Science For A Better Life

Q3

Interim Report

Third Quarter of 2017

Bayer Group Key Data

€ million	Q3 2016	Q3 2017	Change %	9M 2016	9M 2017	Change %	Full Year 2016
Sales	**8,258**	**8,025**	**–2.8**	**26,120**	**26,419**	**+1.1**	**34,943**
Change (adjusted for currency and portfolio effects) [1]			+1.2			+1.1	+4.7%
Change in sales [1]							
Volume	+2.7%	+2.2%		+4.0%	+1.3%		+3.9%
Price	+1.8%	–1.0%		+1.0%	–0.2%		+0.8%
Currency	–1.2%	–4.1%		–2.9%	–0.1%		–2.2%
Portfolio	0.0%	+0.1%		0.0%	+0.1%		0.0%
EBITDA [1]	**1,996**	**1,969**	**–1.4**	**7,260**	**7,103**	**–2.2**	**8,801**
Special items [1]	(122)	(235)		(252)	(402)		(517)
EBITDA before special items [1]	**2,118**	**2,204**	**+4.1**	**7,512**	**7,505**	**–0.1**	**9,318**
EBITDA margin before special items [1]	25.6%	27.5%		28.8%	28.4%		26.7%
EBIT [1]	**1,397**	**1,388**	**–0.6**	**5,152**	**5,278**	**+2.4**	**5,738**
Special items [1]	(125)	(249)		(501)	(595)		(1,088)
EBIT before special items [1]	**1,522**	**1,637**	**+7.6**	**5,653**	**5,873**	**+3.9**	**6,826**
Financial result	**(233)**	**(403)**	**–73.0**	**(741)**	**(1,068)**	**–44.1**	**(965)**
Net income (from continuing and discontinued operations)	**1,187**	**3,881**	**.**	**4,078**	**7,188**	**+76.3**	**4,531**
Earnings per share (from continuing and discontinued operations) (€) [1]	1.43	4.45	.	4.93	8.24	+67.1	5.44
Core earnings per share (from continuing operations) (€) [1]	1.53	1.47	–3.9	5.58	5.33	–4.5	6.67
Net cash provided by operating activities (from continuing and discontinued operations)	**3,053**	**2,711**	**–11.2**	**6,357**	**5,865**	**–7.7**	**9,089**
Cash outflows for capital expenditures	**656**	**557**	**–15.1**	**1,608**	**1,448**	**–10.0**	**2,163**
Research and development expenses	**1,055**	**1,079**	**+2.3**	**3,160**	**3,270**	**+3.5**	**4,405**
Depreciation, amortization and impairments	**599**	**581**	**–3.0**	**2,108**	**1,825**	**–13.4**	**3,063**
Number of employees at end of period [2]	**99,517**	**99,845**	**+0.3**	**99,517**	**99,845**	**+0.3**	**99,592**
Personnel expenses (including pension expenses)	2,333	2,300	–1.4	7,002	7,281	+4.0	9,459

2016 figures restated

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

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

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Reporting Principles

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

Third quarter of 2017

Bayer: Sales and earnings increased

- Covestro deconsolidated
- Group sales €8.0 billion (Fx & portfolio adj. + 1.2%)
- EBITDA before special items rises to €2.2 billion (+ 4.1%)
- Sales and earnings growth at Pharmaceuticals
- Consumer Health business weak, as expected
- Sales gains at Crop Science and Animal Health
- Net income €3.9 billion including Covestro book profit
- Core earnings per share €1.47
- Group outlook for 2017 confirmed based on change in structure

Economic Position of the Bayer Group

Following the deconsolidation of Covestro, the Bayer Group's sales rose by 1.2% (Fx & portfolio adj.) to €8.0 billion in the third quarter of 2017. Group EBITDA before special items increased by 4.1% to €2.2 billion. We achieved growth in sales and earnings at Pharmaceuticals, while business declined at Consumer Health, as expected. Sales at Crop Science and Animal Health rose, however, EBITDA before special items was down from the prior-year quarter.

Key Events

In September 2017, Bayer AG sold an additional 16.3% of Covestro shares, generating total proceeds of around €2.2 billion.

As a result of further reducing its interest in the company and concluding a control termination agreement, Bayer has ceded de facto control over Covestro AG. Accordingly, Covestro was deconsolidated at the end of the third quarter and presented as an associate for the first time. This resulted in a gain of €2.8 billion that was presented as income from discontinued operations after income taxes in the consolidated income statement.

On October 13, 2017, Bayer signed an agreement to sell selected Crop Science businesses to BASF for €5.9 billion in light of the planned acquisition of Monsanto. The assets to be sold include Bayer's global glufosinate-ammonium business and the related LibertyLink™ technology for herbicide tolerance, a substantial part of the field crop seed businesses, as well as respective research and development capabilities. The transaction is 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 this divestiture.

1. Overview of Sales, Earnings and Financial Position

With Bayer's de facto loss of control over Covestro, Covestro ceased to be a reportable segment in the third quarter and is now presented as a discontinued operation. The financial information for the quarters preceding the deconsolidation, including the comparative prior-year figures, has been restated accordingly. The continuing operations of the Bayer Group now consist solely of the Life Science businesses, and the corresponding subtotal will no longer be reported separately. Covestro is classified as an associate owing to the remaining material influence, and, going forward, will be accounted for using the equity method.

1.1 Earnings Performance of the Bayer Group[1]

Third quarter of 2017

Group sales

Group sales in the third quarter of 2017 rose by 1.2% (Fx & portfolio adj.) to €8,025 million (reported: –2.8%). Germany accounted for €743 million of this figure.

Sales of Pharmaceuticals advanced by 2.3% (Fx & portfolio adj.) to €4,065 million. This was largely attributable to the continued strong development of our key growth products. At Consumer Health, sales declined by 2.9% (Fx & portfolio adj.) to €1,320 million, as expected. Crop Science sales rose by 2.7% (Fx & portfolio adj.) to €2,031 million. Animal Health posted a 1.4% (Fx & portfolio adj.) increase in sales to €359 million.

EBITDA before special items

Group EBITDA before special items increased by 4.1% to €2,204 million. Negative currency effects diminished earnings by around €100 million. EBITDA before special items at Pharmaceuticals improved by 5.1% to €1,493 million. At Consumer Health, EBITDA before special items declined substantially, falling by 16.5% to €274 million. EBITDA before special items at Crop Science declined by 3.5% to €307 million, while EBITDA before special items of Animal Health fell by €8 million, or 9.0%, to €81 million.

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

Depreciation, amortization and special items

Depreciation, amortization and impairment losses declined by 3.0% to €581 million in the third quarter of 2017 (Q3 2016: €599 million). They comprised €319 million (Q3 2016: €389 million) in amortization and impairments on intangible assets and €262 million (Q3 2016: €210 million) in depreciation and impairments on property, plant and equipment. Impairment losses amounted to €8 million. In addition, an amount of €16 million was included in special items as accelerated depreciation.

EBIT

EBIT of the Bayer Group came to €1,388 million, matching the prior-year period (Q3 2016: €1,397 million; –0.6%). This figure reflected net special charges of €249 million (Q3 2016: €125 million), consisting primarily of expenses of €102 million in connection with the agreed acquisition of Monsanto, provisions for legal risks in the amount of €93 million, and efficiency improvement programs totaling €44 million. EBIT before special items advanced by 7.6% to €1,637 million (Q3 2016: €1,522 million).

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

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Special Items Reconciliation[1]

€ million	EBIT Q3 2016	EBIT Q3 2017	EBIT 9M 2016	EBIT 9M 2017	EBITDA Q3 2016	EBITDA Q3 2017	EBITDA 9M 2016	EBITDA 9M 2017
Before special items	**1,522**	**1,637**	**5,653**	**5,873**	**2,118**	**2,204**	**7,512**	**7,505**
Pharmaceuticals	**(6)**	**3**	**(248)**	**(153)**	**(5)**	**3**	**(15)**	**(7)**
Consumer Health	**(29)**	**(18)**	**(93)**	**(42)**	**(27)**	**(17)**	**(77)**	**(32)**
Crop Science	**(71)**	**(121)**	**(104)**	**(253)**	**(71)**	**(108)**	**(104)**	**(216)**
Animal Health	**(1)**	**(8)**	**(2)**	**(8)**	**(1)**	**(8)**	**(2)**	**(8)**
Reconciliation	**(18)**	**(105)**	**(54)**	**(139)**	**(18)**	**(105)**	**(54)**	**(139)**
Restructuring	(18)	(13)	(49)	(42)	(18)	(13)	(49)	(42)
Litigations / Legal Risks	–	(92)	(5)	(97)	–	(92)	(5)	(97)
Total special items	**(125)**	**(249)**	**(501)**	**(595)**	**(122)**	**(235)**	**(252)**	**(402)**
of which cost of goods sold	(20)	(24)	(219)	(115)	(18)	(8)	(40)	(61)
of which selling expenses	(25)	(15)	(96)	(56)	(25)	(15)	(60)	(24)
of which research and development expenses	(13)	(3)	(66)	(116)	(13)	(3)	(33)	(9)
of which general administration expenses	(72)	(115)	(116)	(208)	(72)	(115)	(116)	(208)
of which other operating income / expenses	5	(92)	(4)	(100)	6	(94)	(3)	(100)
After special items	**1,397**	**1,388**	**5,152**	**5,278**	**1,996**	**1,969**	**7,260**	**7,103**

[1] For definition see Annual Report 2016, 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 rose to €3,423 million (Q3 2016: €333 million). A substantial part of this figure – €3,317 million (Q3 2016: €259 million) – is attributable to Covestro. This figure comprises a gain from deconsolidation, the gain on remeasurement of the remaining interest, and operating income. Covestro increased sales over the prior-year quarter by 20.4% (Fx & portfolio adj.) to €3,513 million (Q3 2016: €3,004 million), owing in particular to significantly higher selling prices with slightly higher volumes. EBITDA before special items of Covestro improved by 54.1% to €869 million (Q3 2016: €564 million). Substantially higher selling prices more than offset increased raw material prices.

Net income

Including a financial result of minus €403 million (Q3 2016: minus €233 million), income before income taxes was €985 million (Q3 2016: €1,164 million). After income tax expense of €212 million (Q3 2016: €207 million), income from discontinued operations after income taxes and noncontrolling interest, net income in the third quarter of 2017 came to €3,881 million (Q3 2016: €1,187 million).

Core earnings per share

Earnings per share (total) increased from €1.43 to €4.45 in the third quarter of 2017. A significant effect in this development was the remeasurement of the interest in the Covestro Group, which is mirrored in earnings from discontinued operations. Core earnings per share from continuing operations fell by 3.9% to €1.47 (Q3 2016: €1.53). This is due primarily to the difference in the number of shares, which grew significantly in 2017 as a result of the mandatory convertible notes issued in November 2016. If the number of shares had remained the same, core earnings per share would have improved by 1.4%.

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Core Earnings per Share [1]

€ million	Q3 2016	Q3 2017	9M 2016	9M 2017
EBIT (as per income statements)	**1,397**	**1,388**	**5,152**	**5,278**
Amortization and impairment losses / loss reversals on intangible assets	387	319	1,476	1,077
Impairment losses / loss reversals on property, plant and equipment, and accelerated depreciation included in special items	1	22	17	68
Special items (other than amortization and impairment losses / loss reversals)	123	235	252	402
Core EBIT	**1,908**	**1,964**	**6,897**	**6,825**
Financial result (as per income statements)	(233)	(403)	(741)	(1,068)
Special items in the financial result	(34)	162	(44)	361
Income taxes (as per income statements)	(207)	(212)	(954)	(894)
Special items in income taxes	–	–	–	–
Tax effects related to amortization, impairment losses / loss reversals and special items	(167)	(228)	(533)	(580)
Income after income taxes attributable to noncontrolling interest (as per income statements)	(4)	3	(9)	3
Above-mentioned adjustments attributable to noncontrolling interest	(1)	–	(1)	–
Core net income from continuing operations	**1,262**	**1,286**	**4,615**	**4,647**
Shares				
Weighted average number of shares	**826,947,808**	**872,467,808**	**826,947,808**	**871,987,808**
€				
Core earnings per share from continuing operations	**1.53**	**1.47**	**5.58**	**5.33**

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

Personnel expenses and employees

Personnel expenses decreased by 1.4% to €2,300 million (Q3 2016: €2,333 million). As of the closing date, the number of employees in the Bayer Group was largely unchanged year on year, at 99,845 (September 30, 2016: 99,517; +0.3%).

First nine months 2017

Group sales

Group sales in the first nine months of 2017 rose by 1.1% (Fx & portfolio adj.) to €26,419 million (reported: +1.1%). Germany accounted for €2,509 million of this figure.

Sales of Pharmaceuticals advanced by 4.6% (Fx & portfolio adj.) to €12,632 million. At Consumer Health, sales were flat year on year at €4,463 million (Fx & portfolio adj.: –0.8%). Crop Science sales declined by 3.2% (Fx & portfolio adj.) to €7,314 million. Animal Health posted a 2.1% increase (Fx & portfolio adj.) in sales to €1,249 million.

EBITDA before special items

EBITDA before special items of the Bayer Group came in at €7,505 million (–0.1%), matching the prior-year level (9M 2016: €7,512 million). Pharmaceuticals increased EBITDA before special items by a substantial 11.0% to €4,476 million. At Consumer Health, EBITDA before special items declined by 5.7% to €980 million. EBITDA before special items at Crop Science declined by a substantial 16.0% to €1,739 million due to the development in Brazil reported on in the second quarter, while Animal Health registered an earnings increase of 6.8% to €332 million.

Depreciation, amortization and special items

Depreciation, amortization and impairment losses amounted to €1,825 million in the first nine months of 2017 (9M 2016: €2,108 million), comprising €1,077 million (9M 2016: €1,477 million) in amortization and impairments on intangible assets and €748 million (9M 2016: €631 million) in depreciation and impairments on property, plant and equipment. Impairment losses and impairment loss reversals amounted to €181 million (9M 2016: €321 million). Impairment losses and impairment loss reversals in the amount of €168 million (9M 2016: €244 million) as well as accelerated depreciation in the amount of €26 million constituted special items.

EBIT

EBIT of the Bayer Group rose by 2.4% to €5,278 million (9M 2016: €5,152 million), after net special charges of €595 million (9M 2016: €501 million). These mainly comprised €170 million in expenses in conjunction with the agreed acquisition of Monsanto, €146 million in value adjustments, €124 million in charges related to efficiency improvement programs, and €100 million in provisions for legal risks. EBIT before special items moved forward by 3.9% to €5,873 million (9M 2016: €5,653 million).

Income after income taxes from discontinued operations

Income after income taxes from discontinued operations rose to €4,628 million (9M 2016: €862 million). Of this amount, €4,276 million (9M 2016: €683 million) was attributable to Covestro. This figure primarily comprises a gain from deconsolidation, the gain on remeasurement of the remaining interest, and operating income. In comparison with the prior-year reporting period, Covestro increased sales during the first nine months of 2017 by 19.9% (Fx & portfolio adj.) to €10,556 million (9M 2016: €8,829 million), in particular owing to significantly higher selling prices and higher volumes. EBITDA before special items of Covestro improved by 56.2% to €2,517 million (9M 2016: €1,611 million). Substantially higher selling prices more than offset increased raw material prices.

Net income

Including a financial result of minus €1,068 million (9M 2016: minus €741 million), income before income taxes amounted to €4,210 million (9M 2016: €4,411 million). The financial result comprised in particular a net interest expense of €354 million (9M 2016: €369 million), currency hedging costs in the amount of €321 million (9M 2016: €157 million), and interest cost of €143 million (9M 2016: €178 million) for pension and other provisions. After tax expense of €894 million (9M 2016: €954 million), income after income taxes was €3,316 million (9M 2016: €3,457 million). Adjusted for income from discontinued operations after income taxes and noncontrolling interest, net income came to €7,188 million (9M 2016: €4,078 million).

Core earnings per share

Earnings per share (total) improved to €8.24 (9M 2016: €4.93), while core earnings per share from continuing operations were down year on year at €5.33 (9M 2016: €5.58). This is due primarily to the difference in the number of shares, which grew significantly in 2017 as a result of the mandatory convertible notes issued in November 2016. If the number of shares had remained the same, core earnings per share would have improved by 0.7%.

1.2 Business Development by Segment

Pharmaceuticals

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Key Data – Pharmaceuticals

€ million	Q3 2016	Q3 2017	Change % Reported	Change % Fx & p adj.	9M 2016	9M 2017	Change % Reported	Change % Fx & p adj.
Sales	**4,152**	**4,065**	**–2.1**	**+2.3**	**12,145**	**12,632**	**+4.0**	**+4.6**
Change in sales[1]								
Volume	+6.9%	+2.4%			+9.6%	+4.9%		
Price	+0.7%	–0.1%			–0.3%	–0.3%		
Currency	–0.3%	–4.3%			–2.0%	–0.6%		
Portfolio	0.0%	–0.1%			0.0%	0.0%		
			Reported	**Fx adj.**			**Reported**	**Fx adj.**
Sales by region								
Europe / Middle East / Africa	1,589	1,548	–2.6	–1.3	4,733	4,801	+1.4	+1.9
North America	1,071	1,028	–4.0	–0.4	3,087	3,202	+3.7	+3.2
Asia / Pacific	1,223	1,223	0.0	+8.2	3,572	3,825	+7.1	+9.0
Latin America	269	266	–1.1	+6.7	753	804	+6.8	+6.1
EBITDA[1]	**1,416**	**1,496**	**+5.6**		**4,019**	**4,469**	**+11.2**	
Special items[1]	(5)	3			(15)	(7)		
EBITDA before special items[1]	**1,421**	**1,493**	**+5.1**		**4,034**	**4,476**	**+11.0**	
EBITDA margin before special items[1]	34.2%	36.7%			33.2%	35.4%		
EBIT[1]	**1,097**	**1,209**	**+10.2**		**2,783**	**3,530**	**+26.8**	
Special items[1]	(6)	3			(248)	(153)		
EBIT before special items[1]	**1,103**	**1,206**	**+9.3**		**3,031**	**3,683**	**+21.5**	
Net cash provided by operating activities	**998**	**1,036**	**+3.8**		**2,042**	**2,537**	**+24.2**	

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

Third quarter of 2017

Sales

Sales of Pharmaceuticals increased by 2.3% (Fx & portfolio adj.) to €4,065 million in the third quarter of 2017. Our key growth products Xarelto™, Eylea™, Xofigo™, Stivarga™ and Adempas™ once again delivered strong performance, with their combined sales rising by 13.2% (Fx adj.) to €1,522 million (Q3 2016: €1,395 million). Combined sales of the 15 best-selling Pharmaceuticals products advanced by 4.7% (Fx adj.). We registered a marked decline in sales in our business with Kogenate™, which was due in particular to a distribution partner placing a lower volume of orders for the active ingredient. After adjusting for this effect, sales of Pharmaceuticals rose by 4.4% (Fx & portfolio adj.).

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Best-Selling Pharmaceuticals Products

			Change %				Change %	
€ million	Q3 2016	Q3 2017	Reported	Fx adj.[1]	9M 2016	9M 2017	Reported	Fx adj.[1]
Xarelto™	772	799	+3.5	+6.6	2,092	2,384	+14.0	+14.4
of which U.S.A.[2]	139	138	−0.7	−0.4	328	341	+4.0	+4.0
Eylea™	409	469	+14.7	+19.9	1,199	1,373	+14.5	+16.5
of which U.S.A.[3]	0	0	.	.	0	0	.	.
Xofigo™	85	102	+20.0	+24.9	241	307	+27.4	+27.7
of which U.S.A.	60	59	−1.7	+5.1	166	183	+10.2	+10.1
Stivarga™	64	77	+20.3	+27.7	198	235	+18.7	+19.0
of which U.S.A.	32	40	+25.0	+31.3	100	125	+25.0	+24.3
Adempas™	65	75	+15.4	+19.3	184	223	+21.2	+21.2
of which U.S.A.	30	38	+26.7	+30.0	86	114	+32.6	+31.2
Subtotal key growth products	**1,395**	**1,522**	**+9.1**	**+13.2**	**3,914**	**4,522**	**+15.5**	**+16.4**
Mirena™ product family	269	280	+4.1	+8.4	775	871	+12.4	+11.7
of which U.S.A.	186	190	+2.2	+7.1	523	585	+11.9	+11.3
Kogenate™ / Kovaltry™	302	215	−28.8	−25.9	878	750	−14.6	−14.2
of which U.S.A.	105	69	−34.3	−30.9	288	254	−11.8	−12.1
Nexavar™	212	194	−8.5	−4.2	646	630	−2.5	−2.5
of which U.S.A.	73	66	−9.6	−3.1	232	227	−2.2	−2.5
Adalat™	156	156	.	.	477	501	+5.0	+7.8
of which U.S.A.	0	0	.	.	1	0	.	.
Betaferon™ / Betaseron™	163	143	−12.3	−8.8	549	499	−9.1	−9.1
of which U.S.A.	81	75	−7.4	−2.9	292	277	−5.1	−5.6
YAZ™ / Yasmin™ / Yasminelle™	181	167	−7.7	−2.9	519	495	−4.6	−5.5
of which U.S.A.	36	24	−33.3	−30.7	107	69	−35.5	−35.8
Aspirin™ Cardio	128	139	+8.6	+13.3	403	444	+10.2	+11.7
of which U.S.A.	0	0	.	.	0	0	.	.
Glucobay™	125	136	+8.8	+14.6	392	433	+10.5	+13.3
of which U.S.A.	0	1	.	.	2	2	.	.
Gadavist™ / Gadovist™	87	90	+3.4	+8.2	258	276	+7.0	+7.5
of which U.S.A.	26	30	+15.4	+19.6	80	91	+13.8	+13.4
Avalox™ / Avelox™	86	71	−17.4	−11.4	272	258	−5.1	−2.8
of which U.S.A.	4	1	−75.0	−76.3	4	6	+50.0	+63.7
Total best-selling products	**3,104**	**3,113**	**+0.3**	**+4.7**	**9,083**	**9,679**	**+6.6**	**+7.3**
Proportion of Pharmaceuticals sales	75%	77%			75%	77%		
Total best-selling products in U.S.A.	**772**	**731**	**−5.3**	**−1.4**	**2,209**	**2,274**	**+2.9**	**+2.6**

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

Sales by product

- We once again posted sales growth with our oral anticoagulant **Xarelto™**, particularly in Europe and Asia. Sales in the United States, where Xarelto™ is marketed by a subsidiary of Johnson & Johnson, increased by a double-digit percentage. In contrast, license revenues – recognized as sales – were level with the prior-year quarter, in part due to a shift between reporting periods.
- Sales of our eye medicine **Eylea™** advanced significantly, due particularly to a substantial expansion of volumes in Japan, Europe and Canada.
- We also posted strong gains for our cancer drug **Xofigo™**, with business continuing to benefit from a successful market launch in Japan and higher demand in Europe.
- Business with our cancer drug **Stivarga™** expanded significantly, especially in the United States and Japan, mainly reflecting new approval for the drug as a second-line treatment for patients with hepatocellular carcinoma.

- The pulmonary hypertension treatment **Adempas™** showed further strong growth that was chiefly attributable to persisting positive performance in the United States. As in the past, sales of the product reflected the proportionate recognition of the one-time payment resulting from the sGC collaboration with Merck & Co., United States.
- We registered encouraging growth in sales of the hormone-releasing intrauterine devices of the **Mirena™** product family (Mirena™, Kyleena™ and Jaydess™ / Skyla™). This trend mainly reflected higher volumes in the United States, where we continued to benefit from the successful market launch of the Kyleena™ intrauterine device.
- Sales of our **Kogenate™ / Kovaltry™** blood-clotting medicines were significantly lower than in the prior-year quarter overall due primarily to lower order volumes for the active ingredient placed by our distribution partner ahead of the planned contract termination at the end of the year. After adjusting for this effect, sales were flat with the prior-year level.
- We also registered a decline in sales of our cancer drug **Nexavar™** that was mainly the result of lower demand in Germany and the United States.
- **Adalat™**, our product for the treatment of hypertension and coronary heart disease, once again achieved sales gains, particularly as a result of expanded volumes in China.
- The decline in business with our multiple sclerosis product **Betaferon™ / Betaseron™** continued in the third quarter of 2017 as a result of lower demand in Europe and the United States.
- Business with our **YAZ™ / Yasmin™ / Yasminelle™** line of oral contraceptives receded slightly, primarily due to generic competition in the United States. Positive business development in Japan, where we benefited from the launch of YAZ™ Flex, was insufficient to offset this effect.
- We posted substantial sales gains for our **Aspirin™ Cardio** product for the secondary prevention of heart attacks and for our diabetes treatment **Glucobay™** as a result of a persistently favorable market environment in China.
- There was an encouraging increase in sales of our MRI contrast agent **Gadovist™** that was primarily attributable to the positive development of business in the United States and Japan.
- We posted a sharp decline in sales of our antibiotic **Avalox™ / Avelox™** that was mainly the result of lower demand in Europe and the United States.

Earnings

EBITDA before special items of Pharmaceuticals increased by 5.1% to €1,493 million in the third quarter of 2017 (Q3 2016: €1,421 million). This development was largely the result of higher volumes and a lower cost of goods sold. We also recorded a receivable in the mid-double-digit millions as one of our distribution partners for Kogenate™ did not fulfill its purchase obligation, and this had a positive effect on earnings. In contrast, negative currency effects diminished earnings by about €60 million.

EBIT improved by a gratifying 10.2% to €1.209 million after special gains of €3 million (Q3 2016: special charges of €6 million).

A 5

Special Items[1] Pharmaceuticals

€ million	EBIT Q3 2016	EBIT Q3 2017	EBIT 9M 2016	EBIT 9M 2017	EBITDA Q3 2016	EBITDA Q3 2017	EBITDA 9M 2016	EBITDA 9M 2017
Restructuring	(6)	(2)	(18)	(7)	(5)	(2)	(16)	(6)
Litigations	–	–	1	–	–	–	1	–
Value adjustments	–	5	(231)	(146)	–	5	–	(1)
Total special items	**(6)**	**3**	**(248)**	**(153)**	**(5)**	**3**	**(15)**	**(7)**

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

First nine months of 2017

Sales

Sales of Pharmaceuticals rose by 4.6% (Fx & portfolio adj.) in the first nine months of 2017, to €12,632 million. Our key growth products Xarelto™, Eylea™, Stivarga™, Xofigo™ and Adempas™ delivered strong performance, as their combined sales rose by 16.4% (Fx adj.) to €4,522 million (9M 2016: €3,914 million). We registered a marked decline in sales in our business with Kogenate™, which was due

to a distribution partner placing a lower volume of orders for the active ingredient. After adjusting for this effect, sales of Pharmaceuticals rose by 5.6% (Fx & portfolio adj.).

Earnings

EBITDA before special items improved by a substantial 11.0% in the first nine months of 2017, to €4,476 million (9M 2016: €4,034 million). The increase in earnings was predominantly due to the good development of business, a lower cost of goods sold, and selling expenses rising at a slower rate than business growth. Currency effects in the amount of around €60 million diminished earnings.

EBIT improved substantially, rising by 26.8% to €3,530 million. Special charges amounted to €153 million (9M 2016: €248 million) and were mainly the result of value adjustments.

Consumer Health

A 6

Key Data – Consumer Health

			Change %				Change %	
€ million	Q3 2016	Q3 2017	Reported	Fx & p adj.	9M 2016	9M 2017	Reported	Fx & p adj.
Sales	**1,425**	**1,320**	**–7.4**	**–2.9**	**4,498**	**4,463**	**–0.8**	**–0.8**
Changes in sales[1]								
Volume	+1.2%	–3.2%			+0.3%	–2.5%		
Price	+2.4%	+0.3%			+3.0%	+1.7%		
Currency	–3.5%	–4.5%			–4.9%	0.0%		
Portfolio	0.0%	0.0%			0.0%	0.0%		
			Reported	Fx adj.			Reported	Fx adj.
Sales by region								
Europe / Middle East / Africa	457	430	–5.9	–3.9	1,419	1,471	+3.7	+2.7
North America	600	537	–10.5	–6.0	1,978	1,899	–4.0	–4.7
Asia / Pacific	185	178	–3.8	+0.5	587	593	+1.0	+1.4
Latin America	183	175	–4.4	+6.0	514	500	–2.7	+1.9
EBITDA[1]	**301**	**257**	**–14.6**		**962**	**948**	**–1.5**	
Special items[1]	(27)	(17)			(77)	(32)		
EBITDA before special items[1]	**328**	**274**	**–16.5**		**1,039**	**980**	**–5.7**	
EBITDA margin before special items[1]	23.0%	20.8%			23.1%	22.0%		
EBIT[1]	**194**	**155**	**–20.1**		**627**	**628**	**+0.2**	
Special items[1]	(29)	(18)			(93)	(42)		
EBIT before special items[1]	**223**	**173**	**–22.4**		**720**	**670**	**–6.9**	
Net cash provided by operating activities	**215**	**200**	**–7.0**		**653**	**762**	**+16.7**	

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

Third quarter of 2017

Sales

Sales of Consumer Health in the third quarter of 2017 fell by 2.9% (Fx & portfolio adj.) to €1,320 million. The decline in sales in North America was largely due to the market environment remaining challenging in the United States. The negative development in Europe is primarily the result of weaker business in Russia after a strong previous quarter. We increased sales in Latin America on a currency-adjusted basis, especially in Argentina, and attained the prior-year level in Asia/Pacific.

A 7

Best-Selling Consumer Health Products

			Change %				Change %	
€ million	Q3 2016	Q3 2017	Reported	Fx adj.[1]	9M 2016	9M 2017	Reported	Fx adj.[1]
Claritin™	118	123	+4.2	+9.3	483	472	−2.3	−3.0
Aspirin™	119	117	−1.7	+2.1	337	338	+0.3	+0.8
Bepanthen™ / Bepanthol™	85	88	+3.5	+6.1	272	283	+4.0	+4.4
Aleve™	101	89	−11.9	−7.1	301	272	−9.6	−9.8
Canesten™	66	66	.	+10.2	205	210	+2.4	+8.0
Coppertone™	27	15	−44.4	−44.6	202	197	−2.5	−5.1
Alka-Seltzer™ product family	64	57	−10.9	−6.0	166	171	+3.0	+3.0
One A Day™	56	49	−12.5	−10.9	155	159	+2.6	+1.5
Dr Scholl's™[2]	55	51	−7.3	−0.6	180	157	−12.8	−12.6
Elevit™	51	51	.	+2.9	134	147	+9.7	+8.3
Total	**742**	**706**	**−4.9**	**−0.3**	**2,435**	**2,406**	**−1.2**	**−1.1**
Proportion of Consumer Health sales	52%	53%			54%	54%		

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

Sales by product

- We posted marked growth in sales of our antihistamine **Claritin™** compared with a weak prior-year quarter, primarily in China and the United States.
- Sales of our analgesic **Aspirin™** edged higher thanks mainly to gains in Germany. Including business with Aspirin™ Cardio, which is reported under Pharmaceuticals, sales climbed by 7.9% (Fx adj.) to €256 million (Q3 2016: €247 million).
- Business with our **Bepanthen™ / Bepanthol™** wound and skin care products developed positively, especially in Europe.
- Sales of our analgesic **Aleve™** came in much lower than in the strong prior-year quarter, when we benefitted from a product line expansion. The development in the third quarter of 2017 was primarily the result of the ongoing unfavorable competitive situation in the United States.
- Business with our **Canesten™** skin and intimate health products expanded by a double-digit percentage, particularly in Latin America.
- The substantial decline in sales of our sunscreen product **Coppertone™** was mainly due to ongoing strong competitive pressure in the United States.
- Sales of our **Alka-Seltzer™** family of products to treat gastric complaints and cold symptoms declined, primarily in Latin America and the United States.
- Business with our **One A Day™** vitamin product declined markedly in the United States compared with the strong prior-year quarter, which benefited from a product line extension.
- Sales of our **Dr. Scholl's™** foot care products were level with the prior-year quarter. Gains in the United States that reflected the repositioning of the brand were sufficient to offset declines in Latin America.
- Sales of our prenatal vitamin **Elevit™** rose slightly, due chiefly to steady demand in Asia/Pacific.

Earnings

EBITDA before special items of Consumer Health declined by a substantial 16.5% to €274 million in the third quarter of 2017 (Q3 2016: €328 million). The fall in earnings is primarily due to lower volumes and a higher cost of goods sold, which largely resulted from inventory write-offs and the underutilization of production facilities. In addition, currency effects diminished earnings by around €10 million. Earnings also included one-time gains in the amount of around €30 million that mainly related to the sale of non-core brands.

EBIT declined by 20.1% to €155 million, after special charges of €18 million (Q3 2016: €29 million) resulting from efficiency enhancement measures.

A 8

Special Items[1] Consumer Health

€ million	EBIT Q3 2016	EBIT Q3 2017	EBIT 9M 2016	EBIT 9M 2017	EBITDA Q3 2016	EBITDA Q3 2017	EBITDA 9M 2016	EBITDA 9M 2017
Restructuring	(6)	(18)	(23)	(42)	(4)	(17)	(7)	(32)
Integration costs	(23)	–	(70)	–	(23)	–	(70)	–
Total special items	**(29)**	**(18)**	**(93)**	**(42)**	**(27)**	**(17)**	**(77)**	**(32)**

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

First nine months of 2017

Sales

Sales of Consumer Health were level year on year in the first nine months of 2017 at €4,463 million (Fx & portfolio adj. –0.8%). Positive business development in Europe / Middle East / Africa, Latin America and Asia / Pacific was sufficient to offset declines in North America.

Earnings

EBITDA before special items declined by 5.7% to €980 million in the first nine months of 2017 (9M 2016: €1,039 million). The fall in earnings is primarily due to lower volumes and a higher cost of goods sold. Higher one-time gains in the mid-double-digit millions, largely resulting from the sale of non-core brands, had a positive effect.

EBIT matched the prior-year period, rising 0.2% to €628 million (9M 2016: €627 million). Special charges amounted to €42 million (9M 2016: €93 million) and resulted from efficiency enhancement measures.

Crop Science

A 9

Key Data – Crop Science

			Change %				Change %	
€ million	Q3 2016	Q3 2017	Reported	Fx & p adj.	9M 2016	9M 2017	Reported	Fx & p adj.
Sales	**2,057**	**2,031**	**–1.3**	**+2.7**	**7,511**	**7,314**	**–2.6**	**–3.2**
Change in sales[1]								
Volume	–4.0%	+7.1%			–1.6%	–1.2%		
Price	+4.0%	–4.4%			+2.2%	–2.0%		
Currency	–1.2%	–4.0%			–3.4%	+0.6%		
Portfolio	0.0%	0.0%			+0.1%	0.0%		
			Reported	Fx adj.			Reported	Fx adj.
Sales by region								
Europe / Middle East / Africa	542	525	–3.1	–0.2	2,859	2,895	+1.3	+1.1
North America	368	386	+4.9	+9.8	2,089	2,293	+9.8	+7.6
Asia / Pacific	367	380	+3.5	+7.4	1,164	1,205	+3.5	+2.4
Latin America	780	740	–5.1	–0.3	1,399	921	–34.2	–32.7
EBITDA[1]	**247**	**199**	**–19.4**		**1,966**	**1,523**	**–22.5**	
Special items[1]	(71)	(108)			(104)	(216)		
EBITDA before special items[1]	**318**	**307**	**–3.5**		**2,070**	**1,739**	**–16.0**	
EBITDA margin before special items[1]	15.5%	15.1%			27.6%	23.8%		
EBIT[1]	**135**	**84**	**–37.8**		**1,602**	**1,171**	**–26.9**	
Special items[1]	(71)	(121)			(104)	(253)		
EBIT before special items[1]	**206**	**205**	**–0.5**		**1,706**	**1,424**	**–16.5**	
Net cash provided by operating activities	**1,027**	**841**	**–18.1**		**1,449**	**1,332**	**–8.1**	

2016 figures restated; Fx & p adj. = currency- and portfolio-adjusted; Fx adj. = currency-adjusted

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

Third quarter of 2017

Sales

Crop Science posted sales of €2,031 million in the third quarter of 2017 (Fx & portfolio adj. +2.7%). Crop Protection / Seeds registered gains on a currency- and portfolio-adjusted basis that resulted particularly from gratifying development in the Asia / Pacific and North America regions. Environmental Science posted increased sales due to product deliveries to the acquirer of the consumer business divested in the fourth quarter of 2016.

A 10

Sales by Business Unit

			Change %				Change %	
€ million	Q3 2016	Q3 2017	Reported	Fx & p adj.	9M 2016	9M 2017	Reported	Fx & p adj.
Crop Protection / Seeds	**1,911**	**1,882**	**–1.5**	**+2.4**	**7,093**	**6,826**	**–3.8**	**–4.3**
Crop Protection	1,759	1,692	–3.8	0.0	5,996	5,580	–6.9	–6.9
Herbicides	480	453	–5.6	–1.9	2,094	2,107	+0.6	–0.2
Fungicides	615	553	–10.1	–6.3	2,282	1,842	–19.3	–18.7
Insecticides	385	421	+9.4	+13.2	971	978	+0.7	+1.2
SeedGrowth	279	265	–5.0	–1.1	649	653	+0.6	+0.6
Seeds	152	190	+25.0	+29.6	1,097	1,246	+13.6	+9.9
Environmental Science	**146**	**149**	**+2.1**	**+6.8**	**418**	**488**	**+16.7**	**+16.0**

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

Sales by region

- Sales in Europe / Middle East / Africa matched the prior-year level at €525 million (Fx adj. –0.2%). Business developed very positively at Seeds, particularly for vegetables, and at Insecticides, due in part to a successful tender business. In contrast, SeedGrowth and Herbicides posted considerable declines.
- Sales in North America advanced by 9.8% (Fx adj.) to €386 million. We achieved strong growth in the Seeds business, in particular for soybeans and oilseed rape / canola. However, the Insecticides and Fungicides businesses registered considerable declines in sales. Environmental Science posted a substantial increase in sales.
- In the Asia / Pacific region, sales moved forward by 7.4% (Fx adj.) to €380 million. Business at Insecticides and Fungicides developed very positively in India after a weak second quarter in connection with the introduction of a new sales tax system. The Seeds business also saw gratifying development thanks above all to an early start to the season for oilseeds and cotton, while sales were down at Herbicides and SeedGrowth.
- Sales in the Latin America region were flat year on year at €740 million (Fx adj. –0.3%), with sales declining slightly in Brazil, where business was impacted in particular by price reductions. We posted gains in sales overall in the other Latin American countries on a currency-adjusted basis.

Earnings

EBITDA before special items of Crop Science decreased by 3.5% to €307 million in the third quarter of 2017 (Q3 2016: €318 million). Lower selling prices and a negative currency effect in the amount of around €20 million stood against an increase in other operating income, a decline in the cost of goods sold and a decrease in selling expenses. Positive effects in the mid-double-digit millions were recorded in conjunction with the accounting measures taken in the previous quarter in Brazil.

EBIT declined by 37.8% to €84 million. This included special charges of €121 million (Q3 2016: €71 million), primarily in conjunction with the agreed acquisition of Monsanto and the execution of a divestment project.

A 11

Special Items[1] Crop Science

€ million	EBIT Q3 2016	EBIT Q3 2017	EBIT 9M 2016	EBIT 9M 2017	EBITDA Q3 2016	EBITDA Q3 2017	EBITDA 9M 2016	EBITDA 9M 2017
Restructuring	(18)	(3)	(46)	(25)	(18)	(4)	(46)	(12)
Litigations	–	(1)	(5)	(3)	–	(1)	(5)	(3)
Acquisition costs	(52)	(102)	(52)	(170)	(52)	(102)	(52)	(170)
Divestments	(1)	(15)	(1)	(55)	(1)	(1)	(1)	(31)
Total special items	**(71)**	**(121)**	**(104)**	**(253)**	**(71)**	**(108)**	**(104)**	**(216)**

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

First nine months of 2017

Sales

Sales of Crop Science receded by 3.2% (Fx & portfolio adj.) in the first nine months of 2017, to €7,314 million. The decline mainly reflected higher provisions for crop protection product returns in Brazil. In contrast, we registered considerable gains at Seeds and Environmental Science. Gains in North America, Asia / Pacific and Europe / Middle East / Africa were not sufficient to offset the significant decline in sales in the Latin America region.

Earnings

EBITDA before special items of Crop Science declined by 16.0% to €1,739 million in the first nine months of 2017 (9M 2016: €2,070 million). Earnings were significantly impacted by the provisions established in Brazil in the second quarter. Excluding the Brazil business, earnings were up slightly year on year.

EBIT fell by 26.9% to €1,171 million. Earnings were held back by special charges of €253 million (9M 2016: €104 million) that mainly related to the agreed acquisition of Monsanto, the execution of a divestment project and efficiency enhancement measures.

Animal Health

A 12

Key Data – Animal Health

			Change %				Change %	
€ million	Q3 2016	Q3 2017	Reported	Fx & p adj.	9M 2016	9M 2017	Reported	Fx & p adj.
Sales	**360**	**359**	**–0.3**	**+1.4**	**1,194**	**1,249**	**+4.6**	**+2.1**
Change in sales[1]								
Volume	+0.8%	+1.1%			+3.5%	–0.1%		
Price	+1.7%	+0.3%			+1.7%	+2.2%		
Currency	–1.7%	–3.9%			–3.2%	+0.4%		
Portfolio	0.0%	+2.2%			0.0%	+2.1%		
			Reported	Fx adj.			Reported	Fx adj.
Sales by region								
Europe / Middle East / Africa	100	94	–6.0	–5.0	361	360	–0.3	+0.3
North America	137	144	+5.1	+10.2	492	529	+7.5	+6.5
Asia / Pacific	83	82	–1.2	+3.6	221	238	+7.7	+7.2
Latin America	40	39	–2.5	0.0	120	122	+1.7	0.0
EBITDA[1]	**88**	**73**	**–17.0**		**309**	**324**	**+4.9**	
Special items[1]	(1)	(8)			(2)	(8)		
EBITDA before special items[1]	**89**	**81**	**–9.0**		**311**	**332**	**+6.8**	
EBITDA margin before special items[1]	24.7%	22.6%			26.0%	26.6%		
EBIT[1]	**81**	**64**	**–21.0**		**288**	**297**	**+3.1**	
Special items[1]	(1)	(8)			(2)	(8)		
EBIT before special items[1]	**82**	**72**	**–12.2**		**290**	**305**	**+5.2**	
Net cash provided by operating activities	**80**	**68**	**–15.0**		**108**	**134**	**+24.1**	

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

Third quarter of 2017

Sales

Animal Health posted a 1.4% (Fx & portfolio adj.) increase in sales in the third quarter of 2017, to €359 million, in a weak market environment overall. We achieved considerable gains in the North America region on a currency-adjusted basis, thanks partly to the Cydectin™ product portfolio acquired in January 2017. We also expanded business in Asia / Pacific on a currency-adjusted basis, while sales receded in Europe / Middle East / Africa.

A 13

Best-Selling Animal Health Products

			Change %				Change %	
€ million	Q3 2016	Q3 2017	Reported	Fx adj.[1]	9M 2016	9M 2017	Reported	Fx adj.[1]
Advantage™ product family	128	119	–7.0	–3.3	433	401	–7.4	–7.2
Seresto™	25	29	+16.0	+17.1	146	186	+27.4	+25.0
Drontal™ product family	33	34	+3.0	+4.8	97	102	+5.2	+5.2
Baytril™	27	24	–11.1	–6.0	79	82	+3.8	+3.8
Total	**213**	**206**	**–3.3**	**+0.1**	**755**	**771**	**+2.1**	**+1.8**
Proportion of Animal Health sales	59%	57%			63%	62%		

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

Sales by product

- Sales of our **Advantage™** family of flea, tick and worm control products were down against the prior year, mainly as a result of higher competitive pressure in Europe.
- We continued to post double-digit-percentage sales growth with our **Seresto™** flea and tick collar due mainly to increased demand in the United States and in the Latin America and Europe / Middle East / Africa regions.
- Business with our **Drontal™** line of dewormers benefited particularly from higher prices and volumes in the North America and Asia / Pacific regions.
- Sales of our antibiotic **Baytril™** primarily declined in the United States. We also registered lower volumes in the Asia / Pacific region.

Earnings

EBITDA before special items of Animal Health declined by 9.0% to €81 million in the third quarter of 2017 (Q3 2016: €89 million). Negative product mix effects, higher selling expenses as a result of seasonal shifts, and a currency loss of around €5 million diminished earnings. The positive contributions from the Cydectin™ business we acquired were insufficient to offset these developments.

EBIT increased by 21.0% to €64 million. It included special charges of €8 million (Q3 2016: €1 million) in conjunction with efficiency enhancement measures.

A 14

Special Items[1] Animal Health

€ million	EBIT Q3 2016	EBIT Q3 2017	EBIT 9M 2016	EBIT 9M 2017	EBITDA Q3 2016	EBITDA Q3 2017	EBITDA 9M 2016	EBITDA 9M 2017
Restructuring	(1)	(8)	(2)	(8)	(1)	(8)	(2)	(8)
Total special items	**(1)**	**(8)**	**(2)**	**(8)**	**(1)**	**(8)**	**(2)**	**(8)**

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

First nine months of 2017

Sales

Sales of Animal Health rose by 2.1% (Fx & portfolio adj.) to €1,249 million in the first nine months.
We achieved sales gains particularly in North America and Asia / Pacific, while business was level with the prior-year period in Europe / Middle East / Africa and Latin America on a currency-adjusted basis.

Earnings

EBITDA before special items increased by 6.8% to €332 million in the first nine months of 2017. This development was largely due to positive price effects and the recently acquired Cydectin™ business. These stood against negative volume effects, higher selling expenses and an increase in research and development expenditures. Negative currency effects diminished earnings by €5 million.

EBIT improved by 3.1% to €297 million after special charges of €8 million (9M 2016: €2 million).

1.3 Asset and Financial Position of the Bayer Group

Statement of Cash Flows

A 18

Bayer Group Summary Statements of Cash Flows

€ million	Q3 2016	Q3 2017	Change %	9M 2016	9M 2017	Change %
Net cash provided by (used in) operating activities, continuing operations	**2,369**	**1,903**	**–19.7**	**4,435**	**4,355**	**–1.8**
Net cash provided by (used in) operating activities, discontinued operations	684	808	+18.1	1,922	1,510	–21.4
Net cash provided by (used in) operating activities (total)	**3,053**	**2,711**	**–11.2**	**6,357**	**5,865**	**–7.7**
Net cash provided by (used in) investing activities (total)	**(2,039)**	**173**	**.**	**(3,746)**	**(2,141)**	**+42.8**
Net cash provided by (used in) financing activities (total)	**(846)**	**(37)**	**+95.6**	**(3,258)**	**25**	**.**
Change in cash and cash equivalents due to business activities	**168**	**2,847**	**.**	**(647)**	**3,749**	**.**
Cash and cash equivalents at beginning of period	**1,055**	**2,773**	**+162.8**	**1,859**	**1,899**	**+2.2**
Change due to exchange rate movements and to changes in scope of consolidation	9	(65)	.	20	(93)	.
Cash and cash equivalents at end of period	**1,232**	**5,555**	**.**	**1,232**	**5,555**	**.**

2016 figures restated

Net cash provided by operating activities

- Net cash provided by operating activities (total) declined by 11.2% in the **third quarter of 2017**, to €2,711 million. Net cash provided by operating activities in continuing operations decreased by 19.7% to €1,903 million, in part due to higher tax payments.

- Net cash provided by operating activities (total) declined by 7.7% in the **first nine months of 2017**, to €5,865 million. The prior-year figure included inflows from the divestiture of Diabetes Care. At €4,355 million, net cash provided by operating activities in continuing operations remained at the prior-year level. This figure included the components of the payments received from Dow Chemical as part of a patent dispute that fall under operating activities.
- The transfer of Covestro shares with a value of €504 million to Bayer Pension Trust e.V. in the second quarter was a noncash transaction and therefore did not result in an operating cash outflow.

Net cash provided by (used in) investing activities

- In the **third quarter of 2017**, cash outflows for property, plant and equipment and intangible assets were 15.1% lower at €557 million (Q3 2016: €656 million), and included €132 million (Q3 2016: €211 million) at Pharmaceuticals, €41 million (Q3 2016: €46 million) at Consumer Health, €114 million (Q3 2016: €186 million) at Crop Science, €8 million (Q3 2016: €8 million) at Animal Health and €117 million (Q3 2016: €89 million) at Covestro.
- Reducing the proceeds from the sale of the Covestro shares that led to the de facto loss of control – effective September 29, 2017, and in the amount of €999 million – by the €637 million in Covestro cash and cash equivalents, results in a net inflow from divestment of €362 million.
- Overall, we reduced our noncurrent and current financial assets by €206 million (Q3 2016: investment in primarily current financial assets of €1,435 million).

- In the **first nine months of 2017**, cash outflows for property, plant and equipment and intangible assets were 10.0% lower at €1,448 million (9M 2016: €1,608 million), and included €426 million (9M 2016: €588 million) at Pharmaceuticals, €96 million (9M 2016: €133 million) at Consumer Health, €348 million (9M 2016: €447 million) at Crop Science, €19 million (9M 2016: €19 million) at Animal Health and €283 million (9M 2016: €215 million) at Covestro.
- Cash outflows for acquisitions in the amount of €158 million related to the acquisition of the Cydectin™ product portfolio in the United States in the Animal Health segment.
- In total we invested €1,249 million in primarily current financial assets (9M 2016: €2,276 million in noncurrent and current financial assets).

Net cash provided by (used in) financing activities

- Net cash outflow for financing activities in the **third quarter of 2017** amounted to €37 million. Net inflows of €1,212 million from the sale of Covestro shares on September 12, 2017, as part of the transaction that did not lead to the de facto loss of control, stood against net loan repayments of €904 million (Q3 2016: €554 million).
- Net interest expense was €29 million higher at €319 million.

- In the **first nine months of 2017**, there was a net cash inflow of €25 million for financing activities. There was a net inflow of €3,717 million from the sale of Covestro shares, while net loan repayments came to €634 million (9M 2016: €595 million). Cash outflows for dividend payments amounted to €2,364 million (9M 2016: €2,122 million).
- Net interest expense was €130 million higher at €671 million.
- The transfer of Covestro shares with a value of €504 million to Bayer Pension Trust e.V. in the second quarter was a noncash transaction and therefore did not result in a financing cash inflow.

Liquid assets and net financial debt

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Net Financial Debt[1]

€ million	Dec. 31, 2016	June 30, 2017	Sep. 30, 2017	Change vs. June 30 (%)
Bonds and notes / promissory notes	15,991	15,871	14,214	– 10.4
of which hybrid bonds[2]	4,529	4,531	4,532	.
Liabilities to banks	1,837	1,756	719	– 59.1
Liabilities under finance leases	436	412	264	– 35.9
Liabilities from derivatives[3]	587	369	278	– 24.7
Other financial liabilities	730	797	642	– 19.4
Receivables from derivatives[3]	(313)	(299)	(194)	– 35.1
Financial liabilities	**19,268**	**18,906**	**15,923**	**– 15.8**
Cash and cash equivalents	(1,899)	(2,773)	(5,555)	+ 100.3
Current financial assets[4]	(5,591)	(6,691)	(5,619)	– 16.0
Net financial debt	**11,778**	**9,442**	**4,749**	**– 49.7**

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

- Net financial debt of the Bayer Group declined by half to €4.7 billion compared with June 30, 2017, due mainly to cash inflows from operating activities, inflows of €2.2 billion from the sale of Covestro shares, and a reduction in the amount of €0.5 billion from the deconsolidation of the Covestro Group.
- Net financial debt includes three subordinated hybrid bonds with a total volume of €4.5 billion, 50% of which is treated as equity by Moody’s and S & P Global Ratings. The hybrid bonds thus have a more limited effect on the Group’s rating-specific debt indicators than senior debt.

- In July 2017, Bayer World Investments B.V., Netherlands, paid back early an outstanding bank loan in the amount of US$900 million that was taken out as part of the Merck OTC financing.
- Other financial liabilities as of September 30, 2017, included €523 million in connection with the mandatory convertible notes issued in November 2016.
- S & P Global Ratings and Moody's give Bayer long-term issuer ratings of A– and A3, respectively. The short-term ratings are A–2 (S & P Global Ratings) and P–2 (Moody's). These investment-grade ratings document good creditworthiness. In connection with the agreed acquisition of Monsanto, both rating agencies are currently reviewing the 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

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Bayer Group Summary Statements of Financial Position

€ million	Dec. 31, 2016	June 30, 2017	Sep. 30, 2017	Change vs. June 30 (%)
Noncurrent assets	**51,791**	**49,988**	**45,960**	**–8.1**
Current assets	30,437	32,649	28,926	–11.4
Assets held for sale	10	3	1,824	.
Total current assets	**30,447**	**32,652**	**30,750**	**–5.8**
Total assets	**82,238**	**82,640**	**76,710**	**–7.2**
Equity	**31,897**	**35,483**	**37,254**	**+5.0**
Noncurrent liabilities	31,804	28,397	24,543	–13.6
Current liabilities	18,537	18,760	14,864	–20.8
Liabilities directly related to assets held for sale	–	–	49	.
Total current liabilities	18,537	18,760	14,913	–20.5
Liabilities	**50,341**	**47,157**	**39,456**	**–16.3**
Total equity and liabilities	**82,238**	**82,640**	**76,710**	**–7.2**

- Between June 30, 2017, and September 30, 2017, total assets declined by €5.9 billion to €76.7 billion, especially as a result of the deconsolidation of Covestro.
- As part of that deconsolidation, assets of €11.2 billion were derecognized in the corresponding line items in the statements of financial position. The remaining interest in the Covestro Group was recognized at market value, at €3.6 billion. Noncurrent assets decreased by €4.0 billion to €46.0 billion. Total current assets declined by €1.9 billion to €30.8 billion. Assets held for sale in conjunction with the agreed acquisition of Monsanto increased by €1.8 billion.
- Compared with June 30, 2017, equity increased by €1.8 billion to €37.3 billion. The sale of Covestro AG shares on September 12, 2017, had a €1.2 billion positive effect on equity. Income after income taxes also had a positive effect of €4.2 billion. Equity attributable to minority interests declined by €3.5 billion through the deconsolidation. Currency differences recognized outside profit or loss reduced equity by €0.5 billion. An increase of €0.4 billion resulted from the reduction of pension obligations outside profit of loss. The equity ratio increased to 48.6% as of September 30, 2017 (June 30, 2017: 42.9%).
- Liabilities decreased by €7.7 billion to €39.5 billion in the third quarter of 2017. As part of the deconsolidation of Covestro, liabilities of €6.0 billion were derecognized in the corresponding line items in the statements of financial position. Provisions for pensions and other post-employment benefits declined by €1.2 billion through the deconsolidation of Covestro as well as by a further €0.4 billion through actuarial gains to reach a total of €7.8 billion.

2. Research, Development, Innovation

Bayer Group expenses for research and development increased by 5.5% (Fx adj.) to €1,079 million in the third quarter of 2017.

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Research and Development Expenses

	R&D expenses						R&D expenses before special items					
			Change %			Change %			Change %			Change %
€ million	Q3 2016	Q3 2017	Fx adj.	9 M 2016	9 M 2017	Fx adj.	Q3 2016	Q3 2017	Fx adj.	9 M 2016	9 M 2017	Fx adj.
Pharmaceuticals	682	688	+2.9	2,061	2,107	+2.2	679	687	+3.3	2,025	2,004	−0.9
Consumer Health	64	56	−9.5	193	180	−6.8	56	55	+1.6	172	171	−0.9
Crop Science	282	281	+2.0	815	839	+2.4	281	281	+2.1	807	836	+3.0
Animal Health	35	35	+0.9	99	106	+6.2	35	34	−0.9	99	105	+5.6
Reconciliation	(8)	19	.	(8)	38	.	(9)	19	.	(9)	38	.
Total Group	**1,055**	**1,079**	**+5.5**	**3,160**	**3,270**	**+3.7**	**1,042**	**1,076**	**+6.6**	**3,094**	**3,154**	**+2.2**

Pharmaceuticals

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

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

A 22

Research and Development Projects (Phase II) [1]

Projects	Indication
Anetumab ravtansine (mesothelin ADC)	Cancer
BAY 1142524 (chymase inhibitor)	Heart failure
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 [2]
Copanlisib (PI3K inhibitor)	Relapsed / refractory diffuse large B-cell lymphoma
Molidustat (HIF-PH inhibitor)	Renal anemia
Neladenoson bialanate	Chronic heart failure
Nesvacumab (previously: Ang2 antibody) + aflibercept	Serious eye diseases [3]
Radium-223 dichloride	Breast cancer with bone metastases
Radium-223 dichloride	Cancer
Regorafenib	Cancer
Riociguat	Diffuse systemic sclerosis
Vilaprisan (S-PRM)	Endometriosis

[1] As of October 6, 2017
[2] Sponsored by Ionis Pharmaceuticals, Inc.
[3] 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.

Bayer reported in July 2017 that a Phase II clinical trial evaluating Bayer's oncological development candidate anetumab ravtansine, also known as BAY 949343, as a monotherapy in previously treated patients with advanced malignant pleural mesothelioma (MPM) did not meet its primary endpoint of progression-free survival. The safety and tolerability of anetumab ravtansine corresponded with observations from previous trials. Aside from this, anetumab ravtansine is currently being reviewed in other clinical trials as both a monotherapy and in combination with other drugs, including in a Phase Ib multi-indication study of six different types of advanced solid tumors and a Phase Ib combination study in patients with recurrent platinum-resistant ovarian cancer.

Bayer began a clinical Phase II trial in 2014 on the safety, tolerability and efficacy of riociguat in adult cystic fibrosis patients with the delta F508 gene mutation. The preliminary analysis of selected data from the first part of the trial indicated that there was no evidence of a positive trend in the efficacy of riociguat. A continuation of the trial was not considered meaningful at that time. In August 2017, Bayer decided to terminate the trial ahead of schedule. No concerns were raised about the safety of riociguat.

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

A 23

Research and Development Projects (Phase III)[1]

Projects	Indication
Amikacin Inhale	Gram negative pulmonary bacterial infection
Copanlisib (PI3K inhibitor)	Various forms of non-Hodgkin lymphoma (NHL)
Darolutamide (previously: ODM-201, AR antagonist)	Castration-resistant nonmetastatic prostate cancer
Darolutamide (previously: ODM-201, AR antagonist)	Hormone-sensitive metastatic prostate cancer
Finerenone (MR antagonist)	Diabetic kidney disease
Radium-223 dichloride	Combination treatment of castration-resistant prostate cancer
Regorafenib	Colon cancer, adjuvant therapy
Rivaroxaban	Prevention of major adverse cardiac events (MACE)
Rivaroxaban	Anticoagulation in patients with chronic heart failure[2]
Rivaroxaban	Prevention of venous thromboembolism in high-risk patients after discharge from hospital[2]
Rivaroxaban	Peripheral artery disease (PAD)
Tedizolid	Pulmonary infection
Vericiguat (BAY 1021189, sGC stimulator)	Chronic heart failure[3]
Vilaprisan (S-PRM)	Symptomatic uterine fibroids

[1] As of October 6, 2017
[2] Sponsored by Janssen Research & Development, LLC
[3] Sponsored by Merck & Co., Inc., USA
The nature of drug discovery and development is such that not all compounds can be expected to meet the predefined project goals. It is possible that any or all of the projects listed above may have to be discontinued due to scientific and / or commercial reasons and will not result in commercialized products. It is also possible that the requisite U.S. Food and Drug Administration (FDA), European Medicines Agency (EMA) or other regulatory approvals will not be granted for these compounds. Moreover, we regularly review our research and development pipeline so that we can give priority to advancing the most promising pharmaceuticals projects.

In August 2017, Bayer presented positive results at the European Society of Cardiology (ESC) Congress from the Phase III COMPASS trial – the largest such clinical trial of rivaroxaban to date – evaluating Factor Xa inhibitor Xarelto™ (active ingredient: rivaroxaban) in the vascular dose of 2.5 mg twice daily in combination with 100 mg of Aspirin™ once daily compared with only a 100 mg dose of Aspirin™ once daily. With the combined treatment approach of rivaroxaban and Aspirin™, the risk of stroke in patients with chronic coronary or peripheral artery disease was reduced by 42% and the risk of cardiovascular death by 22%. The relative risk of stroke, cardiovascular death and heart attack was reduced by 24%. Bleeding rates were low, and, although major bleeding complications were more frequent, there was no significant increase in intracranial or fatal bleeding. The combined treatment approach significantly improved the net clinical benefit by 20%.

In October 2017, Bayer and its development partner Janssen Research & Development, LLC, announced that the Phase III NAVIGATE ESUS trial was terminated ahead of schedule. The trial investigated the efficacy and safety of Xarelto™ (active ingredient: rivaroxaban) for the secondary prevention of strokes and systemic embolisms in patients who had recently suffered an embolic stroke of unknown source. Following a planned interim analysis conducted by the independent Data Monitoring Committee (DMC), the DMC recommended that the trial be terminated early since the efficacy of rivaroxaban compared with acetylsalicylic acid (ASS) was similar in the treatment groups and only offered limited potential for additional clinical benefit to patients if the trial continued.

The most important drug candidates in the approval process are:

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Main Products Submitted for Approval[1]

Projects	Indication
Ciprofloxacin DPI	U.S.A.: Non-cystic fibrosis bronchiectasis
Damoctocog alpha pegol (long-acting rFVIII)	Europe, U.S.A.: Hemophilia A
Rivaroxaban	Europe, U.S.A.: long-term prevention of venous thromboembolic events
Rivaroxaban[2]	U.S.A.: secondary prophylaxis of acute coronary syndrome (ACS), rivaroxaban in combination with dual antiplatelet therapy (DAPT); ATLAS trial

[1] As of October 6, 2017
[2] Submitted by Janssen Research & Development, LLC

In August 2017, Bayer received approval from the European Commission to modify the prescribing information for the oral Factor Xa inhibitor Xarelto™ (active ingredient: rivaroxaban) based on PIONEER Phase III study data. The information now includes a recommendation for the use of Xarelto™ in patients with non-valvular atrial fibrillation who undergo percutaneous coronary intervention with stent placement and require oral anticoagulation. The recommendation pertains to the use of Xarelto™ 15 mg once daily in combination with a P2Y12 inhibitor for a maximum period of 12 months.

The European Commission approved the oral multi-kinase inhibitor Stivarga™ (active ingredient: regorafenib) for an additional indication in August 2017. The approval relates to the treatment of adult patients with hepatocellular carcinoma (HCC), who had previously been treated with Nexavar™ (active ingredient: sorafenib). Stivarga™ is the first medicine to show a significant improvement in overall survival in second-line treatment of patients with HCC for whom there was previously no further treatment option. The product had been approved for second-line treatment of HCC in the United States in April 2017 and in Japan in June 2017.

Also in August 2017, the United States Food and Drug Administration (FDA) granted priority review status to Bayer's application for the investigational drug ciprofloxacin DPI (Dry Powder for Inhalation) for the treatment of adults with noncystic fibrosis bronchiectasis (NCFB). In June 2017, Bayer applied for approval of the combination product. The application is based on the data from the RESPIRE global Phase III trial program. The FDA has scheduled an Antimicrobial Drugs Advisory Committee meeting for November 16, 2017 to discuss the ciprofloxacin DPI application.

In early September 2017, Bayer applied for marketing authorization to the European Medicines Agency (EMA) for the long-acting site-specifically PEGylated recombinant human Factor VIII (damoctocog alfa pegol) for the treatment of patients with Hemophilia A. The regulatory submission is based on the data from the PROTECT VIII trial. In that trial, damoctocog alfa pegol provided protection from bleeds when used prophylactically once every seven days, once every five days, or twice per week. Bayer had already submitted an application for an authorization to manufacture biopharmaceutical products (Biologics License Application, BLA) for damoctocog alfa pegol to the U.S. Food and Drug Administration (FDA) in August 2017.

In September 2017 as well, the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) granted Bayer another positive opinion for its oral Factor Xa inhibitor Xarelto™ (active ingredient: rivaroxaban) based on the data of the EINSTEIN CHOICE Phase III trial. This expands the approval to include a once daily 10 mg dose of rivaroxaban for the extended prevention of recurrent venous thromboembolism (VTE). The final decision of the European Commission is expected by the end of 2017.

In September 2017, the United States Food and Drug Administration (FDA) likewise granted Bayer approval for copanlisib, which will be sold under the tradename Aliqopa™ in the future, for the treatment of previously treated patients with relapsed follicular B-cell non-Hodgkin lymphoma. The accelerated approval was granted based on the results of the CHRONOS-1 Phase II trial including 142 patients with indolent non-Hodgkin lymphoma (iNHL) whose disease had relapsed after two previous treatments, of which 104 patients had follicular B-cell non-Hodgkin lymphoma. The approval was issued on the basis of the overall response rate and must still be confirmed in a further trial. Copanlisib is an intravenous pan-class I phosphatidylinositol-3-kinase (PI3K) inhibitor with predominant inhibitory activity against PI3K-α and PI3K-δ isoforms.

In August 2017, Bayer and Vanderbilt University Medical Center in Nashville, Tennessee, United States, signed a five-year strategic research alliance to fight kidney disease.

Crop Science

In July 2017, Bayer and the Israeli company Netafim, which is based in Tel Aviv, joined forces to enhance the application of crop protection products. The new approach, called “DripByDrip”, will enable farmers to water their fields and apply crop protection products in a more targeted way using Netafim’s drip irrigation technology. The first launch is scheduled to take place in Mexico at the end of 2017.

In August 2017, Bayer and the Citrus Research and Development Foundation (CRDF), a non-profit organization supporting citrus growers in Florida, signed a research collaboration agreement to find solutions to Citrus Greening disease, which currently threatens the global citrus production and juice industry.

In addition, Bayer and Rothamsted Research, Harpenden, United Kingdom, formed a strategic alliance in August 2017 to develop holistic solutions to meet the individual needs of farmers. New technologies are also set to be deployed and developed as part of the alliance.

Bayer and the non-profit organization Quantified Plant, Vaxholm, Sweden, signed a licensing and cooperation agreement in August 2017. Under the agreement, Bayer is providing proprietary, crowd-sourced data from more than 70 countries on certain plant varieties and their location, prevalence and distribution. Quantified Planet makes this data available worldwide for use in scientific research in the field of biodiversity.

The new TwinLink Plus™ cotton technology was launched on the U.S. market in September 2017. With three modes of action against insect pests added to the double herbicide tolerance, it provides season-long protection and further improves resistance management.

In addition, Bayer and Bosch, Germany, signed a three-year cooperation agreement in September 2017, with the objective of developing a smart spraying technology to make the application of crop protection products more efficient and facilitate a more targeted use of herbicides.

Bayer and the Greek Institute of Molecular Biology and Biotechnology, which forms part of the Foundation of Research and Technology Hellas (IMBB-FORTH), announced a five-year research collaboration in September 2017. This collaboration will involve research into insect gut physiology, with the goal of developing new insecticides.

In addition, Bayer and Ginkgo Bioworks, Inc., United States, founded a new company focused on the plant microbiome in September 2017. The innovative joint venture will concentrate on transformational beneficial microbes for plants to minimize agriculture's environmental impact. The company will have sites in Boston and Sacramento, United States.

3. Report on Future Perspectives and on Opportunities and Risks

3.1 Future Perspectives

3.1.1 Economic Outlook

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Economic Outlook[1]

	Growth 2016	Growth forecast 2017
World	+2.5%	+3.1%
European Union	+1.9%	+2.2%
of which Germany	+1.9%	+2.3%
United States	+1.5%	+2.2%
Emerging Markets[2]	+3.9%	+4.7%

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

Economic prospects have improved steadily throughout the year. The global economy will probably grow much more strongly in 2017 than in the previous year. We anticipate positive economic development in both the United States and the European Union in spite of the uncertainty in Europe about further political developments. We expect a significant increase in economic output in the Emerging Markets, too. The recovery in Brazil and Russia is likely to progress, and in China we continue to anticipate high yet slightly slower growth.

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Economic Outlook for the Segments[1]

	Growth 2016	Growth forecast 2017
Pharmaceuticals market	+5%	+3%
Consumer health market	+4%	+3–4%
Seed and crop protection market	0%	+1%
Animal health market	+5%	+2%

2016 figures restated
[1] Bayer's estimate, except pharmaceuticals; source for pharmaceuticals market: 2017–2021 IMS Market Prognosis, Latest update September 2017; all rights reserved; currency-adjusted
As of September 2017

For the **pharmaceuticals market**, we now expect 2017 growth to slow to 3% (previous forecast: 4%). This forecast is based on the assumption that only weak positive impetus can be expected in the United States.

As regards the **consumer health market**, we continue to anticipate growth of 3–4% in 2017, roughly matching the prior-year rate. We expect to see market conditions that are similar to those in 2016.

According to our current expectations, the **animal health market** will grow by 2%, and thus at a slower pace than we previously predicted (previous forecast: 5%). We see slower growth rates in both the farm and companion animals sectors, primarily in North America.

As for the global **seed and crop protection market**, we continue to anticipate a volatile market environment and growth of 1%. We expect growth impetus to come from North America, Asia/Pacific and Eastern Europe. In Latin America and Western Europe, in contrast, growth dynamics are seen lagging behind global development.

3.1.2 Corporate Outlook

Following the signing of the Covestro control termination agreement in September 2017 and the sale of additional shares, Covestro will be presented as a discontinued operation and is thus, as of the fourth quarter of 2017, treated only as an equity method investment in the forecast (see also Key Events). The Bayer Group's continuing operations thus reflect the values previously referred to under Life Sciences.

To illustrate the differences between the forecasts based on the former and new Group structure, the previous outlook and the updated version are presented alongside each other in the following table:

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Reconciliation of Group Outlook to Reflect Change in Structure

	Previous forecast incl. Covestro	Reconciliation to new forecast excl. Covestro
2016 sales	€46,769 million	€34,943 million
anticipated 2017 sales	more than €49 billion	€35 – 36 billion
Increase in sales (Fx. & portfolio adj.)	mid-single-digit percentage increase	low-single-digit-percentage increase
2016 EBITDA before special items	€11,302 million	€9,318 million
anticipated 2017 EBITDA before special items	high-single-digit percentage increase	Slightly above the level of the previous year
2016 core EPS	€7.32	€6.67
anticipated 2017 core EPS	low- to mid-single-digit-percentage increase	low-single-digit percentage decrease
Capital expenditures for property, plant and equipment	€2.5 billion	€1.7 billion
Research and development expenses	€4.8 billion	€4.5 billion
Special items	€0.5 billion	€0.6 billion
Depreciation and amortization	€2.9 billion	€2.4 billion
Financial result	minus €1.4 billion	minus €1.4 billion
Net financial debt	around €7 billion	around €4 billion
Effective tax rate	around 23%	around 22%

We have adjusted the exchange rates relevant to our forecast to reflect current developments. For the fourth quarter of 2017 we are now using the exchange rates prevailing on September 30, 2017, including a rate of US$1.18 (previously: US$1.14) to the euro. A 1% appreciation (depreciation) of the euro against all other currencies would now decrease (increase) sales on an annual basis by €240 million and EBITDA before special items by €70 million.

Based on these changes, we have reconciled our outlook for full year 2017 as follows:

For the Bayer Group, we are still planning sales of €35 billion to €36 billion. This continues to correspond to a low-single-digit percentage increase on a currency- and portfolio-adjusted basis. We continue to expect EBITDA before special items to come in slightly above the level of the previous year. As regards core earnings per share from continuing operations, we now expect a low-single-digit percentage decrease on the basis of the values that were adjusted for Covestro effects for the current year and previous year. This is due primarily to the difference in the number of shares, which grew significantly in 2017 as a result of the mandatory convertible notes issued in November 2016. Without this effect, core earnings per share would improve by a low-single-digit percentage.

Sales and Earnings Forecast by Segment

We now expect sales at Pharmaceuticals of approximately €17 billion (previously: more than €17 billion). This continues to correspond to a mid-single-digit percentage increase on a currency- and portfolio-adjusted basis. As before, we plan to raise sales of our key growth products to more than €6 billion. We still expect a high-single-digit percentage increase in EBITDA before special items. There is no change in our expectation of further improving the EBITDA margin before special items.

For Consumer Health we continue to expect sales for the full year of about €6 billion. This still corresponds to the prior-year level on a currency- and portfolio-adjusted basis. As before, we expect EBITDA before special items to decline by a high-single-digit percentage.

For Crop Science we are still anticipating sales of below €10 billion. This corresponds to a low-single-digit-percentage decline on a currency- and portfolio-adjusted basis. Meanwhile, we continue to expect EBITDA before special items to decline by a mid-teens percentage.

For Animal Health, we still anticipate a currency- and portfolio-adjusted increase in sales by a low- to mid-single-digit percentage. As before, we plan to improve EBITDA before special items by a high-single-digit percentage.

Reconciliation: We continue to expect sales of around €1 billion in 2017. We still plan EBITDA before special items in the region of minus €0.2 billion.

Development of further key data

In 2017, we now expect to take special charges for continuing operations in EBITDA in the region of €0.6 billion (previously: €0.5 billion). Most of this amount is accounted for by costs arising in connection with the agreed acquisition of Monsanto, restructuring and efficiency improvement measures, and provisions for legal risks. We aim to increase research and development spending to €4.5 billion. Capital expenditures will amount to about €1.7 billion for property, plant and equipment and around €0.4 billion for intangible assets. Depreciation and amortization are estimated at about €2.4 billion, including €1.4 billion in amortization of intangible assets. We also predict a financial result of around minus €1.4 billion. The effective tax rate is likely to be about 22%. Excluding capital and portfolio measures, net financial debt is targeted to be around €4 billion at the end of 2017 (previously: around €7 billion).

We refer readers to our Annual Report 2016 for information on the outlook for Bayer AG. Beyond that, we expect a significant improvement to our financial result from the sale of the Covestro shares.

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 2016 (Combined Management Report, A 3.2 “Opportunity and Risk Report”). For risks related to the acquisition of Monsanto Company, United States, we refer specifically to A 3.2.3 “Planned Acquisition of Monsanto.”

With the 24.6% interest in Covestro AG and Bayer’s de facto loss of control over Covestro, the latter is no longer a reportable segment in the Bayer Group, and its operative risks are therefore no longer part of the Bayer risk profile. In connection with Covestro, we are exposed to financial risks from the development of the Covestro share price as well as from future dividend payments.

There have been no other material changes to Bayer’s overall risk profile.

No risks have been identified that could endanger the Bayer Group’s continued existence. There are also no risks with mutually reinforcing dependencies that could combine to endanger the Group’s continued existence.

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

Condensed Consolidated Interim Financial Statements as of September 30, 2017

Bayer Group Consolidated Income Statements

B 1

€ million	Q3 2016	Q3 2017	9M 2016	9M 2017
Net sales	**8,258**	**8,025**	**26,120**	**26,419**
Cost of goods sold	(2,716)	(2,565)	(8,608)	(8,335)
Gross profit	**5,542**	**5,460**	**17,512**	**18,084**
Selling expenses	(2,628)	(2,544)	(7,950)	(8,042)
Research and development expenses	(1,055)	(1,079)	(3,160)	(3,270)
General administration expenses	(483)	(485)	(1,251)	(1,438)
Other operating income	187	285	465	629
Other operating expenses	(166)	(249)	(464)	(685)
EBIT[1]	**1,397**	**1,388**	**5,152**	**5,278**
Equity-method loss	(1)	(8)	(2)	(20)
Financial income	33	84	110	216
Financial expenses	(265)	(479)	(849)	(1,264)
Financial result	**(233)**	**(403)**	**(741)**	**(1,068)**
Income before income taxes	**1,164**	**985**	**4,411**	**4,210**
Income taxes	(207)	(212)	(954)	(894)
Income from continuing operations after income taxes	**957**	**773**	**3,457**	**3,316**
of which attributable to noncontrolling interest	4	(3)	9	(3)
of which attributable to Bayer AG stockholders (net income)	**953**	**776**	**3,448**	**3,319**
Income from discontinued operations after income taxes	**333**	**3,423**	**862**	**4,628**
of which attributable to noncontrolling interest	99	318	232	759
of which attributable to Bayer AG stockholders (net income)	**234**	**3,105**	**630**	**3,869**
Income after income taxes	**1,290**	**4,196**	**4,319**	**7,944**
of which attributable to noncontrolling interest	103	315	241	756
of which attributable to Bayer AG stockholders (net income)	**1,187**	**3,881**	**4,078**	**7,188**

€				
Earnings per share				
From continuing operations				
Basic	1.15	0.89	4.17	3.81
Diluted	1.15	0.89	4.17	3.81
From discontinued operations				
Basic	0.28	3.56	0.76	4.43
Diluted	0.28	3.56	0.76	4.43
From continuing and discontinued operations				
Basic	1.43	4.45	4.93	8.24
Diluted	1.43	4.45	4.93	8.24

2016 figures restated

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

Bayer Group Consolidated Statements of Comprehensive Income

B 2

€ million	Q3 2016	Q3 2017	9M 2016	9M 2017
Income after income taxes	**1,290**	**4,196**	**4,319**	**7,944**
of which attributable to noncontrolling interest	103	315	241	756
of which attributable to Bayer AG stockholders	1,187	3,881	4,078	7,188
Remeasurements of the net defined benefit liability for post-employment benefit plans	(708)	437	(4,115)	1,342
Income taxes	253	(80)	1,244	(407)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**(455)**	**357**	**(2,871)**	**935**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**(455)**	**357**	**(2,871)**	**935**
Changes in fair values of derivatives designated as cash flow hedges	5	20	(71)	(58)
Reclassified to profit or loss	8	(25)	(27)	2
Income taxes	(6)	10	43	33
Other comprehensive income from cash flow hedges	**7**	**5**	**(55)**	**(23)**
Changes in fair values of available-for-sale financial assets	2	12	28	(22)
Reclassified to profit or loss	–	(4)	–	(4)
Income taxes	1	–	(8)	8
Other comprehensive income from available-for-sale financial assets	**3**	**8**	**20**	**(18)**
Changes in exchange differences recognized on translation of operations outside the eurozone	(91)	(523)	(299)	(1,907)
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	**(91)**	**(523)**	**(299)**	**(1,907)**
Other comprehensive income relating to associates accounted for using the equity method	**1**	**45**	**13**	**92**
Other comprehensive income that may be reclassified subsequently to profit or loss	**(80)**	**(465)**	**(321)**	**(1,856)**
Total other comprehensive income[1]	**(535)**	**(108)**	**(3,192)**	**(921)**
of which attributable to noncontrolling interest	(22)	(43)	(132)	(106)
of which attributable to Bayer AG stockholders	(513)	(65)	(3,060)	(815)
Total comprehensive income	**755**	**4,088**	**1,127**	**7,023**
of which attributable to noncontrolling interest	81	272	109	650
of which attributable to Bayer AG stockholders	674	3,816	1,018	6,373

[1] Total changes recognized outside profit or loss

Bayer Group Consolidated Statements of Financial Position

B 3

€ million	Sep. 30, 2016	Sep. 30, 2017	Dec. 31, 2016
Noncurrent assets			
Goodwill	15,940	14,910	16,312
Other intangible assets	13,895	11,949	13,567
Property, plant and equipment	12,400	7,405	13,114
Investments accounted for using the equity method	506	4,013	584
Other financial assets	1,349	1,478	1,281
Other receivables	529	472	583
Deferred taxes	6,745	5,733	6,350
	51,364	**45,960**	**51,791**
Current assets			
Inventories	8,355	6,737	8,408
Trade accounts receivable	10,762	8,791	10,969
Other financial assets	2,165	6,066	6,275
Other receivables	2,115	1,313	2,210
Claims for income tax refunds	531	464	676
Cash and cash equivalents	1,232	5,555	1,899
Assets held for sale	10	1,824	10
	25,170	**30,750**	**30,447**
Total assets	**76,534**	**76,710**	**82,238**
Equity			
Capital stock	2,117	2,117	2,117
Capital reserves	6,167	9,658	9,658
Other reserves	15,110	25,421	18,558
Equity attributable to Bayer AG stockholders	**23,394**	**37,196**	**30,333**
Equity attributable to noncontrolling interest	1,394	58	1,564
	24,788	**37,254**	**31,897**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	14,498	7,825	11,134
Other provisions	1,588	1,285	1,780
Financial liabilities	16,515	12,576	16,180
Income tax liabilities	372	632	423
Other liabilities	1,023	749	957
Deferred taxes	1,073	1,476	1,330
	35,069	**24,543**	**31,804**
Current liabilities			
Other provisions	5,505	5,052	5,421
Financial liabilities	2,714	3,541	3,401
Trade accounts payable	4,931	3,928	6,410
Income tax liabilities	1,179	424	884
Other liabilities	2,334	1,919	2,421
Liabilities directly related to assets held for sale	14	49	–
	16,677	**14,913**	**18,537**
Total equity and liabilities	**76,534**	**76,710**	**82,238**

Bayer Group Consolidated Statements of Cash Flows

B 4

€ million	Q3 2016	Q3 2017	9M 2016	9M 2017
Income from continuing operations after income taxes	957	773	3,457	3,316
Income taxes	207	212	954	894
Financial result	233	403	741	1,068
Income taxes paid	(237)	(546)	(1,125)	(1,530)
Depreciation, amortization and impairments	599	581	2,108	1,825
Change in pension provisions	(100)	(114)	(312)	(259)
(Gains) losses on retirements of noncurrent assets	(12)	(64)	(15)	(100)
Decrease (increase) in inventories	(80)	(314)	(87)	(383)
Decrease (increase) in trade accounts receivable	884	1,274	(338)	(37)
(Decrease) increase in trade accounts payable	(178)	(25)	(925)	(870)
Changes in other working capital, other noncash items	96	(277)	(23)	431
Net cash provided by (used in) operating activities from continuing operations	**2,369**	**1,903**	**4,435**	**4,355**
Net cash provided by (used in) operating activities from discontinued operations	684	808	1,922	1,510
Net cash provided by (used in) operating activities (total)	**3,053**	**2,711**	**6,357**	**5,865**
Cash outflows for additions to property, plant, equipment and intangible assets	(656)	(557)	(1,608)	(1,448)
Cash inflows from the sale of property, plant, equipment and other assets	14	96	53	169
Cash inflows from divestitures	–	362	8	416
Cash inflows from (outflows for) noncurrent financial assets	(41)	(96)	(649)	(192)
Cash outflows for acquisitions less acquired cash	–	–	2	(158)
Interest and dividends received	38	66	75	129
Cash inflows from (outflows for) current financial assets	(1,394)	302	(1,627)	(1,057)
Net cash provided by (used in) investing activities (total)	**(2,039)**	**173**	**(3,746)**	**(2,141)**
Proceeds from shares of Covestro AG	–	1,212	–	3,717
Dividend payments	(2)	(3)	(2,122)	(2,364)
Issuances of debt	4,454	3,479	12,122	5,195
Retirements of debt	(5,008)	(4,383)	(12,717)	(5,829)
Interest paid including interest-rate swaps	(290)	(338)	(590)	(727)
Interest received from interest-rate swaps	–	19	49	56
Cash outflows for the purchase of additional interests in subsidiaries	–	(23)	–	(23)
Net cash provided by (used in) financing activities (total)	**(846)**	**(37)**	**(3,258)**	**25**
Change in cash and cash equivalents due to business activities (total)	**168**	**2,847**	**(647)**	**3,749**
Cash and cash equivalents at beginning of period	**1,055**	**2,773**	**1,859**	**1,899**
Change in cash and cash equivalents due to changes in scope of consolidation	–	–	(2)	–
Change in cash and cash equivalents due to exchange rate movements	9	(65)	22	(93)
Cash and cash equivalents at end of period	**1,232**	**5,555**	**1,232**	**5,555**

2016 figures restated

Bayer Group Consolidated Statements of Changes in Equity

B 5

€ million	Capital stock	Capital reserves	Other reserves	Equity attributable to Bayer AG stockholders	Equity attributable to non-controlling interest	Equity
Dec. 31, 2015	**2,117**	**6,167**	**15,981**	**24,265**	**1,180**	**25,445**
Equity transactions with owners						
Capital increase / decrease						
Dividend payments			(2,067)	(2,067)	(55)	(2,122)
Other changes			178	178	160	338
Total comprehensive income			1,018	1,018	109	1,127
Sep. 30, 2016	**2,117**	**6,167**	**15,110**	**23,394**	**1,394**	**24,788**
Dec. 31, 2016	**2,117**	**9,658**	**18,558**	**30,333**	**1,564**	**31,897**
Equity transactions with owners						
Capital increase / decrease						
Dividend payments			(2,233)	(2,233)	(131)	(2,364)
Other changes			2,723	2,723	(2,025)	698
Total comprehensive income			6,373	6,373	650	7,023
Sep. 30, 2017	**2,117**	**9,658**	**25,421**	**37,196**	**58**	**37,254**

Notes to the Condensed Consolidated Interim Financial Statements of the Bayer Group as of September 30, 2017

Key Data by Segment and Region

B 6

Key Data by Segment

	Pharmaceuticals		Consumer Health		Crop Science		Animal Health	
€ million	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017
Net sales (external)	4,152	4,065	1,425	1,320	2,057	2,031	360	359
Change [1]	+7.3%	−2.1%	+0.1%	−7.4%	−1.2%	−1.3%	+0.8%	−0.3%
Currency-adjusted change [1]	+7.6%	+2.2%	+3.6%	−2.9%	–	+2.7%	+2.5%	+3.6%
Intersegment sales	7	8	–	3	7	7	6	3
Net sales (total)	4,159	4,073	1,425	1,323	2,064	2,038	366	362
EBIT [1]	1,097	1,209	194	155	135	84	81	64
EBIT before special items [1]	1,103	1,206	223	173	206	205	82	72
EBITDA before special items [1]	1,421	1,493	328	274	318	307	89	81
Net cash provided by operating activities	998	1,036	215	200	1,027	841	80	68
Depreciation, amortization, impairment losses / loss reversals	319	287	107	102	112	115	7	9

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

B 6 continued

Key Data by Segment

	All Other Segments		Reconciliation Corporate Functions and Consolidation		Group	
€ million	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017
Net sales (external)	261	254	3	(4)	8,258	8,025
Change [1]	+0.4%	−2.7%	–	–	+3.3%	−2.8%
Currency-adjusted change [1]	+0.4%	−5.3%	–	–	+4.5%	+1.3%
Intersegment sales	220	583	(240)	(604)	–	–
Net sales (total)	481	837	(237)	(608)	8,258	8,025
EBIT [1]	32	(6)	(142)	(118)	1,397	1,388
EBIT before special items [1]	45	100	(137)	(119)	1,522	1,637
EBITDA before special items [1]	94	165	(132)	(116)	2,118	2,204
Net cash provided by operating activities	155	135	(106)	(377)	2,369	1,903
Depreciation, amortization, impairment losses / loss reversals	49	65	5	3	599	581

2016 figures restated.

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

B 7

Key Data by Segment

	Pharmaceuticals		Consumer Health		Crop Science		Animal Health	
€ million	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017
Net sales (external)	12,145	12,632	4,498	4,463	7,511	7,314	1,194	1,249
Change[1]	+7.3%	+4.0%	−1.6%	−0.8%	−2.7%	−2.6%	+2.0%	+4.6%
Currency-adjusted change[1]	+9.3%	+4.6%	+3.3%	−0.8%	+0.7%	−3.2%	+5.2%	+4.2%
Intersegment sales	22	29	4	12	24	23	8	5
Net sales (total)	12,167	12,661	4,502	4,475	7,535	7,337	1,202	1,254
EBIT[1]	2,783	3,530	627	628	1,602	1,171	288	297
EBIT before special items[1]	3,031	3,683	720	670	1,706	1,424	290	305
EBITDA before special items[1]	4,034	4,476	1,039	980	2,070	1,739	311	332
Net cash provided by operating activities	2,042	2,537	653	762	1,449	1,332	108	134
Depreciation, amortization, impairment losses/loss reversals	1,236	939	335	320	364	352	21	27
Number of employees (as of September 30)[2]	39,994	38,110	12,909	12,050	22,323	20,747	3,982	3,554

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

B 7 continued

Key Data by Segment

	All Other Segments		Reconciliation Corporate Functions and Consolidation		Group	
€ million	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017
Net sales (external)	767	758	5	3	26,120	26,419
Change[1]	−4.2%	−1.2%	–	–	+2.1%	+1.1%
Currency-adjusted change[1]	−3.6%	−1.4%	–	–	+5.1%	+1.2%
Intersegment sales	1,003	1,759	(1,061)	(1,828)	–	–
Net sales (total)	1,770	2,517	(1,056)	(1,825)	26,120	26,419
EBIT[1]	53	14	(201)	(362)	5,152	5,278
EBIT before special items[1]	91	150	(185)	(359)	5,653	5,873
EBITDA before special items[1]	235	328	(177)	(350)	7,512	7,505
Net cash provided by operating activities	322	(106)	(139)	(304)	4,435	4,355
Depreciation, amortization, impairment losses/loss reversals	144	178	8	9	2,108	1,825
Number of employees (as of September 30)[2]	19,550	24,759	759	625	99,517	99,845

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

B 8

Key Data by Region

	Europe / Middle East / Africa		North America		Asia / Pacific	
€ million	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017
Net sales (external) – by market	2,937	2,847	2,183	2,095	1,858	1,862
Change [1]	+3.7%	–3.1%	+2.5%	–4.0%	+10.5%	+0.2%
Currency-adjusted change [1]	+6.2%	–1.7%	+2.9%	+0.1%	+7.1%	+7.0%
Net sales (external) – by point of origin	3,195	3,054	2,017	1,929	1,798	1,840
Change [1]	+12.8%	–4.4%	–5.3%	–4.4%	+7.0%	+2.3%
Currency-adjusted change [1]	+7.9%	–3.2%	+1.3%	+0.1%	+6.1%	+9.3%
Interregional sales	2,693	2,435	821	750	180	187
EBIT [1]	1,119	821	104	225	167	214

2016 figures restated

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

B 8 continued

Key Data by Region

	Latin America		Reconciliation		Total	
€ million	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017
Net sales (external) – by market	1,280	1,221	–	–	8,258	8,025
Change [1]	–5.3%	–4.6%	–	–	+3.3%	–2.8%
Currency-adjusted change [1]	–0.2%	+1.7%	–	–	+4.5%	+1.3%
Net sales (external) – by point of origin	1,248	1,202	–	–	8,258	8,025
Change [1]	–7.7%	–3.7%	–	–	+3.3%	–2.8%
Currency-adjusted change [1]	–0.8%	+2.8%	–	–	+4.5%	+1.3%
Interregional sales	159	163	(3,853)	(3,535)	–	–
EBIT [1]	130	246	(123)	(118)	1,397	1,388

2016 figures restated

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

B 9

Key Data by Region

	Europe / Middle East / Africa		North America		Asia / Pacific	
€ million	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017
Net sales (external) – by market	10,100	10,273	7,653	7,924	5,551	5,863
Change [1]	+2.7%	+1.7%	+1.1%	+3.5%	+8.0%	+5.6%
Currency-adjusted change [1]	+6.0%	+1.8%	+2.4%	+2.5%	+8.2%	+6.6%
Net sales (external) – by point of origin	10,688	10,876	7,284	7,484	5,405	5,752
Change [1]	+8.7%	+1.8%	–3.8%	+2.7%	+5.1%	+6.4%
Currency-adjusted change [1]	+6.7%	+1.8%	+1.2%	+1.6%	+8.4%	+7.5%
Interregional sales	7,693	7,560	2,554	2,531	546	596
EBIT [1]	3,780	4,050	778	987	603	717
Number of employees (as of September 30) [2]	50,731	52,242	13,266	13,006	23,422	22,962

2016 figures restated

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

[2] Full-time equivalents

B 9 continued

Key Data by Region

	Latin America		Reconciliation		Total	
€ million	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017
Net sales (external) – by market	2,816	2,359	–	–	26,120	26,419
Change [1]	–7.4%	–16.2%	–	–	+2.1%	+1.1%
Currency-adjusted change [1]	+3.3%	–14.9%	–	–	+5.1%	+1.2%
Net sales (external) – by point of origin	2,743	2,307	–	–	26,120	26,419
Change [1]	–9.8%	–15.9%	–	–	+2.1%	+1.1%
Currency-adjusted change [1]	+3.1%	–14.5%	–	–	+5.1%	+1.2%
Interregional sales	350	375	(11,143)	(11,062)	–	–
EBIT [1]	173	(114)	(182)	(362)	5,152	5,278
Number of employees (as of September 30) [2]	12,098	11,635	–	–	99,517	99,845

2016 figures restated

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

[2] Full-time equivalents

Explanatory Notes

Accounting policies

The consolidated interim financial statements as of September 30, 2017, were prepared in condensed form in compliance with IAS 34 according to the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, which are endorsed by the European Union, and the Interpretations of the IFRS Interpretations Committee in effect at the closing date.

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

Published financial reporting standards that have not yet been applied

IFRS 15 (Revenue from Contracts with Customers) is the new standard for revenue recognition that is to be applied for annual reporting periods beginning on or after January 1, 2018.

Bayer will implement IFRS 15 on the basis of the modified retrospective method, accounting for the aggregate amount of any 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. All of the established business models for the Bayer Group were examined in the course of the implementation project. The previous assessment that the new standard is not expected to materially affect the timing of revenue recognition for the transactions concerned or their components has been confirmed for companies examined since then. The analysis has not yet been completed in a number of material consolidated companies. Furthermore, the evaluation of certain individual licensing agreements has not yet been completed. With regard to total Group sales, there are indications of immaterial transition effects due to the different accounting of milestone payments in connection with right-to-access licenses and with regard to the recognition of revenues from trademark rights divested in the past. This is likely to result in an immaterial increase in retained earnings on the transition date. 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. Determination of the effects on the level of sales or selling expenses has since been completed. Overall, based on current knowledge, we do not anticipate any material effects on the presentation of the financial position or results of operations, or on earnings per share.

IFRS 9 (Financial Instruments) is the new standard for accounting for financial instruments that is to be applied for annual reporting periods beginning on or after January 1, 2018.

The evaluation of this standard's impact on the presentation of Bayer's financial position and results of operations has not yet been completed. 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 obligations classified at fair value and modifies the requirements for hedge accounting. In addition, the classification and measurement of financial obligations is largely unchanged from the current regulations.

According to 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 respective financial asset. Based on current knowledge, the effects of these changes in the classification of financial assets and the related impact on earnings are estimated to be immaterial. In the case of equity instruments held as of January 1, 2018, that are not held for trading, Bayer prospectively will uniformly opt to recognize future changes in their fair value as other comprehensive income in the statement of comprehensive income and to continue to classify these as equity upon the derecognition of the financial instrument. Furthermore, IFRS 9 will lead to an increase in accounting measures for defaults from expected credit risks of financial assets including trade accounts receivable. Based on our current analyses, accounting measures for expected credit risks from trade accounts receivable could increase by up to €100 million. Analysis of the measurement effects for other financial assets has not yet been completed. The actual impact of these measurement changes depends on the balance of trade accounts receivable and of other financial assets and on country-specific economic forecasts as of the date on which they go into effect. In the future, changes in the fair values of

financial liabilities at fair value through profit or loss that result from Bayer's own credit risk will be recognized as other comprehensive income in the statement of comprehensive income rather than in the income statement. At Bayer this change applies particularly to the debt instruments (exchangeable bond) issued in June 2017 that can also be converted into Covestro shares. Based on current knowledge, however, we do not anticipate any material effects on these items. 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 component of options initially be recognized as other comprehensive income in the statement of comprehensive income for the duration of the hedging relationship. Subsequent accounting depends on the type of the hedged transaction. The revised accounting method is to be applied retrospectively. Bayer is currently examining the effects of these changes on the presentation of the Group's financial position and results of operations.

Changes in underlying parameters

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

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

B 10

Exchange Rates for Major Currencies

		Closing rate			Average rate	
€1		**Dec. 31, 2016**	**Sep. 30, 2016**	**Sep. 30, 2017**	**9M 2016**	**9M 2017**
BRL	Brazil	3.43	3.62	3.77	3.94	3.52
CAD	Canada	1.42	1.47	1.47	1.47	1.45
CHF	Switzerland	1.07	1.09	1.15	1.09	1.09
CNY	China	7.35	7.45	7.85	7.35	7.55
GBP	United Kingdom	0.86	0.86	0.88	0.80	0.87
JPY	Japan	123.36	113.08	132.89	120.85	124.36
MXN	Mexico	21.78	21.72	21.45	20.38	20.97
RUB	Russia	64.30	70.56	68.28	75.96	64.74
USD	United States	1.05	1.12	1.18	1.12	1.11

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

B 11

Discount Rate for Pension Obligations

%	**Dec. 31, 2016**	**June 30, 2017**	**Sep. 30, 2017**
Germany	1.80	2.00	2.00
United Kingdom	2.65	2.60	2.70
United States	3.70	3.50	3.40

The data selection criteria used to determine the discount rate in the eurozone were modified as of the beginning of the third quarter of 2017 in connection with the deconsolidation of Covestro. As before, the underlying bond portfolio consists entirely of high-quality corporate bonds with a minimum AA or AAA rating. Corporate bonds of state-owned companies are no longer included. Included in the bond portfolio were corporate bonds of special purpose entities and exchange-traded corporate bonds. Without the modifications, the interest rate as of September 30, 2017, would have been 20 base points lower. The provisions for pensions would have been €0.6 billion higher as a result.

Segment reporting

The Bayer Group lost de facto control over the Covestro Group at the end of the third quarter. As of September 30, therefore, there are four reporting segments: Pharmaceuticals, Consumer Health, Crop Science and Animal Health. As such, total figures for the four Life Science segments will no longer be presented separately.

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

B 12

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

€ million	Q3 2016	Q3 2017	9M 2016	9M 2017
EBITDA before special items of segments	2,236	2,320	7,675	7,855
EBITDA before special items of Corporate Functions and Consolidation	(118)	(116)	(163)	(350)
EBITDA before special items[1]	**2,118**	**2,204**	**7,512**	**7,505**
Depreciation, amortization and impairment losses before special items of segments	(595)	(564)	(1,855)	(1,623)
Depreciation, amortization and impairment losses before special items of Corporate Functions and Consolidation	(1)	(3)	(4)	(9)
Depreciation, amortization and impairment losses before special items	**(596)**	**(567)**	**(1,859)**	**(1,632)**
EBIT before special items of segments	1,641	1,756	5,820	6,232
EBIT before special items of Corporate Functions and Consolidation	(119)	(119)	(167)	(359)
EBIT before special items[1]	**1,522**	**1,637**	**5,653**	**5,873**
Special items of segments	(121)	(249)	(486)	(592)
Special items of Corporate Functions and Consolidation	(4)	0	(15)	(3)
Special items[1]	**(125)**	**(249)**	**(501)**	**(595)**
EBIT of segments	1,520	1,506	5,334	5,640
EBIT of Corporate Functions and Consolidation	(123)	(118)	(182)	(362)
EBIT[1]	**1,397**	**1,388**	**5,152**	**5,278**
Financial result	(233)	(403)	(741)	(1,068)
Income before income taxes	**1,164**	**985**	**4,411**	**4,210**

2016 figures restated

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

Scope of consolidation

Changes in the scope of consolidation

The consolidated financial statements as of September 30, 2017, included 241 companies (December 31, 2016: 301 companies). Six (December 31, 2016: six) joint ventures and four (December 31, 2016: five) associates were accounted for in the consolidated financial statements using the equity method according to IAS 28 (Investments in Associates and Joint Ventures). Effective September 30, 2017, Covestro Group is no longer consolidated. Covestro AG, as the parent company of the Covestro Group, is accounted for in the consolidated financial statements using the equity method.

Acquisitions, divestitures and discontinued operations

Acquisitions

On January 3, 2017, Bayer acquired the Cydectin™ portfolio in the United States from Boehringer Ingelheim Vetmedica Inc., St. Joseph, United States. The acquisition comprises the CYDECTIN Pour-On, CYDECTIN Injectable and CYDECTIN Oral Drench endectocides for cattle and sheep. The acquisition is intended to strengthen the antiparasitics portfolio in the United States through the addition of endectocides. A purchase price of €158 million was agreed. The purchase price mainly pertained to brands and goodwill.

The effects of this transaction – as of the acquisition date – on the Group's assets and liabilities in the first nine months of 2017 are shown in the following table. The transaction resulted in the following cash outflow:

B 13

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

€ million	9M 2017
Goodwill	51
Trademarks	85
Production rights	4
Inventories	18
Net assets	**158**
Changes in noncontrolling interest	–
Purchase price	**158**
Net cash outflow for acquisitions	**158**

Planned acquisitions

With regard to the planned acquisition of Monsanto, we refer to the Annual Report 2016. Closing of the transaction is currently expected in early 2018.

Divestments and discontinued operations

On April 1, 2017, Consumer Health completed the sale of a production facility in Pointe-Claire, Canada, to Famar Montréal Inc., Montréal, Canada. The base sale price was CAD1 million.

On September 12 and 29, 2017, Bayer AG sold shares it held in Covestro AG. The total number of shares sold amounted to around 33 million, or 16.3% of the outstanding shares. The buyers of the approximately 14 million shares sold on September 29 agreed to be bound by a lock-up arrangement pursuant to which they will not sell the shares they purchased until at least December 11, 2017. Due to a contractual agreement, Bayer will retain the economic exposure to the price of these shares until at least the same date.

In the previous quarters, Bayer had already reduced its interest in Covestro by 47.25 million shares, or 23.3% of the shares issued by the company. In the first quarter, Bayer sold 22 million shares in Covestro AG to institutional investors at a price of €66.50 per share. Then, in the second quarter, Bayer sold a further 17.25 million shares in Covestro AG to institutional investors at a price of €62.25 per share. In addition, 8 million shares in Covestro AG were deposited in Bayer Pension Trust e.V., at a price of €63.04.

The reduction of Bayer's interest through September 12, 2017, as previously detailed, had a €4.2 billion positive effect on Bayer Group equity, which was recognized in other changes in equity. Of this figure, €2.7 billion was attributable to Bayer AG stockholders, and €1.5 billion to noncontrolling interest. As part of the deconsolidation at the end of September, the noncontrolling interest in Covestro AG equity was completely derecognized.

Bayer currently holds 24.6% of the shares in the capital stock of Covestro AG. Bayer Pension Trust holds a further 8.9%. In addition, Bayer and Covestro have signed a control termination agreement, as part of which Bayer has undertaken not to exercise certain voting rights at the Covestro Annual General Meeting. Thus, Bayer lost de facto control over Covestro at the end of September 2017.

As such, the deconsolidation of the Covestro Group took place at the end of the third quarter, as did the first-time inclusion of Covestro Group as an associate, due to the significant influence that Bayer retains. At the end of September, the fair value of the remaining interest, €3.6 billion, was determined on the basis of the share price.

The deconsolidation and remeasurement of the remaining interest in Covestro resulted in overall income before taxes in the amount of €2.9 billion, which is included in income from discontinued operations. This figure reflected a gain of €2.4 billion from the remeasurement of the remaining interest, and a gain of €0.5 billion from the deconsolidation. The overall gain after taxes amounts to €2.8 billion. In addition, values in the amount of minus €0.6 million recogized in other comprehensive income were reclassified to retained earnings attributable to Bayer AG stockholders.

The divestitures had the following effect in the first nine months of 2017:

B 14

Divestitures

€ million	9M 2017	thereof Covestro
Goodwill	254	252
Patents and technologies	18	18
Marketing and distribution rights	28	28
Other rights	33	33
Property, plant and equipment	4,206	4,206
Other noncurrent assets	233	233
Deferred tax assets	506	506
Inventories	1,840	1,828
Other current assets	3,005	3,005
Assets held for sale	3	3
Cash and cash equivalents	637	637
Pension provisions	(1,201)	(1,201)
Other provisions	(779)	(779)
Financial liabilities	(1,809)	(1,809)
Other liabilities	(1,715)	(1,715)
Divested net assets	**5,259**	**5,245**

The retained 24.6% stake in Covestro is classified as an associate owing to the remaining material interest, and will be accounted for using the equity method.

The following table contains summarized data from the interim statement published by Covestro, and shows the respective amounts recognized in the consolidated financial statements of the Bayer Group.

B 15

Data from the Statements of Financial Position of Covestro

€ million	Sep. 30, 2017
Noncurrent assets	5,507
Current assets	5,454
Noncurrent liabilities	(2,961)
Current liabilities	(2,868)
Equity	**5,132**
Shareholding (%)	24.6%
Share of equity	**1,262**
Group adjustments	2,362
Carrying amount	**3,624**

The Group adjustments of the data from the statements of financial position include fair value adjustments to the assets and liabilities of Covestro in connection with the equity method purchase price allocation. The proportionate market value in the amount of €3.6 billion is considered to be an assumed purchase price. Currently the purchase price allocation has not been concluded. According to the provisional purchase price allocation, the fair value adjustments to the asseets and liabilities were mainly allocable to noncurrent assets (€1.9 billion), current assets (€0.1 billion), noncurrent liabilities (€0.6 billion) and goodwill (€1.0 billion).

The fair value adjustments to the assets and liabilities will be measured using the equity method.

As of the de facto loss of control, Covestro fulfills the conditions for presentation as a discontinued operation for all of the quarters prior to deconsolidation, including the previous year.

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

The sale of the Diabetes Care business also comprises further significant obligations by Bayer that will be fulfilled over a period of up to two years subsequent to the date of divestment. The sale proceeds will be recognized accordingly over this period and reported as income from discontinued operations. Deferred income has been recognized in the statement of financial position and will be dissolved as the obligations are fulfilled. An amount of €413 million was recognized in sales in the first nine months of 2017.

The obligations to be fulfilled over a period of up to two years after the divestment of the Diabetes Care business are also reported as discontinued operations in the income statement and the statement of cash flows. They resulted in sales of €36 million in the first nine months of 2017.

The items in the statement of financial position pertaining to the Diabetes Care business are shown in the segment reporting under “All Other Segments.” In addition to the aforementioned deferred income (€49 million), the statement of financial position includes other receivables (net: €28 million), deferred tax assets (net: €12 million), income tax liabilities (€57 million) and miscellaneous provisions (€4 million).

The sale of the Consumer business (CS Consumer) of Bayer’s Environmental Science unit to SBM Développement SAS, Lyon, France, was completed on October 4, 2016. These activities have been reported as discontinued operations since the second quarter of 2016.

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

B 16

Income Statements for Discontinued Operations

	Covestro		Diabetes Care		CS Consumer		Total	
€ million	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017
Net sales	**3,004**	**3,513**	**139**	**137**	**29**	**–**	**3,172**	**3,650**
Cost of goods sold	(2,112)	(2,279)	(12)	(8)	(27)	–	(2,151)	(2,287)
Gross profit	**892**	**1,234**	**127**	**129**	**2**	**–**	**1,021**	**1,363**
Selling expenses	(329)	(326)	–	(1)	(26)	–	(355)	(327)
Research and development expenses	(67)	(68)	–	–	(6)	–	(73)	(68)
General administration expenses	(104)	(118)	–	(3)	(5)	–	(109)	(121)
Other operating income / expenses	6	2,886	1	1	(2)	–	5	2,887
EBIT[1]	**398**	**3,608**	**128**	**126**	**(37)**	**–**	**489**	**3,734**
Financial result	**(41)**	**(36)**	**–**	**–**	**–**	**–**	**(41)**	**(36)**
Income before income taxes	**357**	**3,572**	**128**	**126**	**(37)**	**–**	**448**	**3,698**
Income taxes	(98)	(255)	(26)	(20)	9	–	(115)	(275)
Income after income taxes	**259**	**3,317**	**102**	**106**	**(28)**	**–**	**333**	**3,423**
of which attributable to noncontrolling interest	99	318	–	–	–	–	99	318
of which attributable to Bayer AG stockholders (net income)	160	2,999	102	106	(28)	–	234	3,105

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

For the first nine months of 2017, the income statements of the discontinued operations are as follows:

B 17

Income Statements for Discontinued Operations

	Covestro		Diabetes Care		CS Consumer		Total	
€ million	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017
Net sales	**8,829**	**10,556**	**434**	**449**	**195**	**–**	**9,458**	**11,005**
Cost of goods sold	(6,292)	(6,973)	(133)	(22)	(109)	–	(6,534)	(6,995)
Gross profit	**2,537**	**3,583**	**301**	**427**	**86**	**–**	**2,924**	**4,010**
Selling expenses	(987)	(1,016)	(8)	(3)	(83)	–	(1,078)	(1,019)
Research and development expenses	(193)	(200)	(2)	–	(10)	–	(205)	(200)
General administration expenses	(320)	(345)	(10)	(7)	(9)	–	(339)	(352)
Other operating income / expenses	64	2,963	(4)	4	(57)	–	3	2,967
EBIT[1]	**1,101**	**4,985**	**277**	**421**	**(73)**	**–**	**1,305**	**5,406**
Financial result	**(162)**	**(124)**	**–**	**–**	**–**	**–**	**(162)**	**(124)**
Income before income taxes	**939**	**4,861**	**277**	**421**	**(73)**	**–**	**1,143**	**5,282**
Income taxes	(256)	(585)	(46)	(69)	21	–	(281)	(654)
Income after income taxes	**683**	**4,276**	**231**	**352**	**(52)**	**–**	**862**	**4,628**
of which attributable to noncontrolling interest	232	759	–	–	–	–	232	759
of which attributable to Bayer AG stockholders (net income)	451	3,517	231	352	(52)	–	630	3,869

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

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

B 18

Statements of Cash Flows for Discontinued Operations

	Covestro		Diabetes Care		CS Consumer		Total	
€ million	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017
Net cash provided by (used in) operating activities (net cash flow)	668	783	(11)	25	27	–	684	808
Net cash provided by (used in) investing activities	(545)	(355)	–	–	–	–	(545)	(355)
Net cash provided by (used in) financing activities	(162)	(107)	11	(25)	(27)	–	(178)	(132)
Change in cash and cash equivalents	**(39)**	**321**	**–**	**–**	**–**	**–**	**(39)**	**321**

In the first nine months of 2017, the effects of the discontinued operations on the statement of cash flows were as follows:

B 19

Statements of Cash Flows for Discontinued Operations

	Covestro		Diabetes Care		CS Consumer		Total	
€ million	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017
Net cash provided by (used in) operating activities (net cash flow)	1,146	1,473	767	37	9	–	1,922	1,510
Net cash provided by (used in) investing activities	(670)	(742)	–	–	–	–	(670)	(742)
Net cash provided by (used in) financing activities	1,183	(224)	(767)	(37)	(9)	–	407	(261)
Change in cash and cash equivalents	**1,659**	**507**	**–**	**–**	**–**	**–**	**1,659**	**507**

As no cash is assigned to the discontinued operations Diabetes Care and CS Consumer, the balance of the cash provided is deducted again in financing activities.

Assets held for sale

On October 13, 2017, Bayer reached an agreement with BASF concerning the sale of selected Crop Science businesses in light of the planned acquisition of Monsanto. The assets to be sold include Bayer's global glufosinate-ammonium business and the related LibertyLink technology for herbicide tolerance, a substantial part of the field crop seeds business, as well as respective research and development capabilities. The seeds businesses being divested include the global cotton seed business (excluding India and South Africa), the North American and European canola seed businesses and the soybean seed business. A base purchase price of €5.9 billion was agreed. It excludes the value of any net working capital and is subject to the customary price adjustment mechanisms.

In connection with the sale, €1,824 million in assets and €49 million in liabilities was classified as held for sale according to IFRS 5 as of September 30. This total mainly comprised property, plant and equipment (€1,002 million), goodwill (€428 million), other intangible assets (€278 million) and provisions for pensions and other post-employment benefits (€34 million).

The transaction is 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 this divestiture.

Financial instruments

B 20

Carrying Amounts and Fair Values of Financial Instruments

						September 30, 2017
	Carried at amortized cost	Carried at fair value [Fair value for information [1]]			Nonfinancial assets / liabilities	
		Based on quoted prices in active markets (Level 1)	Based on observable market data (Level 2)	Based on unobservable inputs (Level 3)		
€ million	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount in the statement of financial position**
Trade accounts receivable	8,791					8,791
Loans and receivables	8,791					8,791
Other financial assets	3,844	422	2,487	791		7,544
Loans and receivables	3,759		[3,759]			3,759
Available-for-sale financial assets	28	419	1,872	782		3,101
Held-to-maturity financial assets	57		[59]			57
Derivatives		3	615	9		627
Other receivables	509			51	1,225	1,785
Loans and receivables	509		[509]			509
Available-for-sale financial assets				51		51
Nonfinancial assets					1,225	1,225
Cash and cash equivalents	5,555					5,555
Loans and receivables	5,555		[5,555]			5,555
Total financial assets	**18,699**	**422**	**2,487**	**842**		**22,450**
of which loans and receivables	18,614					18,614
of which available-for-sale financial assets	28	419	1,872	833		3,152
Financial liabilities	14,724	1,115	278			16,117
Carried at amortized cost	14,724	[13,231]	[2,075]			14,724
Carried at fair value (nonderivative)		1,115				1,115
Derivatives			278			278
Trade accounts payable	3,837				91	3,928
Carried at amortized cost	3,837					3,837
Nonfinancial liabilities					91	91
Other liabilities	767	1	324	7	1,569	2,668
Carried at amortized cost	767		[767]			767
Carried at fair value (nonderivative)				7		7
Derivatives		1	324			325
Nonfinancial liabilities					1,569	1,569
Total financial liabilities	**19,328**	**1,116**	**602**	**7**		**21,053**
of which carried at amortized cost	19,328					19,328
of which carried at fair value (nonderivative)		1,115		7		1,122
of which derivatives		1	602			603

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

B 21

Carrying Amounts and Fair Values of Financial Instruments

						December 31, 2016
	Carried at amortized cost	Carried at fair value [Fair value for information [1]]			Nonfinancial assets / liabilities	
		Based on quoted prices in active markets (Level 1)	Based on observable market data (Level 2)	Based on unobservable inputs (Level 3)		
€ million	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount in the statement of financial position**
Trade accounts receivable	10,969					10,969
Loans and receivables	10,969					10,969
Other financial assets	2,245	523	3,985	803		7,556
Loans and receivables	2,148		[2,145]	[16]		2,148
Available-for-sale financial assets	32	520	3,283	794		4,629
Held-to-maturity financial assets	65		[68]			65
Derivatives		3	702	9		714
Other receivables	633			57	2,103	2,793
Loans and receivables	633		[633]			633
Available-for-sale financial assets				57		57
Nonfinancial assets					2,103	2,103
Cash and cash equivalents	1,899					1,899
Loans and receivables	1,899		[1,899]			1,899
Total financial assets	**15,746**	**523**	**3,985**	**860**		**21,114**
of which loans and receivables	15,649					15,649
of which available-for-sale financial assets	32	520	3,283	851		4,686
Financial liabilities	18,994		587			19,581
Carried at amortized cost	18,994	[16,040]	[3,362]			18,994
Carried at fair value (nonderivative)						
Derivatives			587			587
Trade accounts payable	6,035				375	6,410
Carried at amortized cost	6,035					6,035
Nonfinancial liabilities					375	375
Other liabilities	840	2	252	25	2,259	3,378
Carried at amortized cost	840		[840]			840
Carried at fair value (nonderivative)				8		8
Derivatives		2	252	17		271
Nonfinancial liabilities					2,259	2,259
Total financial liabilities	**25,869**	**2**	**839**	**25**		**26,735**
of which carried at amortized cost	25,869					25,869
of which carried at fair value (nonderivative)				8		8
of which derivatives		2	839	17		858

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

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

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

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

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

The fair values of available-for-sale financial assets correspond to quoted prices in active markets (Level 1), 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 available-for-sale debt or equity instruments, in some cases to the fair values of embedded derivatives, and to obligations for contingent consideration in business combinations. Credit risk is frequently the principal unobservable input used to determine the fair values of debt instruments classified as available-for-sale financial assets by the discounted cash flow method. Here the credit spreads of comparable issuers are applied. A significant increase in credit risk could result in a lower fair value, whereas a significant decrease could result in a higher fair value. However, a relative change of 10% in the credit spread does not materially affect the fair value.

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

Within the financial liabilities, use was made of the fair value option according to IAS 39.11A for the debt instruments (exchangeable bond) issued in June 2017 that can be converted into Covestro shares. This exchangeable bond is a hybrid financial instrument containing a debt instrument as a nonderivative host contract and several embedded derivatives. Due to the application of the fair value option, the bond was designated as a financial liability at fair value through profit or loss at its initial recognition including the embedded derivatives.

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

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Development of Financial Assets and Liabilities (Level 3)

				2017
€ million	Available-for-sale financial assets	Derivatives (net)	Liabilities carried at fair value (non-derivative)	Total
Carrying amounts of net assets (net liabilities), January 1	**851**	**(8)**	**(8)**	**835**
Gains (losses) recognized in profit or loss	11	20	–	31
of which related to assets / liabilities recognized in the statements of financial position	11	20	–	31
Gains (losses) recognized outside profit or loss	(18)	–	–	(18)
Additions of assets (liabilities)	6	–	–	6
Settlements of (assets) liabilities	(17)	–	1	(16)
Disposals from divestments / changes in scope of consolidation	–	(3)	–	(3)
Carrying amounts of net assets (net liabilities), September 30	**833**	**9**	**(7)**	**835**

B 23

Development of Financial Assets and Liabilities (Level 3)

				2016
€ million	Available-for-sale financial assets	Derivatives (net)	Liabilities carried at fair value (non-derivative)	Total
Carrying amounts of net assets (net liabilities), January 1	**833**	**9**	**(37)**	**805**
Gains (losses) recognized in profit or loss	14	(3)	–	11
of which related to assets / liabilities recognized in the statements of financial position	14	(3)	–	11
Gains (losses) recognized outside profit or loss	13	–	–	13
Additions of assets (liabilities)	39	–	–	39
Settlements of (assets) liabilities	(23)	–	16	(7)
Disposals from divestments / changes in scope of consolidation	–	–	–	–
Carrying amounts of net assets (net liabilities), September 30	**876**	**6**	**(21)**	**861**

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

Contingent liabilities and other financial commitments

The Group's contingent liabilities amounted to €861 million as of September 30, 2017, and mainly comprise pending legal cases in several countries. The Group's other financial commitments amounted to €52,732 million as of September 30, 2017, and mainly comprise Bayer's contingent financial commitment in an amount of €47,401 million to acquire Monsanto Company pursuant to the Merger Agreement signed with Monsanto Company on September 14, 2016, which provides for Bayer's acquisition of all outstanding shares of Monsanto Company against a payment of US$128 per share in cash.

Legal risks

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

Yasmin™/ YAZ™: Most of the lawsuits and claims concerning Bayer's drospirenone-containing oral contraceptives in the United States have been resolved. Claimants allege that users have suffered personal injuries, some of them fatal, from the use of Yasmin™ and / or YAZ™ or their generic versions, and seek compensatory and punitive damages, claiming, in particular, that Bayer had not adequately warned of the alleged risks. As of October 12, 2017, lawsuits and claims of approximately 40 claimants remain pending against Bayer in the U.S. Without admission of liability, Bayer is considering three of the lawsuits and claims for possible settlement after a case-specific analysis of medical records. The two motions for certification of a class action that are pending in Israel have been dismissed by the competent court. The plaintiffs can file an appeal with the Supreme Court in Jerusalem.

Bayer believes the risks remaining in this litigation are no longer material.

Mirena™: As of October 12, 2017, lawsuits from approximately 3,000 users of Mirena™, an intrauterine system providing long-term contraception, had been served upon Bayer in the United States. Plaintiffs allege personal injuries resulting from the use of Mirena™, including perforation of the uterus, ectopic pregnancy or idiopathic intracranial hypertension, and seek compensatory and punitive damages. Additional lawsuits are anticipated. In April 2017, most of the cases pending in U.S. federal courts in which plaintiffs allege idiopathic intracranial hypertension were consolidated in a second multidistrict litigation proceeding for common pre-trial management. The first multidistrict litigation proceeding concerns perforation cases. In August, 2017, Bayer reached an agreement in principle with plaintiffs' counsel leadership for global settlement of the perforation litigation, for a total amount of USD12.2 million. As of October 12, 2017, a total of approximately 4,000 cases would be included in the settlement. The idiopathic intracranial hypertension multidistrict litigation proceeding is not included in the settlement.

Xarelto™: As of October 12, 2017, U.S. lawsuits from approximately 20,500 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. In May, June and August 2017, the first three federal multidistrict litigation trials resulted in complete defense verdicts. One additional trial has been scheduled this year in a Pennsylvania state court and further trials are currently scheduled for the first quarter of 2018. Bayer anticipates that additional trials will be scheduled. As of October 12, 2017, ten Canadian lawsuits relating to Xarelto™ seeking class action certification had been served upon Bayer.

Essure™: As of October 12, 2017, U.S. lawsuits from approximately 10,600 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 October 12, 2017, two Canadian lawsuits relating to Essure™ seeking class action certification had been served upon Bayer.

Damoctocog alfa pegol (BAY 94-9027, long-acting rFVIII): In August 2017, Bayer filed a lawsuit in a U.S. federal court against Nektar Therapeutics ("Nektar"), Baxalta Incorporated and Baxalta U.S., Inc. (together "Baxalta") seeking a declaration by the court that a patent by Nektar is invalid and not infringed by Bayer's drug candidate BAY 94-9027 for the treatment of hemophilia A. In September 2017, Baxalta and Nektar filed a complaint in a different U.S. federal court against Bayer alleging that BAY 94-9027 infringes seven other patents by Nektar. Regarding the complaint by Bayer, Nektar and Baxalta gave Bayer a covenant not to make any claims against Bayer for infringement of that patent. Bayer amended the complaint to now seek a declaration by the court that the seven other patents by Nektar are not infringed by BAY 94-9027. The patents are part of the same patent family registered in the name of Nektar which further comprises European patent applications at issue in the lawsuit Bayer filed against Nektar in 2013 in the district court of Munich, Germany. Bayer continues to believe that the patent family does not include any valid patent claim relevant for BAY 94-9027.

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.

In the second quarter, Bayer AG increased the coverage of Bayer Pension Trust e.V. with the deposit of 8 million of the shares it held in Covestro AG. The number of shares deposited amounted to 4.0% of the issued shares of Covestro AG and had a value of €504 million.

Sales to related parties were not material from the viewpoint of the Bayer Group. Due to the loss of control at the end of the third quarter, Covestro represents a related party. Compared with December 31, 2016, receivables vis-à-vis associates increased from €0.0 billion to €0.1 billion as a result. Liabilities declined by €0.1 billion to €0.2 billion, with the greater part of the decrease pertaining to Casebia Therapeutics Limited Liability Partnership, Ascot, United Kingdom, the newly established joint venture with CRISPR Therapeutics AG, Basel, Switzerland.

Events After the End of the Reporting Period

Repayment of financial liabilities
On October 6, 2017, Bayer U.S. Finance LLC, U.S.A., redeemed two bonds with nominal volumes of US$850 million and US$400 million at maturity.

On October 24, 2017, Bayer AG, Germany, early redeemend a bond with a nominal volume of €750 million issued under the Debt Issuance Programme.

Leverkusen, October 24, 2017
Bayer Aktiengesellschaft

The Board of Management

Werner Baumann

Liam Condon | Johannes Dietsch | Dr. Hartmut Klusik

Kemal Malik | Erica Mann | Dieter Weinand

Review Report

To Bayer Aktiengesellschaft, Leverkusen, Germany

We have reviewed the condensed interim consolidated financial statements – comprising the income statement and the statement of comprehensive income, the statement of financial position, the statement of cash flows, the condensed statement of changes in equity as well as selected explanatory notes to the financial statements – and the interim group management report for the period from 1 January 2017 until 30 September 2017 of Bayer AG, which are components of the quarterly financial report under § 37w WpHG (Wertpapierhandelsgesetz: German Securities Trading Act).

Review Report on the Condensed Interim Consolidated Financial Statements

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

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

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

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

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

Conclusion on the Condensed Interim Consolidated Financial Statements

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

Other Legal and Regulatory Requirements

Review Report on the Interim Group Management Report

Management Board's Responsibility for the Interim Group Management Report

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

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

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

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

Conclusion on the Interim Group Management Report

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

Munich, Germany, 25 October 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

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

Financial Calendar[2]

Announcement of proposed dividend	**February 27, 2018**
Annual Report 2017	**February 28, 2018**
Q1 2018 Interim Report	**May 24, 2018**
Annual Stockholders' Meeting 2018	**May 25, 2018**
Planned dividend payment day	**May 30, 2018**
Q2 2018 Interim Report	**August 7, 2018**
Q3 2018 Interim Report	**October 30, 2018**

Masthead

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English edition
Bayer Business Services GmbH
Translation Services

Date of publication
Thursday, October 26, 2017

Bayer on the internet
www.bayer.com

ISSN 0343 / 1975

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

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

[2] As currently planned