**45,014**	**42,225**	**– 6.2**
Assets held for sale	2,081	3,132	+ 50.5
Other current assets	27,992	30,037	+ 7.3
Current assets	**30,073**	**33,169**	**+ 10.3**
Total assets	**75,087**	**75,394**	**+ 0.4**
Equity	**36,861**	**38,384**	**+ 4.1**
Noncurrent liabilities	24,633	23,912	– 2.9
Liabilities directly related to assets held for sale	111	520	.
Other current liabilities	13,482	12,578	– 6.7
Current liabilities	13,593	13,098	– 3.6
Liabilities	**38,226**	**37,010**	**– 3.2**
Total equity and liabilities	**75,087**	**75,394**	**+ 0.4**

// Between December 31, 2017, and March 31, 2018, total assets increased by €0.3 billion to €75.4 billion.

// Noncurrent assets decreased by €2.8 billion to €42.2 billion. Investments accounted for using the equity method declined by €1.4 billion, largely through the sale of further Covestro shares. Total current assets increased by €3.1 billion to €33.2 billion. The assets held for sale in connection with the planned acquisition of Monsanto increased by €1.1 billion, due particularly to the planned sale of the vegetable seeds business.

// Equity rose by €1.5 billion compared with December 31, 2017, to €38.4 billion. The income after income taxes of €2.0 billion had a positive effect. Currency effects recognized outside profit and loss reduced equity by €0.4 billion. A decline of €0.2 billion came from the increase in pension provisions outside profit or loss. The equity ratio increased to 50.9% as of March 31, 2018 (March 31, 2017: 49.1%).

// Liabilities as of March 31, 2018, decreased by €1.2 billion to €37.0 billion.

2. Research, Development, Innovation

Bayer Group expenses for research and development amounted to €1,040 million in the first quarter of 2018, matching the prior-year level (Fx adj. +0.0%).

A 18

Research and Development Expenses

	R&D expenses			R&D expenses before special items		
			Change %			Change %
€ million	Q1 2017	Q1 2018	Fx adj.	Q1 2017	Q1 2018	Fx adj.
Pharmaceuticals	712	693	+ 1.8	679	693	+ 6.8
Consumer Health	59	55	+ 1.9	57	55	+ 5.4
Crop Science	283	257	– 3.7	282	254	– 4.4
Animal Health	33	30	– 3.6	33	30	– 4.2
Reconciliation	7	5	– 40.0	7	5	– 40.0
Total Group	**1,094**	**1,040**	**0.0**	**1,058**	**1,037**	**+ 3.1**

Pharmaceuticals

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

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

A 19

Research and Development Projects (Phase II)[1]

Projects	Indication
Anetumab ravtansine (mesothelin ADC)	Malignant pleural mesothelioma[2]
BAY 1128688 (AKR1C3 inhibitor)	Endometriosis
Fulacimstat (BAY 1142524, chymase inhibitor)	Heart failure
Fulacimstat (BAY 1142524, chymase inhibitor)	Chronic kidney disease
BAY 1193397 (AR alpha 2c rec ant.)	Peripheral artery disease (PAD)
BAY 1213790 (anti-FXIa antibody)	Prevention of thrombosis
BAY 2306001 (IONIS-FXIRx)	Prevention of thrombosis[3]
Neladenoson bialanate	Chronic heart failure
Nesvacumab (Ang2 antibody) + aflibercept	Serious eye diseases[4]
Radium-223 dichloride	Breast cancer with bone metastases
Radium-223 dichloride	Multiple myeloma
Riociguat	Systemic sclerosis
Vilaprisan (S-PRM)	Endometriosis

[1] As of April 5, 2018
[2] This trial did not meet its primary endpoint. However, it has not yet been terminated. Additional studies investigating anetumab ravtansine as a treatment for different forms of solid tumors are ongoing. See the Bayer Annual Report 2017 for more information.
[3] Sponsored by Ionis Pharmaceuticals, Inc.
[4] Sponsored by Regeneron Pharmaceuticals, Inc.
The nature of drug discovery and development is such that not all compounds can be expected to meet the predefined project goals. It is possible that any or all of the projects listed above may have to be discontinued due to scientific and/or commercial reasons and will not result in commercialized products. It is also possible that the requisite U.S. Food and Drug Administration (FDA), European Medicines Agency (EMA) or other regulatory approvals will not be granted for these compounds. Moreover, we regularly review our research and development pipeline so that we can give priority to advancing the most promising pharmaceuticals projects.

The Phase II study with copanlisib in patients with relapsed or refractory diffuse large B-cell lymphoma (DLBCL), an aggressive form of non-Hodgkin lymphoma (NHL), was concluded. The results were presented at ASCO 2017 (American Society of Clinical Oncology). A Phase III study in this indication is not currently planned. Bayer continues to investigate copanlisib in a Phase III program pertaining to indolent NHL.

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

A 20

Research and Development Projects (Phase III)[1]

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

[1] As of April 5, 2018
[2] This trial was unblinded ahead of schedule and there are no patients who are still receiving the combination therapy. Otherwise, however, the trial is continuing, especially with regard to per protocol patient monitoring. The final assessment has not yet been completed. For more information see the Bayer Annual Report 2017.
[3] Sponsored by Janssen Research & Development, LLC
[4] Sponsored by Merck & Co., Inc., USA
The nature of drug discovery and development is such that not all compounds can be expected to meet the predefined project goals. It is possible that any or all of the projects listed above may have to be discontinued due to scientific and/or commercial reasons and will not result in commercialized products. It is also possible that the requisite U.S. Food and Drug Administration (FDA), European Medicines Agency (EMA) or other regulatory approvals will not be granted for these compounds. Moreover, we regularly review our research and development pipeline so that we can give priority to advancing the most promising pharmaceuticals projects.

Bayer and the U.S. study network NSABP (National Surgical Adjuvant Breast and Bowel Project) decided to discontinue ahead of schedule a clinical Phase III study investigating the active substance regorafenib as an adjuvant therapy in colon carcinoma due to an insufficient number of participants.

In March 2018, Bayer and MSD International GmbH, a Group company of Merck & Co., Inc., decided to discontinue the joint development and commercialization of **Sivextro™** (active ingredient: tedizolid phosphate) to treat infections of the skin and subcutaneous tissue. Bayer had inlicensed Sivextro™ in July 2011 for emerging markets and Japan. MSD will now continue to develop and market Sivextro™ in a number of these countries.

The most important drug candidates in the approval process are:

A 21

Main Products Submitted for Approval[1]

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

[1] As of April 5, 2018
[2] Submitted by Janssen Research & Development, LLC
[3] Submitted by Loxo Oncology, Inc.

In February 2018, **Eylea™** (active ingredient: aflibercept solution for injection into the eye) was approved by the China Food and Drug Administration (CFDA) for the treatment of visual impairment due to diabetic macular edema. This is the first indication for which Eylea™ has obtained CFDA approval.

In March 2018, Bayer's cooperation partner Loxo Oncology, Inc., Stamford, Connecticut, United States, completed the submission of a rolling New Drug Application (NDA) for larotrectinib in the United States. The registration application refers to the treatment of cancer patients suffering from locally advanced or metastatic solid tumors with neurotrophic tyrosine receptor kinase (NTRK) gene fusions. The active substance larotrectinib was designed to specifically block the signaling pathway responsible for tumor growth.

Crop Science

In February 2018, Bayer and Mitsui Chemicals Agro, Inc. (MCAG), headquartered in Tokyo, Japan, signed a license agreement granting Bayer an exclusive right to develop and commercialize the new fungicide quinofumelin worldwide except in certain selected countries. This product features a broad spectrum of action and is intended particularly for application in fruit tree crops, vegetables, oilseed rape/canola and rice.

At the beginning of March 2018, Bayer and the International Rice Research Institute (IRRI), headquartered in Los Baños, Philippines, signed an agreement confirming Bayer's participation in the Direct Seeded Rice Consortium (DSRC) led by IRRI to drive forward modern rice cultivation technologies in Asia.

Also in March 2018, Bayer, Exeter University in the United Kingdom and Rothamsted Research, headquartered in Harpenden, United Kingdom, identified in a joint study enzymes in honey bees and bumble bees that determine how sensitively they react to different neonicotinoid insecticides. Bayer is convinced the research results will help to selectively develop additional bee-friendly insecticides.

3. Report on Future Perspectives and on Opportunities and Risks

3.1 Future Perspectives

3.1.1 Economic Outlook

A 22

Economic Outlook[1]

	Growth 2017	Growth forecast 2018
World	+3.3%	+3.4%
European Union	+2.5%	+2.3%
of which Germany	+2.5%	+2.6%
United States	+2.3%	+2.7%
Emerging Markets[2]	+4.8%	+4.9%

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

The global economy should continue to grow in 2018. Although the risks for the world economy have increased in view of growing political tensions, the recent tax cuts in the United States should stimulate growth, and we also anticipate robust growth in Europe in 2018. As for the Emerging Markets, we expect growth in economic output to match the pace of the prior year, while for China, we anticipate continuing strong growth at a slightly slower rate.

A 23

Economic Outlook for the Segments[1]

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

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

3.1.2 Corporate Outlook

Based on the business development described in this report and taking into account the potential risks and opportunities, we confirm the currency-adjusted forecasts published in February for operating performance (see Annual Report 2017, A 3.1.2). We continue to expect 2018 sales to increase by a low- to mid-single-digit percentage on a currency- and portfolio-adjusted basis. As before, we aim to increase EBITDA before special items and core earnings per share by a mid-single-digit percentage on a currency-adjusted basis.

Taking into account the exchange rates as at March 31, 2018, reported sales would decline in 2018 overall by a low-single-digit percentage (previously: remain at the prior-year level). In absolute terms, sales would now come in at below €35 billion (previously: around €35 billion). EBITDA before special items would decline by a low-single-digit percentage (previously: match the prior-year level). Core earnings per share would come in at the prior-year level, as previously forecast.

3.2 Opportunities and Risks

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

Bayer regards opportunity and risk management as an integral part of corporate governance. Our risk management process and the opportunities/risks are outlined in detail in the Annual Report 2017 (Combined Management Report, A 3.2 "Opportunity and Risk Report"). With regard to the risks related to the acquisition of Monsanto Company, United States, we refer specifically to A 3.2.3 "Opportunities and Risks Related to the Planned Acquisition of Monsanto."

There have been no material changes to Bayer's overall risk profile so far compared with our commentary in the Annual Report 2017.

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 2017 (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, 2018

Bayer Group Consolidated Income Statements

B 1

€ million	Q1 2017	Q1 2018
Net sales	**9,680**	**9,138**
Cost of goods sold	(2,987)	(2,909)
Gross profit	**6,693**	**6,229**
Selling expenses	(2,667)	(2,509)
Research and development expenses	(1,094)	(1,040)
General administration expenses	(460)	(427)
Other operating income	159	152
Other operating expenses	(204)	(95)
EBIT[1]	**2,427**	**2,310**
Equity-method income (loss)	(7)	71
Financial income	32	370
Financial expenses	(321)	(311)
Financial result	**(296)**	**130**
Income before income taxes	**2,131**	**2,440**
Income taxes	(424)	(494)
Income from continuing operations after income taxes	**1,707**	**1,946**
of which attributable to noncontrolling interest	(2)	–
of which attributable to Bayer AG stockholders (net income)	**1,709**	**1,946**
Income from discontinued operations after income taxes	**564**	**8**
of which attributable to noncontrolling interest	190	–
of which attributable to Bayer AG stockholders (net income)	**374**	**8**
Income after income taxes	**2,271**	**1,954**
of which attributable to noncontrolling interest	188	–
of which attributable to Bayer AG stockholders (net income)	**2,083**	**1,954**

€		
Earnings per share		
From continuing operations		
Basic	1.96	2.23
Diluted	1.96	2.23
From discontinued operations		
Basic	0.43	0.01
Diluted	0.43	0.01
From continuing and discontinued operations		
Basic	2.39	2.24
Diluted	2.39	2.24

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

Bayer Group Consolidated Statements of Comprehensive Income

B 2

€ million	Q1 2017	Q1 2018
Income after income taxes	**2,271**	**1,954**
of which attributable to noncontrolling interest	188	–
of which attributable to Bayer AG stockholders	2,083	1,954
Remeasurements of the net defined benefit liability for post-employment benefit plans	605	(176)
Income taxes	(195)	(1)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**410**	**(177)**
Changes in fair values of equity instruments measured at fair value through other comprehensive income	–	95
Income taxes	–	–
Other comprehensive income from equity instruments measured at fair value through other comprehensive income	**–**	**95**
Other comprehensive income relating to associates accounted for using the equity method	**–**	**(13)**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**410**	**(95)**
Changes in fair values of cash flow hedges	(88)	60
Reclassified to profit or loss	54	(31)
Income taxes	15	(8)
Other comprehensive income from cash flow hedges	**(19)**	**21**
Changes in fair values of available-for-sale financial assets	(7)	–
Reclassified to profit or loss	–	–
Income taxes	9	–
Other comprehensive income from available-for-sale financial assets	**2**	**–**
Changes in exchange differences recognized on translation of operations outside the eurozone	(171)	(382)
Reclassified to profit or loss	–	–
Other comprehensive income from exchange differences	**(171)**	**(382)**
Other comprehensive income relating to associates accounted for using the equity method	**7**	**(1)**
Other comprehensive income that may be reclassified subsequently to profit or loss	**(181)**	**(362)**
Total other comprehensive income[1]	**229**	**(457)**
of which attributable to noncontrolling interest	23	(4)
of which attributable to Bayer AG stockholders	206	(453)
Total comprehensive income	**2,500**	**1,497**
of which attributable to noncontrolling interest	211	(4)
of which attributable to Bayer AG stockholders	2,289	1,501

[1] Total changes recognized outside profit or loss

Bayer Group Consolidated Statements of Financial Position

B 3

€ million	March 31, 2017	March 31, 2018	Dec. 31, 2017
Noncurrent assets			
Goodwill	16,290	14,480	14,751
Other intangible assets	13,367	11,185	11,674
Property, plant and equipment	13,085	7,330	7,633
Investments accounted for using the equity method	580	2,574	4,007
Other financial assets	1,308	1,737	1,634
Other receivables	568	535	400
Deferred taxes	6,466	4,384	4,915
	51,664	**42,225**	**45,014**
Current assets			
Inventories	8,674	6,402	6,550
Trade accounts receivable	13,020	9,498	8,582
Other financial assets	6,662	7,315	3,529
Other receivables	2,205	1,029	1,276
Claims for income tax refunds	577	461	474
Cash and cash equivalents	2,224	5,332	7,581
Assets held for sale	28	3,132	2,081
	33,390	**33,169**	**30,073**
Total assets	**85,054**	**75,394**	**75,087**
Equity			
Capital stock	2,117	2,117	2,117
Capital reserves	9,658	9,658	9,658
Other reserves	21,842	26,553	25,026
Equity attributable to Bayer AG stockholders	**33,617**	**38,328**	**36,801**
Equity attributable to noncontrolling interest	2,240	56	60
	35,857	**38,384**	**36,861**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	10,522	8,096	8,020
Other provisions	1,753	1,302	1,366
Refund liabilities	–	146	–
Contract liabilities	–	799	–
Financial liabilities	14,788	12,273	12,483
Income tax liabilities	204	482	495
Other liabilities	933	228	1,116
Deferred taxes	1,425	586	1,153
	29,625	**23,912**	**24,633**
Current liabilities			
Other provisions	6,130	2,194	4,344
Refund liabilities	–	2,519	–
Contract liabilities	–	197	–
Financial liabilities	4,199	1,761	1,935
Trade accounts payable	5,690	3,943	5,129
Income tax liabilities	1,307	646	422
Other liabilities	2,246	1,318	1,652
Liabilities directly related to assets held for sale	–	520	111
	19,572	**13,098**	**13,593**
Total equity and liabilities	**85,054**	**75,394**	**75,087**

Bayer Group Consolidated Statements of Cash Flows

B 4

€ million	Q1 2017	Q1 2018
Income from continuing operations after income taxes	1,707	1,946
Income taxes	424	494
Financial result	296	(130)
Income taxes paid	(493)	(388)
Depreciation, amortization and impairments	572	508
Change in pension provisions	(63)	(98)
(Gains) losses on retirements of noncurrent assets	(50)	(20)
Decrease (increase) in inventories	(100)	(84)
Decrease (increase) in trade accounts receivable	(1,645)	(1,349)
(Decrease) increase in trade accounts payable	(728)	(436)
Changes in other working capital, other noncash items	631	215
Net cash provided by (used in) operating activities from continuing operations	**551**	**658**
Net cash provided by (used in) operating activities from discontinued operations	290	–
Net cash provided by (used in) operating activities (total)	**841**	**658**
Cash outflows for additions to property, plant, equipment and intangible assets	(415)	(349)
Cash inflows from the sale of property, plant, equipment and other assets	54	59
Cash inflows from divestments	–	145
Cash inflows from (outflows for) noncurrent financial assets	(54)	1,777
Cash outflows for acquisitions less acquired cash	(158)	–
Interest and dividends received	20	22
Cash inflows from (outflows for) current financial assets	(583)	(3,712)
Net cash provided by (used in) investing activities (total)	**(1,136)**	**(2,058)**
Proceeds from shares of Covestro AG	1,460	–
Dividend payments	–	–
Issuances of debt	292	1,021
Retirements of debt	(1,036)	(1,528)
Interest paid including interest-rate swaps	(114)	(83)
Interest received from interest-rate swaps	9	9
Cash outflows for the purchase of additional interests in subsidiaries	–	–
Net cash provided by (used in) financing activities (total)	**611**	**(581)**
Change in cash and cash equivalents due to business activities (total)	**316**	**(1,981)**
Cash and cash equivalents at beginning of period	**1,899**	**7,436**
Change in cash and cash equivalents due to changes in scope of consolidation	–	1
Change in cash and cash equivalents due to exchange rate movements	9	(118)
Cash and cash equivalents at end of period	**2,224**	**5,338**

2017 figures restated

Bayer Group Consolidated Statements of Changes in Equity

B 5

€ million	Capital stock	Capital reserves	Other reserves	Equity attributable to Bayer AG stockholders	Equity attributable to non-controlling interest	Equity
Dec. 31, 2016	**2,117**	**9,658**	**18,558**	**30,333**	**1,564**	**31,897**
Equity transactions with owners						
Capital increase / decrease						
Dividend payments						
Other changes			995	995	465	1,460
Total comprehensive income			2,289	2,289	211	2,500
March 31, 2017	**2,117**	**9,658**	**21,842**	**33,617**	**2,240**	**35,857**
Dec. 31, 2017	**2,117**	**9,658**	**25,026**	**36,801**	**60**	**36,861**
Adjustment on adoption of IFRS 9 (net of tax)			(60)	(60)		(60)
Adjustment on adoption of IFRS 15 (net of tax)			86	86		86
Equity transactions with owners						
Capital increase / decrease						
Dividend payments						
Other changes						
Total comprehensive income			1,501	1,501	(4)	1,497
March 31, 2018	**2,117**	**9,658**	**26,553**	**38,328**	**56**	**38,384**

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

Key Data by Segment

B 6

Key Data by Segment

€ million	Pharmaceuticals Q1 2017	Pharmaceuticals Q1 2018	Consumer Health Q1 2017	Consumer Health Q1 2018	Crop Science Q1 2017	Crop Science Q1 2018	Animal Health Q1 2017	Animal Health Q1 2018
Net sales (external)	4,263	4,075	1,601	1,409	3,120	2,861	440	414
Change[1]	+9.6%	−4.4%	+5.3%	−12.0%	+6.3%	−8.3%	+7.8%	−5.9%
Currency-adjusted change[1]	+7.4%	+2.7%	+2.6%	−2.2%	+3.2%	−1.0%	+4.7%	+3.0%
Intersegment sales	10	9	5	1	8	8	1	2
Net sales (total)	4,273	4,084	1,606	1,410	3,128	2,869	441	416
EBIT[1]	1,219	1,163	278	211	970	892	126	129
EBIT before special items[1]	1,255	1,164	287	216	1,007	953	126	129
EBITDA before special items[1]	1,502	1,415	392	313	1,115	1,042	135	139
Net cash provided by operating activities	973	1,232	265	173	(679)	(703)	(31)	13
Depreciation, amortization, impairment losses/loss reversals	280	251	106	97	121	89	9	10

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

B 6 continued

Key Data by Segment

			Reconciliation			
€ million	All Other Segments Q1 2017	All Other Segments Q1 2018	Corporate Functions and Consolidation Q1 2017	Corporate Functions and Consolidation Q1 2018	Group Q1 2017	Group Q1 2018
Net sales (external)	252	378	4	1	9,680	9,138
Change[1]	+0.8%	+50.0%	–	–	+7.5%	−5.6%
Currency-adjusted change[1]	+2.0%	+48.0%	–	–	+5.0%	+1.9%
Intersegment sales	710	595	(734)	(615)	–	–
Net sales (total)	962	973	(730)	(614)	9,680	9,138
EBIT[1]	(26)	22	(140)	(107)	2,427	2,310
EBIT before special items[1]	(8)	30	(138)	(104)	2,529	2,388
EBITDA before special items[1]	45	87	(135)	(100)	3,054	2,896
Net cash provided by operating activities	(167)	(243)	190	186	551	658
Depreciation, amortization, impairment losses/loss reversals	53	57	3	4	572	508

2017 figures restated

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

Explanatory Notes

Accounting policies

The consolidated interim financial statements as of March 31, 2018, were prepared in condensed form in compliance with IAS 34 according to the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, which are endorsed by the European Union, and the Interpretations of the IFRS Interpretations Committee in effect at the closing date.

Reference should be made as appropriate to the Notes to the Consolidated Financial Statements for the 2017 fiscal year, particularly with regard to the main recognition and measurement principles, except where financial reporting standards have been applied for the first time in 2018 or an accounting policy has changed.

Financial reporting standards applied for the first time in 2018

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

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

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

B 7

Retained Earnings Reconciliation: IFRS 9 and IFRS 15

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

B 8

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

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

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

Under IFRS 9, the classification and measurement of financial assets is determined by the company's business model and the characteristics of the cash flows of each financial asset. In the case of equity instruments held as of January 1, 2018, that are not held for trading, Bayer has uniformly opted to recognize future changes in their fair value through other comprehensive income in the statement of comprehensive income and to continue to classify these as equity upon the derecognition of the financial instrument. As for new instruments, Bayer can opt to make use of this option on an instrument-by-instrument basis upon recognition, but it must continue to do so thereafter.

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

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

B 9

Financial Assets Reconciliation from IAS 39 to IFRS 9

€ million

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

There were no effects on financial liabilities.

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

B 10

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

€ million

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

The following table shows the effects of the first-time application of IFRS 9 on financial assets and liabilities that are based on unobservable inputs and are measured at fair value (Level 3). The development of these assets and liabilities in the first quarter of 2018 is presented in Table B 22.

B 11

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

€ million

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

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

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

B 12

Reconciliation of Loss Allowances

€ million

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

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

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

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

As of January 1, 2018, Bayer transitioned to IFRS 15 on the basis of the modified retrospective method, accounting for the aggregate amount of the transition effects by way of an adjustment to retained earnings as of January 1, 2018, and presenting the comparative period in line with previous rules. Bayer has elected to retrospectively apply the standard only to contracts that are not completed contracts at the date of first-time application, and has opted to reflect the aggregate effect of all contract modifications that occurred prior to the date of first-time application in accordance with IFRS 15.C7A(b).

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

Changes in the timing of recognition

- IFRS 15 requires catch-up adjustments to revenue when milestone payments for right-to-access licenses become unconstrained leading to earlier revenue recognition. This change resulted in an increase in retained earnings by €64 million after deferred taxes and a decrease in contract liabilities (under IAS 18, amounts were presented as deferred income in other liabilities) by €86 million. For the Pharmaceuticals segment, the introduction of IFRS 15 translates into a €2 million decrease in quarterly net sales and a €1 million decrease in quarterly deferred tax expense as compared to IAS 18. Comparable quarterly effects will persist through 2027.
- IFRS 15 in conjunction with IAS 38 (Intangible Assets) generally requires the recognition of the purchase price related to a brand divestment net of associated carrying amounts in other operating income or expenses upon transfer of control. Some cases were identified where the purchase price was deferred under former policy in line with IAS 18, but would have been recognized in income earlier under IFRS 15, leading to a €21 million increase in retained earnings after deferred taxes and a €27 million decrease in contract liabilities (under IAS 18, amounts were presented as deferred income in other liabilities) on the date of transition. For the Animal Health segment, the introduction of IFRS 15 translates into a €7 million decrease in quarterly net sales and a €2 million decrease in quarterly deferred tax expense as compared to IAS 18. Quarterly effects will persist until early 2019, but at a lower level. For the Pharmaceuticals segment, this change effective January 1, 2018, led to a one-time decrease of €6 million in quarterly net sales in the first quarter of 2018 and a €1 million decrease in quarterly tax expense as compared to IAS 18. An additional divestment attributable to the Pharmaceuticals segment that was completed in the first quarter of 2018 gave rise to a €2 million decrease in net sales and a €14 million increase in other operating income as compared to IAS 18. Net sales will decrease by this difference – €12 million – over the remaining quarters of 2018 as compared to IAS 18.
- Including the effects described individually, the change in the timing of revenue recognition led to a €2 million decrease in quarterly earnings as compared to revenue recognition under IAS 18.

Presentational changes

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

- IFRS 15 changes the presentation of expected product returns within the statement of financial position from net to gross in cases where returns are expected to be resalable and Bayer will refund the purchase price. The right-of-return asset is reflected in inventories at the former carrying amount less expected costs to recover and potential impairment. The refund liabilities include amounts expected to be refunded upon product return. Prior to the adoption of IFRS 15, Bayer presented the margin of expected returns on a net basis in “other provisions.” In the statement of cash flows, the increase in inventories to be recorded under IFRS 15 is set against a decline in “other working capital, other noncash items.”
- Amounts already received (or receivable), but expected to be refunded to the customer are presented as “refund liabilities” under IFRS 15. These amounts typically relate to expected volume rebates and expected product returns and were previously presented as “other provisions.”
- Advance payments received (or receivable) in connection with product deliveries were previously recognized in trade accounts payable. Advance payments received (or receivable) relating to right-to-access licenses and service contracts recognized over time were previously presented under “deferred income” in “other liabilities.” With the introduction of IFRS 15, both are presented as contract liabilities. Within the statement of cash flows, the decline in trade accounts payable resulting from the presentational change is set against a corresponding change in “other working capital, other noncash items.”

The effects of applying the modified retrospective method on the opening statement of financial position as at January 1, 2018, are shown in table B13. In addition, table B 14 presents the impact on the Group statement of financial position as at March 31, 2018, that the continued application of IAS 18 would have had compared with IFRS 15.

B 13

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

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

B 14

Reconciliation IFRS 15 to IAS 18: Consolidated Statements of Financial Position as of March 31, 2018

€ million	IFRS 15 March 31, 2018	Presentational changes	Changes in timing of recognition	IAS 18 March 31, 2018
Noncurrent assets				
Deferred taxes	4,384		2	4,386
Other noncurrent assets	37,841			37,841
	42,225		**2**	**42,227**
Current assets				
Inventories	6,402	(52)		6,350
Other current assets	26,767			26,767
	33,169	**(52)**		**33,117**
Total assets	**75,394**	**(52)**	**2**	**75,344**
Equity				
Other reserves	26,553		(84)	26,469
Other equity	11,831			11,831
	38,384		**(84)**	**38,300**
Noncurrent liabilities				
Other provisions	1,302	146		1,448
Refund liabilities	146	(146)		-
Contract liabilities	799	(799)		-
Other liabilities	228	799	73	1,100
Deferred taxes	586		(23)	563
Other noncurrent liabilities	21,796			20,851
	23,912	**0**	**50**	**23,962**
Current liabilities				
Other provisions	2,194	2,467		4,661
Refund liabilities	2,519	(2,519)		-
Contract liabilities	197	(197)		-
Trade accounts payable	3,943	71		4,014
Other liabilities	1,318	126	36	1,480
Other current liabilities	5,643			2,927
	13,098	**(52)**	**36**	**13,082**
Total equity and liabilities	**75,394**	**(52)**	**2**	**75,344**

Change in accounting methods

In connection with the planned acquisition of Monsanto and in preparation for the future combined business, the structure of the Crop Science segment was adjusted as of January 1, 2018, in line with the internal financial reporting system (management approach). In the new structure, all the strategic business entities are organizationally located directly below the Crop Science segment. Global impairment testing will also be carried out at the Crop Science segment level each year in the future.

Changes in underlying parameters

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

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

B 15

Exchange Rates for Major Currencies

		Closing rate			Average rate	
€1		Dec. 31, 2017	March 31, 2017	March 31, 2018	Q1 2017	Q1 2018
BRL	Brazil	3.98	3.37	4.09	3.35	3.99
CAD	Canada	1.51	1.43	1.59	1.41	1.55
CHF	Switzerland	1.17	1.07	1.18	1.07	1.17
CNY	China	7.81	7.35	7.73	7.31	7.81
GBP	United Kingdom	0.89	0.86	0.88	0.86	0.88
JPY	Japan	135.01	119.46	131.19	121.07	133.17
MXN	Mexico	23.66	20.01	22.52	21.61	23.05
RUB	Russia	69.41	60.28	70.85	62.59	69.90
USD	United States	1.20	1.07	1.23	1.06	1.23

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

B 16

Discount Rate for Pension Obligations

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

Segment reporting

As of March 31, 2018, the Bayer Group comprises the four reportable segments Pharmaceuticals, Consumer Health, Crop Science and Animal Health.

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

B17

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

€ million	Q1 2017	Q1 2018
EBITDA before special items of segments	3,189	2,996
EBITDA before special items of Corporate Functions and Consolidation	(135)	(100)
EBITDA before special items[1]	**3,054**	**2,896**
Depreciation, amortization and impairment losses before special items of segments	(522)	(504)
Depreciation, amortization and impairment losses before special items of Corporate Functions and Consolidation	(3)	(4)
Depreciation, amortization and impairment losses before special items	**(525)**	**(508)**
EBIT before special items of segments	2,667	2,492
EBIT before special items of Corporate Functions and Consolidation	(138)	(104)
EBIT before special items[1]	**2,529**	**2,388**
Special items of segments	(100)	(75)
Special items of Corporate Functions and Consolidation	(2)	(3)
Special items[1]	**(102)**	**(78)**
EBIT of segments	2,567	2,417
EBIT of Corporate Functions and Consolidation	(140)	(107)
EBIT[1]	**2,427**	**2,310**
Financial result	(296)	130
Income before income taxes	**2,131**	**2,440**

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

Scope of consolidation

Changes in the scope of consolidation

The consolidated financial statements as of March 31, 2018, included 237 companies (December 31, 2017: 237 companies). Eight (December 31, 2017: eight) joint ventures and four (December 31, 2017: four) associates were accounted for in the consolidated financial statements using the equity method according to IAS 28 (Investments in Associates and Joint Ventures). The Covestro Group was deconsolidated as of September 30, 2017. As the parent company of the Covestro Group, Covestro AG is accounted for in the consolidated financial statements using the equity method.

Acquisitions, divestments and discontinued operations

Planned acquisitions

With regard to the planned acquisition of Monsanto, we refer to the Annual Report 2017. Following the approval by the authorities in Brazil, China and the European Union of the planned acquisition of Monsanto by Bayer, nearly two-thirds of the approvals have been granted. Closing of the transaction is currently expected in the second quarter of 2018.

Divestments and discontinued operations

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

B 18

Income Statements for Discontinued Operations

	Covestro		Diabetes Care		Total	
€ million	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018
Net sales	**3,564**	**–**	**128**	**–**	**3,692**	**–**
Cost of goods sold	(2,358)	–	(7)	–	(2,365)	–
Gross profit	**1,206**	**–**	**121**	**–**	**1,327**	**–**
Selling expenses	(346)	–	(1)	–	(347)	–
Research and development expenses	(64)	–	–	–	(64)	–
General administration expenses	(112)	–	(2)	–	(114)	–
Other operating income/expenses	5	10	5	–	10	10
EBIT[1]	**689**	**10**	**123**	**–**	**812**	**10**
Financial result	**(53)**	**–**	**–**	**–**	**(53)**	**–**
Income before income taxes	**636**	**10**	**123**	**–**	**759**	**10**
Income taxes	(171)	(2)	(24)	–	(195)	(2)
Income after income taxes	**465**	**8**	**99**	**–**	**564**	**8**
of which attributable to noncontrolling interest	190	–	–	–	190	–
of which attributable to Bayer AG stockholders (net income)	275	8	99	–	374	8

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

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

B 19

Cash Flows from Discontinued Operations

	Covestro		Diabetes Care		Total	
€ million	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018
Net cash provided by (used in) operating activities	275	–	15	–	290	–
Net cash provided by (used in) investing activities	(112)	–	–	–	(112)	–
Net cash provided by (used in) financing activities	(1)	–	(15)	–	(16)	–
Change in cash and cash equivalents	**162**	**–**	**–**	**–**	**162**	**–**

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

Assets held for sale

In connection with the planned acquisition of Monsanto, Bayer signed an agreement with BASF on October 13, 2017, concerning the sale of selected Crop Science businesses. The businesses to be sold comprise Bayer's global glufosinate ammonium business and the related LibertyLink™ technology for herbicide tolerance and a substantial part of the field crop seed business, including the related research and development capabilities. The seeds business being divested includes the global cotton seed business (excluding India and South Africa), the North American and European canola seed business, and the soybean seed business. The agreed base purchase price of €5.9 billion excludes the value of any net working capital and is subject to the customary adjustment mechanisms.

In connection with the planned acquisition of Monsanto and the associated merger control proceedings, Bayer has undertaken to divest, in addition to the divestments detailed above, its entire vegetable seeds business, its R&D platform for hybrid wheat, its remaining canola seed business, three research projects in the area of nonselective herbicides, its global digital farming business and business activities in the field of seed treatments. BASF is the intended purchaser of these assets.

The transactions are subject to regulatory approval as well as the successful closing of Bayer's acquisition of Monsanto. Bayer will continue to own, operate and maintain these businesses until the closing of these divestments.

On January 30, 2018, the Pharmaceuticals Division signed agreements to sell its MK Generics business in Central America and the Caribbean to Tecnoquímicas S.A. The business to be sold includes the Bonima production plant in El Salvador. The base purchase price is €44 million.

The assets and liabilities held for sale are presented below:

B 20

Assets and Liabilities Held for Sale

€ million	March 31, 2018
Goodwill	587
Other intangible assets	380
Property, plant and equipment	1,277
Other assets	334
Deferred taxes	135
Inventories	413
Cash and cash equivalents	6
Assets held for sale	**3,132**
Provisions for pensions and other post-employment benefits	37
Other provisions	44
Financial liabilities	15
Other liabilities	376
Deferred taxes	48
Liabilities directly related to assets held for sale	**520**

Financial instruments

The following table shows the carrying amounts and fair values of financial assets and liabilities by category of financial instrument under IFRS 9 and a reconciliation to the corresponding line items in the statements of financial position. Since the line items "Trade accounts receivable," "Other receivables" and "Other liabilities" contain both financial instruments and nonfinancial assets or liabilities (such as other tax receivables or advance payments for services to be received in the future), the reconciliation is shown in the column headed "Nonfinancial assets/liabilities."

The transition effects from the reclassification and remeasurement of financial assets upon the first-time application of IFRS 9 are detailed in the section “Financial reporting standards applied for the first time in 2018.”

B 21

Carrying Amounts and Fair Values of Financial Instruments

						March 31, 2018
	Measured at amortized cost			Measured at fair value [fair value for information [1]]	Nonfinancial assets/ liabilities	
		Based on quoted prices in active markets (Level 1)	Based on observable market data (Level 2)	Based on unobservable inputs (Level 3)		
€ million	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount in the statement of financial position**
Trade accounts receivable	9,343				155	9,498
Measured at amortized cost	9,343					9,343
Nonfinancial assets					155	155
Other financial assets	322	2,930	4,958	842		9,052
Measured at amortized cost	322		[322]			322
Measured at fair value through profit or loss		2,655	4,371	775		7,801
Measured at fair value through OCI (no recycling)		275		53		328
Derivatives			587	14		601
Other receivables	313			50	1,201	1,564
Measured at amortized cost	313		[313]			313
Measured at fair value through profit or loss				50		50
Nonfinancial assets					1,201	1,201
Cash and cash equivalents	5,332					5,332
Measured at amortized cost	5,332		[5,332]			5,332
Total financial assets	**15,310**	**2,930**	**4,958**	**892**		**24,090**
of which measured at amortized cost	15,310					15,310
of which measured at fair value through profit or loss		2,655	4,371	825		7,851
Financial liabilities	12,656	1,179	199			14,034
Measured at amortized cost	12,656	[11,030]	[1,991]			12,656
Measured at fair value through profit or loss (nonderivative)		1,179				1,179
Derivatives			199			199
Trade accounts payable	3,943					3,943
Measured at amortized cost	3,943					3,943
Other liabilities	647		194	5	700	1,546
Measured at amortized cost	647		[647]			647
Measured at fair value through profit or loss (nonderivative)				5		5
Derivatives			194			194
Nonfinancial liabilities					700	700
Total financial liabilities	**17,246**	**1,179**	**393**	**5**		**18,823**
of which measured at amortized cost	17,246					17,246
of which measured at fair value through profit or loss (nonderivative)		1,179		5		1,184
of which derivatives			393			393

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

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

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

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

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

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

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

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

Embedded derivatives are separated from their respective host contracts, provided they are not financial instruments. Such host contracts are generally sale or purchase agreements relating to the operational business. The embedded derivatives cause the cash flows from the contracts to vary with exchange-rate or price fluctuations. The internal measurement of embedded derivatives is mainly performed using the discounted cash flow method, which is based on unobservable inputs. These include planned sales and purchase volumes, and prices derived from market data. Regular monitoring is carried out based on these fair values as part of quarterly reporting.

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

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

B 22

Development of Financial Assets and Liabilities (Level 3)

					2018
€ million	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI (no recycling)	Derivatives (net)	Liabilities measured at fair value (non-derivative)	Total
Carrying amounts of net assets (net liabilities), January 1	**821**	**68**	**10**	**(7)**	**892**
Gains (losses) recognized in profit or loss	3	–	4	–	7
of which related to assets/liabilities recognized in the statements of financial position	3	–	4	–	7
Gains (losses) recognized outside profit or loss	–	(4)	–	–	(4)
Additions of assets (liabilities)	1	–	–	–	1
Settlements of (assets) liabilities	–	(1)	–	1	–
Transfers (IFRS 5)		(6)		1	(5)
Disposals from divestments/changes in scope of consolidation	–	(4)	–	–	(4)
Carrying amounts of net assets (net liabilities), March 31	**825**	**53**	**14**	**(5)**	**887**

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

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

B 23

Carrying Amounts and Fair Values of Financial Instruments

						Dec. 31, 2017
	Measured at amortized cost	Measured at fair value [fair value for information[1]]			Nonfinancial assets/ liabilities	
		Based on quoted prices in active markets (Level 1)	Based on observable market data (Level 2)	Based on unobservable inputs (Level 3)		
€ million	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount in the statement of financial position**
Trade accounts receivable	8,582					8,582
Loans and receivables	8,582					8,582
Other financial assets	1,823	452	2,085	803		5,163
Loans and receivables	1,731		[1,731]			1,731
Available-for-sale financial assets	35	448	1,452	793		2,728
Held-to-maturity financial assets	57		[58]			57
Derivatives		4	633	10		647
Other receivables	380			46	1,250	1,676
Loans and receivables	380		[380]			380
Available-for-sale financial assets				46		46
Nonfinancial assets					1,250	1,250
Cash and cash equivalents	7,581					7,581
Loans and receivables	7,581		[7,581]			7,581
Total financial assets	**18,366**	**452**	**2,085**	**849**		**21,752**
of which loans and receivables	18,274					18,274
of which available-for-sale financial assets	35	448	1,452	839		2,774
Financial liabilities	12,958	1,220	240			14,418
Measured at amortized cost	12,958	[11,327]	[2,183]			12,958
Measured at fair value (nonderivative)		1,220				1,220
Derivatives			240			240
Trade accounts payable	4,568				561	5,129
Measured at amortized cost	4,568					4,568
Nonfinancial liabilities					561	561
Other liabilities	681	2	319	7	1,759	2,768
Measured at amortized cost	681		[681]			681
Measured at fair value (nonderivative)				7		7
Derivatives		2	319			321
Nonfinancial liabilities					1,759	1,759
Total financial liabilities	**18,207**	**1,222**	**559**	**7**		**19,995**
of which measured at amortized cost	18,207					18,207
of which derivatives		2	559			561

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

The following table shows the changes in the amounts of financial assets and liabilities recognized at fair value based on unobservable inputs (Level 3) for each financial instrument category for the comparative period under IAS 39:

B 24

Development of Financial Assets and Liabilities (Level 3)

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

Contingent liabilities and other financial commitments

The Group's contingent liabilities amounted to €844 million as of March 31, 2018, and mainly comprised pending legal cases in several countries. Other financial liabilities totaling €52,260 million mainly resulted from the definitive merger agreement with Monsanto Company of September 14, 2016, that concerns a sum of €45,673 million and provides for Bayer's acquisition of all outstanding shares in Monsanto Company against a cash payment of US$128 per share.

Legal Risks

To find out more about the Bayer Group's legal risks, please see Note 32 to the consolidated financial statements in the Bayer Annual Report 2017, which can be downloaded free of charge at www.bayer.com. Since the Bayer Annual Report 2017, the following significant changes have occurred in respect of the legal risks:

Mirena™: As of April 13, 2018, lawsuits from approximately 3,100 users of Mirena™, an intrauterine system providing long-term contraception, had been served upon Bayer in the United States. Plaintiffs allege personal injuries resulting from the use of Mirena™, including perforation of the uterus, ectopic pregnancy or idiopathic intracranial hypertension, and seek compensatory and punitive damages. Additional lawsuits are anticipated. As of April 13, 2018, lawsuits from approximately 480 users of Mirena™ alleging idiopathic intracranial hypertension had been served upon Bayer in the United States.

In April 2018, the Master Settlement Agreement regarding the global settlement of the perforation cases for a total amount of US$12.2 million was executed. Bayer may withdraw from the agreement if fewer than 98% of those who are eligible choose to participate. As of April 13, 2018, a total of approximately 4,100 cases would be included in the settlement.

Xarelto™: As of April 13, 2018, U.S. lawsuits from approximately 23,200 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 13, 2018, ten Canadian lawsuits relating to Xarelto™ seeking class action certification had been served upon Bayer.

Essure™: As of April 13, 2018, U.S. lawsuits from approximately 16,800 users of Essure™, a medical device offering permanent birth control with a nonsurgical procedure, had been served upon Bayer. Plaintiffs allege personal injuries from the use of Essure™, including hysterectomy, perforation, pain, bleeding, weight gain, nickel sensitivity, depression and unwanted pregnancy, and seek compensatory and punitive damages. Additional lawsuits are anticipated. As of April 13, 2018, two Canadian lawsuits relating to Essure™ seeking class action certification had been served upon Bayer.

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

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

Related parties

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

Sales to related parties were not material from the viewpoint of the Bayer Group. Liabilities to joint ventures declined by €0.1 billion to €0.1 billion compared with December 31, 2017, and primarily pertained to the joint venture Casebia Therapeutics Limited Liability Partnership, Ascot, United Kingdom, which was established together with CRISPR Therapeutics AG, Basel, Switzerland.

Events After the End of the Reporting Period

Temasek subscribes to capital increase and acquires approximately 3.6% of Bayer

In April 2018, the investment company Temasek, Singapore, subscribed to 31 million new shares of Bayer, corresponding to around 3.6% of the increased capital stock, for total gross proceeds of €3 billion. The proceeds from this capital increase were used to reduce the syndicated credit facility arranged for financing the planned acquisition of Monsanto by US$ 3.7 billion to US$46 billion.

In light of the planned acquisition of Monsanto, Bayer signed an agreement to sell further Crop Science businesses to BASF on April 24, 2018. The businesses being divested include in particular the global vegetable seeds business, certain seed treatments, the research platform for wheat hybrids and certain glyphosate-based herbicides in Europe. In addition, three research projects in the field of total herbicides and Bayer's digital farming business will also be transferred. In return, Bayer will receive a back license for certain digital farming applications.

Leverkusen, April 26, 2018
Bayer Aktiengesellschaft

The Board of Management

Werner Baumann

Liam Condon   Johannes Dietsch   Dr. Hartmut Klusik

Kemal Malik   Wolfgang Nickl   Heiko Schipper

Dieter Weinand

Review Report

To Bayer Aktiengesellschaft, Leverkusen / Germany

We have reviewed the condensed interim consolidated financial statements – comprising the income statement and the statement of comprehensive income, the statement of financial position, the statement of cash flows, the condensed statement of changes in equity as well as selected explanatory notes to the financial statements – and the interim group management report for the period from 1 January until 31 March 2018 of Bayer Aktiengesellschaft, Leverkusen, that are part of the quarterly financial report under § 115 WpHG (Wertpapierhandelsgesetz: German Securities Trading Act). The preparation of the condensed interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the entity's Management Board. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We conducted our review of the interim consolidated financial statements and of the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) as well as in supplementary compliance with the International Standard on Review Engagements *"Review of Interim Financial Information performed by the Independent Auditor of the Entity"* (ISRE 2410). Those standards require that we plan and perform the review such that we can preclude through critical evaluation, with a limited level of assurance, that the condensed interim consolidated financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of personnel of the entity and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

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

Munich, Germany, 27 April 2018

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

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

Financial Calendar

Annual Stockholders' Meeting 2018	*May 25, 2018*
Planned dividend payment day	*May 30, 2018*
Q2 2018 Interim Report	*September 5, 2018*
Q3 2018 Interim Report	*November 13, 2018*
Annual Report 2018	*February 27, 2019*
Q1 2019 Interim Report	*April 25, 2019*
Annual Stockholders' Meeting 2019	*April 26, 2019*

Masthead

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