Q3

Interim Report
Third Quarter of 2018

Science for a **better life**

Bayer Group Key Data

€ million	Q3 2017	Q3 2018	Change %	9M 2017	9M 2018	Change %	Full Year 2017
Sales	**8,025**	**9,905**	**+23.4**	**26,419**	**28,524**	**+8.0**	**35,015**
Change (adjusted for currency and portfolio effects)[1]			+1.9			+4.1	+1.5%
Change in sales[1]							
Volume	+2.2%	+2.8%		+1.3%	+5.3%		+2.3%
Price	−1.0%	−0.9%		−0.2%	−1.2%		−0.8%
Currency	−4.1%	−2.6%		−0.1%	−5.4%		−1.4%
Portfolio	+0.1%	+24.1%		+0.1%	+9.3%		+0.1%
EBITDA[1]	**1,969**	**5,333**	**+170.8**	**7,103**	**10,168**	**+43.2**	**8,563**
Special items[1]	(235)	3,131		(402)	2,735		(725)
EBITDA before special items[1]	**2,204**	**2,202**	**−0.1**	**7,505**	**7,433**	**−1.0**	**9,288**
EBITDA margin before special items[1]	27.5%	22.2%		28.4%	26.1%		26.5%
EBIT[1]	**1,388**	**4,423**	**+218.7**	**5,278**	**8,084**	**+53.2**	**5,903**
Special items[1]	(249)	3,123		(595)	2,682		(1,227)
EBIT before special items[1]	**1,637**	**1,300**	**−20.6**	**5,873**	**5,402**	**−8.0**	**7,130**
Financial result	**(403)**	**(678)**	**−68.2**	**(1,068)**	**(870)**	**+18.5**	**(1,326)**
Net income (from continuing and discontinued operations)	**3,881**	**2,886**	**−25.6**	**7,188**	**5,639**	**−21.5**	**7,336**
Earnings per share[1] from continuing and discontinued operations (€)	4.38	2.94	−32.9	8.12	6.08	−25.1	8.29
Core earnings per share[1] from continuing operations (€)	1.45	1.19	−17.9	5.25	4.92	−6.3	6.64
Net cash provided by operating activities (from continuing and discontinued operations)	**2,711**	**2,051**	**−24.3**	**5,865**	**4,949**	**−15.6**	**8,134**
Cash outflows for capital expenditures	**557**	**659**	**+18.3**	**1,448**	**1,467**	**+1.3**	**2,418**
Research and development expenses	**1,079**	**1,180**	**+9.4**	**3,270**	**3,481**	**+6.5**	**4,504**
Depreciation, amortization and impairments	**581**	**910**	**+56.6**	**1,825**	**2,084**	**+14.2**	**2,660**
Number of employees at end of period[2]	**99,845**	**118,196**	**+18.4**	**99,845**	**118,196**	**+18.4**	**99,820**
Personnel expenses (including pension expenses)	2,300	2,783	+21.0	7,281	7,787	+6.9	9,528

2017 figures restated

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

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

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Reporting Principles

The Bayer AG Interim Report is a quarterly financial report that includes an interim group management report and condensed consolidated interim financial statements and satisfies the requirements of Section 115, Paragraph 2, No. 1 and No. 2, Paragraph 3 and Paragraph 4 of the German Securities Trading Act (WpHG). Bayer has prepared the condensed consolidated interim financial statements according to the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union (E.U.). The interim group management report should be read in conjunction with our Annual Report 2017, which contains a detailed description of our business operations.

Third quarter of 2018

Bayer: Good performance in a challenging environment, Group outlook confirmed

- // Group sales €9.9 billion (Q3 2017: €8.0 billion; Fx & portfolio adj. +1.9%)
- // EBITDA before special items level year on year at €2.2 billion (–0.1%)
- // Business performance at Pharmaceuticals remains strong
- // Consumer Health with increase in sales (Fx & portfolio adj.), while currency effects weigh on earnings
- // Crop Science posts substantial rise in sales and earnings due to the acquisition – successful start to integration process
- // Sales and earnings of Animal Health decline following a strong second quarter
- // €3.9 billion one-time gain (before taxes) from divestments
- // Net income €2.9 billion
- // Core earnings per share €1.19
- // Adjusted 2018 Group outlook confirmed

Interim Group Management Report as of September 30, 2018

Economic Position of the Bayer Group

Sales of the Bayer Group increased by 1.9% (Fx & portfolio adj.) to €9.9 billion in the third quarter of 2018. EBITDA before special items was level year on year at €2.2 billion (– 0.1%). Core earnings per share were down against the prior-year period as expected, at €1.19 (– 17.9%).

Pharmaceuticals saw encouraging development, with sales increasing as a result of higher volumes and earnings benefiting from one-time income from a development collaboration. Consumer Health posted higher sales on a currency- and portfolio-adjusted basis; despite positive operational development, earnings declined due to currency effects and one-time gains in the prior-year quarter. Crop Science registered a significant decline in sales on a currency- and portfolio-adjusted basis due to the accounting measures taken in Brazil in the prior year, while the positive earnings development was supported by the contribution from Monsanto. Sales and earnings declined at Animal Health as expected, mainly as a result of shifts in demand from the third quarter into the first half of the year.

We confirm our Group outlook for 2018 based on the acquisition-related adjustments made in the second quarter.

Key Events

On June 7, 2018, Bayer completed the acquisition of the Monsanto Company, St. Louis, Missouri, United States (Monsanto) for US$63 billion including debt.

The divestments to BASF required to fulfill the antitrust conditions were completed on August 1, 2018, for all businesses earmarked for divestment excluding the vegetable seed business, which was divested as of August 16, 2018. The closing of these transactions led to the hold separate order being lifted. The preliminary purchase price received was approximately €7.3 billion. The transactions resulted in divestment proceeds of approximately €3.9 billion before taxes.

Please see the Bayer Q2 2018 Interim Report for further details on key events in connection with the Monsanto acquisition, including the relevant capital measures, and on the sale of Covestro shares.

On August 10, 2018, a state court jury in San Francisco, United States, awarded approximately US$39 million in compensatory and US$250 million in punitive damages to a plaintiff who claimed that a Monsanto product caused his non-Hodgkin lymphoma (NHL). We consider this decision to be incorrect and asked in September 2018 that the responsible judge, who had also presided over the jury trial, review the verdict. In October 2018, the judge decided to reduce the punitive damages from US$250 million to approximately US$39 million. The compensatory damages of approximately US$39 million were not reduced. However, based on the body of scientific evidence available and the assessments of regulatory authorities worldwide, we continue to believe that we have meritorious defenses and intend to defend ourselves vigorously in this and other product liability lawsuits relating to products containing glyphosate. The next two trials are currently scheduled for February 2019, before a state court in the city of St. Louis and a federal court in San Francisco, respectively. However, trial dates in all venues remain subject to change depending on court schedules and rulings. For further details on this series of proceedings, please see the “Legal Risks” section in the Notes to the Condensed Consolidated Interim Financial Statements.

Changes to the Corporate Structure

Since the closing of the acquisition of Monsanto, the business has been included in full. The divestments to BASF closed on August 1 and August 16, 2018, and are not included in the figures from these dates. The reported portfolio effect on the sales of Crop Science (and the Bayer Group) therefore includes the contribution from the Monsanto business since June 7, 2018, less the contribution of the divested businesses to Q3 2017 sales after August 1 and 16, respectively.

1. Overview of Sales, Earnings and Financial Position

1.1 Earnings Performance of the Bayer Group[1]

Third quarter of 2018

Group sales

Group sales in the third quarter of 2018 rose by 1.9% (Fx & portfolio adj.) to €9,905 million (reported: + 23.4%). Germany accounted for €922 million of this figure.

Pharmaceuticals posted a 4.8% (Fx & portfolio adj.) increase in sales to €4,163 million, mainly as a result of the continued strong development of our key growth products overall. Consumer Health raised sales by 3.0% (Fx & portfolio adj.) to €1,297 million, with growth particularly strong in the Asia / Pacific region. Crop Science registered a 9.5% (Fx & portfolio adj.) decline in sales to €3,733 million that resulted primarily from the accounting measures taken in Brazil in the prior year. On a reported basis, sales of Crop Science climbed by 83.8%, thanks mainly to portfolio effects of 96.3% (€1,956 million). Sales of Animal Health fell by 13.5% (Fx & portfolio adj.) to €304 million due to lower volumes.

EBITDA before special items

EBITDA before special items of the Bayer Group was level year on year at €2,202 million (– 0.1%). Negative currency effects diminished earnings by approximately €160 million (excluding the acquired business). EBITDA before special items at Pharmaceuticals rose by 4.1% to €1,554 million. At Consumer Health, EBITDA before special items fell by 9.5% to €248 million. Crop Science posted a 25.7% increase in EBITDA before special items to €386 million, with the newly acquired business contributing €255 million to earnings. EBITDA before special items of Animal Health declined by 45.7% to €44 million.

Depreciation and amortization

Depreciation, amortization and impairment losses increased by 56.6% in the third quarter of 2018 to €910 million (Q3 2017: €581 million). This figure comprised €578 million (Q3 2017: €319 million) in amortization and impairments on intangible assets and €332 million (Q3 2017: €262 million) in depreciation and impairments on property, plant and equipment.

Impairment losses totaled €9 million (Q3 2017: €8 million), including €8 million (Q3 2017: €7 million) on property, plant and equipment. A total of €6 million (Q3 2017: €0 million) in impairment losses and impairment loss reversals, and €1 million (Q3 2017: €16 million) in accelerated depreciation constituted special items.

EBIT and special items

EBIT of the Bayer Group advanced to €4,423 million (Q3 2017: €1,388 million) after net special gains of €3,123 million (Q3 2017: net special charges of €249 million). The gains mainly included divestiture proceeds of approximately €3.9 billion before taxes in connection with the divestments to BASF. These gains were partially offset by expenses of €763 million that were related to the acquisition of Monsanto, including €518 million relating to the remeasurement of inventories. EBIT before special items declined by 20.6% to €1,300 million (Q3 2017: €1,637 million).

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

The following special effects were taken into account in calculating EBIT and EBITDA:

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Special Items Reconciliation by Segment[1]

€ million	EBIT Q3 2017	EBIT Q3 2018	EBIT 9M 2017	EBIT 9M 2018	EBITDA Q3 2017	EBITDA Q3 2018	EBITDA 9M 2017	EBITDA 9M 2018
Before special items	**1,637**	**1,300**	**5,873**	**5,402**	**2,204**	**2,202**	**7,505**	**7,433**
Pharmaceuticals	**3**	**(16)**	**(153)**	**(73)**	**3**	**(16)**	**(7)**	**(30)**
Consumer Health	**(18)**	**9**	**(42)**	**5**	**(17)**	**11**	**(32)**	**7**
Crop Science	**(121)**	**3,163**	**(253)**	**2,822**	**(108)**	**3,169**	**(216)**	**2,830**
Animal Health	**(8)**	**(3)**	**(8)**	**(6)**	**(8)**	**(3)**	**(8)**	**(6)**
Reconciliation	**(105)**	**(30)**	**(139)**	**(66)**	**(105)**	**(30)**	**(139)**	**(66)**
Restructuring	(13)	(14)	(42)	(32)	(13)	(14)	(42)	(32)
Litigations/legal risks	(92)	–	(97)	(3)	(92)	–	(97)	(3)
Acquisition costs	–	(17)	–	(32)	–	(17)	–	(32)
Others	–	1	–	1	–	1	–	1
Total special items	**(249)**	**3,123**	**(595)**	**2,682**	**(235)**	**3,131**	**(402)**	**2,735**
Impairment losses/reversals	5	–	(146)	(43)	5	–	(1)	–
Litigations/legal risks	(93)	(3)	(100)	(9)	(93)	(3)	(100)	(9)
Acquisition costs	(102)	(780)	(170)	(1,128)	(102)	(774)	(170)	(1,120)
Restructuring	(44)	(47)	(124)	(92)	(44)	(45)	(100)	(90)
Divestitures	(15)	3,968	(55)	3,969	(1)	3,968	(31)	3,969
Other	–	(15)	–	(15)	–	(15)	–	(15)
After special items	**1,388**	**4,423**	**5,278**	**8,084**	**1,969**	**5,333**	**7,103**	**10,168**

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

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Special Items Reconciliation by Functional Costs[1]

€ million	EBIT Q3 2017	EBIT Q3 2018	EBIT 9M 2017	EBIT 9M 2018	EBITDA Q3 2017	EBITDA Q3 2018	EBITDA 9M 2017	EBITDA 9M 2018
Total special items	**(249)**	**3,123**	**(595)**	**2,682**	**(235)**	**3,131**	**(402)**	**2,735**
of which cost of goods sold	(24)	(547)	(115)	(705)	(8)	(540)	(61)	(695)
of which selling expenses	(15)	(52)	(56)	(70)	(15)	(52)	(24)	(70)
of which research and development expenses	(3)	(22)	(116)	(75)	(3)	(22)	(9)	(32)
of which general administration expenses	(115)	(203)	(208)	(410)	(115)	(203)	(208)	(410)
of which other operating income/expenses	(92)	3,947	(100)	3,942	(94)	3,948	(100)	3,942

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

Income after income taxes from discontinued operations

Income after income taxes from discontinued operations was €0 million (Q3 2017: €3,423 million). Covestro was still included in the prior-year period.

Net income

After a financial result of minus €678 million (Q3 2017: minus €403 million), income before income taxes was €3,745 million (Q3 2017: €985 million). The financial result primarily comprised net interest expense of €376 million (Q3 2017: €103 million) and a €202 million (Q3 2017 €131 million) net exchange loss. The financial result included special charges of €166 million (Q3 2017: €162 million), mainly in connection with the deconsolidation of our company Bayer S.A. in Venezuela. After income tax expense of €851 million (Q3 2017: €212 million) and adjusting for income attributable to noncontrolling interest, net income for the third quarter of 2018 amounted to €2,886 million (Q3 2017: €3,881 million).

Core earnings per share

Earnings per share (total) were €2.94 in the third quarter of 2018 (Q3 2017: €4.38), while core earnings per share from continuing operations were below the prior-year period as expected, at €1.19 (Q3 2017: €1.45; – 17.9%). The financing costs for the Monsanto acquisition stood against the earnings contribution from the acquired business that was lower due to seasonal reasons. In addition, the equity measures implemented in the second quarter had a dilutive effect.

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Core Earnings per Share[1]

€ million	Q3 2017	Q3 2018	9M 2017	9M 2018
EBIT (as per income statements)	**1,388**	**4,423**	**5,278**	**8,084**
Amortization and impairment losses/loss reversals on intangible assets	319	578	1,077	1,291
Impairment losses/loss reversals on property, plant and equipment, and accelerated depreciation included in special items	22	10	68	19
Special items (other than accelerated depreciation, amortization and impairment losses/loss reversals)	235	(3,131)	402	(2,735)
Core EBIT	**1,964**	**1,880**	**6,825**	**6,659**
Financial result (as per income statements)	(403)	(678)	(1,068)	(870)
Special items in the financial result	162	166	361	36
Income taxes (as per income statements)	(212)	(851)	(894)	(1,561)
Special items in income taxes	–	84	–	84
Tax effects related to amortization, impairment losses/loss reversals and special items	(228)	572	(580)	225
Income after income taxes attributable to noncontrolling interest (as per income statements)	3	(8)	3	(14)
Above-mentioned adjustments attributable to noncontrolling interest	–	–	–	–
Core net income from continuing operations	**1,286**	**1,165**	**4,647**	**4,559**
Shares				
Weighted average number of shares[2]	**885,546,889**	**980,151,964**	**885,066,889**	**927,477,704**
€				
Core earnings per share from continuing operations	**1.45**	**1.19**	**5.25**	**4.92**

[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”
[2] The weighted average number of shares (basic and diluted) was restated for all periods prior to June 2018 to reflect the effect of the bonus component of the subscription rights issued as part of the June 2018 capital increase.

Personnel expenses and employee numbers

Largely due to the Monsanto acquisition, the number of employees in the Bayer Group rose to 118,196 as of the end of the third quarter of 2018 (September 30, 2017: 99,845; + 18.4%), with personnel expenses increasing by 21.0% to €2,783 million (Q3 2017: €2,300 million).

First nine months of 2018

Group sales

Group sales in the first nine months of 2018 rose by 4.1% (Fx & portfolio adj.) to €28,524 million (reported: + 8.0%). Germany accounted for €2,921 million of this figure.

Sales of Pharmaceuticals advanced by 3.6% (Fx & portfolio adj.) to €12,455 million. Sales at Consumer Health came in level with the prior-year period at €4,119 million (Fx & portfolio adj. – 0.4%). Sales of Crop Science advanced by 3.2% (Fx & portfolio adj.) to €9,605 million. On a reported basis, sales increased by 31.3%, thanks mainly to the aforementioned portfolio effects of 34.2% (€2,499 million) primarily relating to the acquisition of Monsanto. Sales of Animal Health were level year on year at €1,171 million (Fx & portfolio adj. – 0.1%).

EBITDA before special items

EBITDA before special items of the Bayer Group was nearly level year on year at €7,433 million (– 1.0%; 9M 2017: €7,505 million). Earnings were diminished by negative currency effects of €442 million (excluding the acquired business). EBITDA before special items at Pharmaceuticals decreased by 3.2% to €4,332 million. At Consumer Health, EBITDA before special items receded by 16.6% to €817 million. At Crop Science, EBITDA before special items increased by 18.4% to €2,059 million. This was mainly attributable to the significantly higher provisions for crop protection product returns recognized in the second quarter of 2017 due to high inventories in Brazil, and to the earnings contribution of the newly acquired business. At Animal Health, earnings declined by 6.3% to €311 million.

Depreciation and amortization

Depreciation, amortization and impairment losses amounted to €2,084 million in the first nine months of 2018 (9M 2017: €1,825 million), comprising €1,291 million (9M 2017: €1,077 million) in amortization and impairments on intangible assets and €793 million (9M 2017: €748 million) in depreciation and impairments on property, plant and equipment.

Impairment losses totaled €84 million (9M 2017: €181 million), including €17 million (9M 2017: €43 million) on property, plant and equipment. A total of €51 million (9M 2017: €168 million) in impairment losses and impairment loss reversals, and €2 million (9M 2017: €26 million) in accelerated depreciation constituted special items.

EBIT

EBIT of the Bayer Group advanced by 53.2% to €8,084 million (9M 2017: €5,278 million) after net special gains of €2,682 million (9M 2017: net special charges of €595 million). These gains resulted mainly from the aforementioned divestiture proceeds from the divestments to BASF. The special charges related to the acquired business amounted to €1,096 million, including €644 million relating to the remeasurement of inventories. EBIT before special items declined by 8.0% to €5,402 million (9M 2017: €5,873 million).

Income after income taxes from discontinued operations

Income after income taxes from discontinued operations was €0 million (9M 2017: €4,628 million). Covestro was still included in the prior-year period.

Net income

After a financial result of minus €870 million (9M 2017: minus €1,068 million), income before income taxes was €7,214 million (9M 2017: €4,210 million). The financial result comprised income from investments in affiliated companies of €295 million, particularly from the interest in Covestro, net interest expense of €738 million (9M 2017: €354 million), an exchange loss of €280 million (9M 2017: €321 million) and interest cost of €127 million (9M 2017: €143 million) for pension and other provisions. The financial result included net special charges of €36 million (9M 2017: €361 million). After tax expense of €1,561 million (9M 2017: €894 million), income after income taxes was €5,653 million (9M 2017: €3,316 million). After adjusting for income from discontinued operations after income taxes and noncontrolling interest, net income came to €5,639 million (9M 2017: €7,188 million).

Core earnings per share

Earnings per share (total) amounted to €6.08 (9M 2017: €8.12), while core earnings per share from continuing operations were below the prior-year period as expected, at €4.92 (9M 2017: €5.25; –6.3%). The existing financing costs for the Monsanto acquisition stood against the earnings contribution from the acquired business that was lower due to seasonal reasons.

1.2 Business Development by Segment

Pharmaceuticals

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Key Data – Pharmaceuticals

			Change %[1]				Change %[1]	
€ million	Q3 2017	Q3 2018	Reported	Fx & p adj.	9M 2017	9M 2018	Reported	Fx & p adj.
Sales	**4,065**	**4,163**	**+2.4**	**+4.8**	**12,632**	**12,455**	**–1.4**	**+3.6**
Change in sales[1]								
Volume	+2.4%	+7.1%			+4.9%	+6.2%		
Price	–0.1%	–2.3%			–0.3%	–2.6%		
Currency	–4.3%	–2.1%			–0.6%	–4.8%		
Portfolio	–0.1%	–0.3%			0.0%	–0.2%		
Sales by region								
Europe/Middle East/Africa	1,548	1,627	+5.1	+7.4	4,801	4,891	+1.9	+4.3
North America	1,028	1,031	+0.3	+0.5	3,202	2,946	–8.0	–1.7
Asia/Pacific	1,223	1,268	+3.7	+4.6	3,825	3,894	+1.8	+6.4
Latin America	266	237	–10.9	+7.1	804	724	–10.0	+6.7
EBITDA[1]	**1,496**	**1,538**	**+2.8**		**4,469**	**4,302**	**–3.7**	
Special items[1]	3	(16)			(7)	(30)		
EBITDA before special items[1]	**1,493**	**1,554**	**+4.1**		**4,476**	**4,332**	**–3.2**	
EBITDA margin before special items[1]	36.7%	37.3%			35.4%	34.8%		
EBIT[1]	**1,209**	**1,299**	**+7.4**		**3,530**	**3,515**	**–0.4**	
Special items[1]	3	(16)			(153)	(73)		
EBIT before special items[1]	**1,206**	**1,315**	**+9.0**		**3,683**	**3,588**	**–2.6**	
Net cash provided by operating activities	**1,036**	**928**	**–10.4**		**2,537**	**2,789**	**+9.9**	

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

Third quarter of 2018

Sales

Sales of Pharmaceuticals rose by an encouraging 4.8% (Fx & portfolio adj.) to €4,163 million in the third quarter of 2018 (Q3 2017: €4,065 million). Our key growth products Xarelto™, Eylea™, Xofigo™, Stivarga™ and Adempas™ once again showed strong performance overall, with their combined sales rising by 15.7% (Fx & portfolio adj.) to €1,730 million (Q3 2017: €1,522 million). Combined sales of the 15 best-selling Pharmaceuticals products advanced by 7.8% (Fx & portfolio adj.). All regions contributed to this growth on a currency- and portfolio-adjusted basis, with an especially positive development registered in Europe and China. Sales were held back by expected temporary supply disruptions for some of our established products, such as Adalat™ and Aspirin™ Cardio, as was the case in the first six months.

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Best-Selling Pharmaceuticals Products

€ million	Q3 2017	Q3 2018	Change %[1] Reported	Change %[1] Fx & p adj.	9M 2017	9M 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Xarelto™	799	933	+ 16.8	+ 18.8	2,384	2,638	+ 10.7	+ 14.1
of which U.S.A.[2]	138	140	+ 1.4	+ 1.5	341	349	+ 2.3	+ 2.4
Eylea™	469	541	+ 15.4	+ 17.9	1,373	1,585	+ 15.4	+ 19.8
of which U.S.A.[3]	0	0	.	.	0	0	.	.
Xofigo™	102	89	– 12.7	– 13.0	307	270	– 12.1	– 6.8
of which U.S.A.	59	54	– 8.5	– 9.0	183	157	– 14.2	– 7.7
Adempas™	75	90	+ 20.0	+ 22.1	223	260	+ 16.6	+ 22.3
of which U.S.A.	38	44	+ 15.8	+ 13.6	114	122	+ 7.0	+ 14.9
Stivarga™	77	77	0.0	+ 1.9	235	229	– 2.6	+ 4.3
of which U.S.A.	40	37	– 7.5	– 10.1	125	107	– 14.4	– 8.8
Subtotal key growth products	**1,522**	**1,730**	**+ 13.7**	**+ 15.7**	**4,522**	**4,982**	**+ 10.2**	**+ 14.3**
Mirena™ product family	280	280	0.0	+ 0.6	871	873	+ 0.2	+ 7.4
of which U.S.A.	190	185	– 2.6	– 3.0	585	586	+ 0.2	+ 8.3
Kogenate™/Kovaltry™/Jivi™	215	212	– 1.4	– 1.0	750	639	– 14.8	– 10.9
of which U.S.A.	69	79	+ 14.5	+ 13.2	254	233	– 8.3	– 1.2
Nexavar™	194	180	– 7.2	– 5.0	630	535	– 15.1	– 10.1
of which U.S.A.	66	60	– 9.1	– 11.4	227	162	– 28.6	– 23.9
Adalat™	156	143	– 8.3	– 6.4	501	484	– 3.4	+ 0.7
of which U.S.A.	0	0	.	.	0	0	.	.
YAZ™/Yasmin™/Yasminelle™	167	167	0.0	+ 6.1	495	478	– 3.4	+ 4.1
of which U.S.A.	24	20	– 16.7	– 16.0	69	57	– 17.4	– 12.1
Glucobay™	136	154	+ 13.2	+ 14.3	433	473	+ 9.2	+ 12.8
of which U.S.A.	1	0	.	.	2	1	.	.
Aspirin™ Cardio	139	133	– 4.3	– 0.5	444	420	– 5.4	– 0.8
of which U.S.A.	0	0	.	.	0	0	.	.
Betaferon™/Betaseron™	143	133	– 7.0	– 6.2	499	405	– 18.8	– 14.3
of which U.S.A.	75	71	– 5.3	– 6.8	277	206	– 25.6	– 20.3
Gadavist™/Gadovist™	90	89	– 1.1	+ 1.0	276	279	+ 1.1	+ 6.4
of which U.S.A.	30	29	– 3.3	– 4.7	91	92	+ 1.1	+ 8.7
Stellant™	82	87	+ 6.1	+ 6.4	252	250	– 0.8	+ 5.0
of which U.S.A.	58	63	+ 8.6	+ 7.7	179	175	– 2.2	+ 5.0
Total best-selling products	**3,124**	**3,308**	**+ 5.9**	**+ 7.8**	**9,673**	**9,818**	**+ 1.5**	**+ 6.2**
Proportion of Pharmaceuticals sales	77%	79%			77%	79%		
Total best-selling products in U.S.A.	**788**	**782**	**– 0.8**	**– 1.6**	**2,447**	**2,247**	**– 8.2**	**– 2.3**

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

Sales by product

- // We once again posted robust sales gains for our oral anticoagulant **Xarelto™**, due mainly to higher volumes in Europe, particularly in Germany, and China. Our license revenues – recognized as sales in the United States, where Xarelto™ is marketed by a subsidiary of Johnson & Johnson – were up slightly year on year.
- // We significantly increased sales of the eye medicine **Eylea™** compared with the prior-year quarter, primarily due to higher volumes in Europe and Canada. We also benefited from the differentiated clinical profile of Eylea™ compared with rival products.
- // We registered a significant decline in sales of our cancer drug **Xofigo™** that was attributable to lower volumes particularly in the United States and Japan. This was mainly due to the Phase III trial of radium-223 dichloride in combination with abiraterone acetate and prednisone/prednisolone being halted prematurely in November 2017.

- // Business with our pulmonary hypertension treatment **Adempas™** expanded significantly due to positive business development in the United States and Europe. As in the past, sales reflected the proportionate recognition of the upfront and milestone payments resulting from the sGC collaboration with Merck & Co., United States.
- // We registered a slight increase in sales of our cancer drug **Stivarga™** on a currency- and portfolio-adjusted basis, primarily in China, where we continued to benefit from the market launches undertaken in previous years. In the United States, however, sales were down due to a highly competitive market environment.
- // Sales of the hormone-releasing intrauterine devices of the **Mirena™** product family (Mirena™, Kyleena™ and Jaydess™/Skyla™) were flat with the prior-year quarter. Business in China, Canada and Brazil benefited from a considerable expansion of volumes, while sales declined in the United States due to lower demand.
- // Sales of our **Kogenate™/Kovaltry™/Jivi™** blood-clotting medicines came in slightly below the level of the prior-year quarter. Sales declines for Kogenate™ were almost completely offset by encouraging sales gains for Kovaltry™.
- // Sales of our cancer drug **Nexavar™** declined in the face of continuing high competitive pressure in the United States and Japan. Strong sales growth in China was not sufficient to offset this effect.
- // Sales were down for **Adalat™**, our product to treat hypertension and coronary heart disease. Expanded volumes in China did not suffice to compensate for declines in Japan and Canada.
- // Sales of our **YAZ™/Yasmin™/Yasminelle™** line of oral contraceptives saw encouraging development on a currency- and portfolio-adjusted basis. This was primarily attributable to good business development in China and Japan following a product line extension in those countries in the previous year to include YAZ™ Flex, which more than offset the lower demand in the United States.
- // We posted strong gains for our diabetes treatment **Glucobay™** that were driven by a robust expansion of volumes in China.
- // Sales of our **Aspirin™ Cardio** product for the secondary prevention of heart attacks were level with the prior-year quarter on a currency- and portfolio-adjusted basis. Gains in China stood against declines in Europe.
- // The decline in sales of our multiple sclerosis treatment **Betaferon™/Betaseron™** was mainly attributable to the competitive market environment in the United States.
- // Business with our **Stellant™** contrast agent injection system benefited from higher volumes, particularly in the United States.

Earnings

EBITDA before special items of Pharmaceuticals rose by 4.1% to €1,554 million in the third quarter of 2018 (Q3 2017: €1,493 million). Adjusted for negative currency effects in the amount of €73 million, earnings were up by 9.0%. This increase was predominantly attributable to the very good development of business – especially for our key growth products – and to income of approximately €190 million from a Xarelto™ development collaboration with Janssen Research & Development, LLC, a subsidiary of Johnson & Johnson. The principal negative effects on earnings resulted from temporary supply disruptions and an increase in the cost of goods sold. In addition, the prior-year figure included a one-time gain in the mid-double-digit millions.

EBIT advanced by 7.4% to €1,299 million, after special charges of €16 million (Q3 2017: special gains of €3 million) resulting from expenses of €10 million in connection with the deconsolidation of a company in Venezuela and from expenses of €6 million for restructuring measures.

A 6

Special Items[1] Pharmaceuticals

€ million	EBIT Q3 2017	EBIT Q3 2018	EBIT 9M 2017	EBIT 9M 2018	EBITDA Q3 2017	EBITDA Q3 2018	EBITDA 9M 2017	EBITDA 9M 2018
Restructuring	(2)	(6)	(7)	(20)	(2)	(6)	(6)	(20)
Impairment losses/reversals	5	–	(146)	(43)	5	–	(1)	–
Other	–	(10)	–	(10)	–	(10)	–	(10)
Total special items	**3**	**(16)**	**(153)**	**(73)**	**3**	**(16)**	**(7)**	**(30)**

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

First nine months of 2018

Sales

Sales of Pharmaceuticals rose by 3.6% (Fx & portfolio adj.) in the first nine months of 2018, to €12,455 million. Our key growth products delivered strong performance, with their combined sales rising by 14.3% (Fx & portfolio adj.) to €4,982 million (9M 2017: €4,522 million). Our business with Kogenate™ was negatively impacted by the absence of orders from a distribution partner. After adjusting for this effect, sales of Pharmaceuticals rose by + 4.5% (Fx & portfolio adj.).

Earnings

EBITDA before special items declined by 3.2% in the first nine months of 2018, to €4,332 million (9M 2017: €4,476 million). Adjusted for negative currency effects of €196 million, earnings advanced by 1.2%. Earnings were primarily held back by a higher cost of goods sold, selling expenses and effects relating to temporary supply disruptions. Positive contributions predominantly resulted from a substantial increase in volumes, especially for our key growth products, as well as lower expenses for research and development due to the aforementioned income from a development collaboration.

EBIT declined by 0.4% to €3,515 million. Special charges amounted to €73 million (9M 2017: €153 million) and primarily comprised €43 million in impairment losses on intangible assets and €20 million in expenses for restructuring measures.

Consumer Health

A 7

Key Data – Consumer Health

			Change %[1]				Change %[1]	
€ million	Q3 2017	Q3 2018	Reported	Fx & p adj.	9M 2017	9M 2018	Reported	Fx & p adj.
Sales	**1,320**	**1,297**	**– 1.7**	**+ 3.0**	**4,463**	**4,119**	**– 7.7**	**– 0.4**
Changes in sales[1]								
Volume	– 3.2%	+ 3.5%			– 2.5%	– 0.9%		
Price	+ 0.3%	– 0.5%			+ 1.7%	+ 0.5%		
Currency	– 4.5%	– 4.1%			0.0%	– 7.1%		
Portfolio	0.0%	– 0.6%			0.0%	– 0.2%		
Sales by region								
Europe/Middle East/Africa	430	421	– 2.1	+ 2.4	1,471	1,383	– 6.0	– 1.8
North America	537	538	+ 0.2	+ 1.0	1,899	1,729	– 9.0	– 1.4
Asia/Pacific	178	188	+ 5.6	+ 9.3	593	567	– 4.4	+ 0.9
Latin America	175	150	– 14.3	+ 4.2	500	440	– 12.0	+ 5.9
EBITDA[1]	**257**	**259**	**+ 0.8**		**948**	**824**	**– 13.1**	
Special items[1]	(17)	11			(32)	7		
EBITDA before special items[1]	**274**	**248**	**– 9.5**		**980**	**817**	**– 16.6**	
EBITDA margin before special items[1]	20.8%	19.1%			22.0%	19.8%		
EBIT[1]	**155**	**162**	**+ 4.5**		**628**	**530**	**– 15.6**	
Special items[1]	(18)	9			(42)	5		
EBIT before special items[1]	**173**	**153**	**– 11.6**		**670**	**525**	**– 21.6**	
Net cash provided by operating activities	**200**	**210**	**+ 5.0**		**762**	**531**	**– 30.3**	

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

Third quarter of 2018

Sales

Sales of Consumer Health increased by 3.0% (Fx & portfolio adj.) in the third quarter of 2018, to €1,297 million. All regions contributed to this growth on a currency- and portfolio-adjusted basis. We registered a substantial increase in Asia/Pacific in particular.

A 8

Best-Selling Consumer Health Products

€ million	Q3 2017	Q3 2018	Change %[1] Reported	Change %[1] Fx & p adj.	9M 2017	9M 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Claritin™	123	113	– 8.1	– 6.7	472	420	– 11.0	– 3.7
Aspirin™	117	98	– 16.2	– 11.7	338	300	– 11.2	– 3.6
Bepanthen™ / Bepanthol™	88	84	– 4.5	+ 2.4	283	281	– 0.7	+ 5.3
Aleve™	89	88	– 1.1	– 1.0	272	257	– 5.5	+ 1.2
Canesten™	66	63	– 4.5	– 0.3	210	184	– 12.4	– 8.4
Coppertone™	15	10	– 33.3	– 31.3	197	167	– 15.2	– 6.1
Elevit™	51	56	+ 9.8	+ 13.3	147	160	+ 8.8	+ 16.2
Dr Scholl's™[2]	51	49	– 3.9	– 4.6	157	152	– 3.2	+ 3.6
Alka-Seltzer™ product family	57	58	+ 1.8	+ 1.8	171	151	– 11.7	– 5.2
One A Day™	49	52	+ 6.1	+ 5.5	159	148	– 6.9	+ 0.0
Total	**706**	**671**	**– 5.0**	**– 2.1**	**2,406**	**2,220**	**– 7.7**	**– 1.2**
Proportion of Consumer Health sales	53%	52%			54%	54%		

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

Sales by product

// Sales of our antihistamine **Claritin™** declined, mainly because of a continuing weak season for this market segment in the United States.

// Sales of our analgesic **Aspirin™** were down significantly year on year, due primarily to temporary supply disruptions. Including business with Aspirin™ Cardio, which is reported under Pharmaceuticals, sales amounted to €231 million (Q3 2017: €256 million), representing a currency- and portfolio-adjusted decline of 5.6%.

// Business with our **Bepanthen™ / Bepanthol™** brands of wound and skin care products developed positively on a currency- and portfolio-adjusted basis, especially in Europe.

// We were able to stabilize sales of our **Canesten™** skin and intimate health products at the strong prior-year level despite temporary supply disruptions.

// Sales of our **Coppertone™** sunscreen were down sharply at the end of the season, mostly in Brazil from a change in our distribution channels, while persistently intense competitive pressure in the United States also impacted the performance.

// Business with our prenatal vitamin **Elevit™** expanded once again, with the double-digit percentage increase on a currency- and portfolio-adjusted basis driven by continuing strong demand and a product line extension in Asia / Pacific.

// Our **Dr. Scholl's™** foot care products registered a decline in sales, mainly in the United States.

// Sales of our **Alka-Seltzer™** family of products to treat gastric complaints and cold symptoms increased slightly due to gains in Europe.

// Sales of our **One A Day™** vitamin products were up year on year, particularly in the United States.

Earnings

EBITDA before special items of Consumer Health declined by 9.5% to €248 million in the third quarter of 2018 (Q3 2017: €274 million). Adjusted for negative currency effects of €23 million, earnings were almost level with the prior-year period (– 1.1%). Higher volumes, lower selling expenses and a decrease in general administration expenses had a positive impact on earnings. By contrast, prior-period earnings included one-time gains of approximately €30 million that mainly related to the sale of non-core brands.

EBIT increased by 4.5% to €162 million, after net special gains of €9 million (Q3 2017: net special charges of €18 million) primarily resulting from the divestment of the prescription dermatology business. Special charges relating to efficiency improvement measures had an opposing effect.

A 9

Special Items[1] Consumer Health

€ million	EBIT Q3 2017	EBIT Q3 2018	EBIT 9M 2017	EBIT 9M 2018	EBITDA Q3 2017	EBITDA Q3 2018	EBITDA 9M 2017	EBITDA 9M 2018
Divestments	–	33	–	33	–	33	–	33
Restructuring	(18)	(22)	(42)	(26)	(17)	(20)	(32)	(24)
Other	–	(2)	–	(2)	–	(2)	–	(2)
Total special items	**(18)**	**9**	**(42)**	**5**	**(17)**	**11**	**(32)**	**7**

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

First nine months of 2018

Sales

Sales were level year on year in the first nine months of 2018, at €4,119 million (Fx & portfolio adj. – 0.4%). Positive developments in Latin America and Asia / Pacific were nearly sufficient to offset the sales declines in Europe / Middle East / Africa and North America on a currency- and portfolio-adjusted basis.

Earnings

EBITDA before special items fell by 16.6% in the first nine months of 2018, to €817 million (9M 2017: €980 million). Adjusted for negative currency effects in the amount of €70 million, earnings were down by 9.5%. The decrease is primarily due to a decline in volumes and lower one-time gains, especially those arising from the sale of non-core brands in the prior-year period.

EBIT was down 15.6% at €530 million (9M 2017: €628 million), after special gains of €5 million (9M 2017: special charges of €42 million) mainly resulting from the divestment of the prescription dermatology business. Special charges relating to efficiency improvement measures had an opposing effect.

Crop Science

A 10

Key Data – Crop Science

€ million	Q3 2017	Q3 2018	Change %[1] Reported	Change %[1] Fx & p adj.	9M 2017	9M 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Sales	**2,031**	**3,733**	**+ 83.8**	**– 9.5**	**7,314**	**9,605**	**+ 31.3**	**+ 3.2**
Change in sales[1]								
Volume	+ 7.1%	– 10.5%			– 1.2%	+ 3.3%		
Price	– 4.4%	+ 1.0%			– 2.0%	– 0.1%		
Currency	– 4.0%	– 3.0%			+ 0.6%	– 6.3%		
Portfolio	0.0%	+ 96.3%			0.0%	+ 34.2%		
Sales by region								
Europe / Middle East / Africa	525	817	+ 55.6	– 7.9	2,895	3,097	+ 7.0	– 4.1
North America	386	948	+ 145.6	+ 5.4	2,293	2,993	+ 30.5	+ 2.3
Asia / Pacific	380	452	+ 18.9	– 5.3	1,205	1,328	+ 10.2	+ 5.4
Latin America	740	1,516	+ 104.9	– 20.4	921	2,187	+ 137.5	+ 26.1
EBITDA[1]	**199**	**3,555**	**.**		**1,523**	**4,889**	**.**	
Special items[1]	(108)	3,169			(216)	2,830		
EBITDA before special items[1]	**307**	**386**	**+ 25.7**		**1,739**	**2,059**	**+ 18.4**	
EBITDA margin before special items[1]	15.1%	10.3%			23.8%	21.4%		
EBIT[1]	**84**	**3,054**	**.**		**1,171**	**4,100**	**.**	
Special items[1]	(121)	3,163			(253)	2,822		
EBIT before special items[1]	**205**	**(109)**	**.**		**1,424**	**1,278**	**– 10.3**	
Net cash provided by operating activities	**841**	**1,244**	**+ 47.9**		**1,332**	**2,194**	**+ 64.7**	

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

Third quarter of 2018

Sales

In the third quarter of 2018, Crop Science posted sales of €3,733 million. The businesses divested to BASF contributed approximately €100 million to third-quarter sales prior to the closing of the respective transactions in August. Sales increased by 83.8% on a reported basis, thanks mainly to a positive portfolio effect of 96.3% due to the acquisition of Monsanto (€2,199 million) less the prorated contribution from the divested businesses in the prior year (€243 million). Sales were also impacted by a negative currency effect of 3.0%. The 9.5% decline on a currency- and portfolio-adjusted basis resulted especially from the accounting measures taken in Brazil in the prior year and lower volumes in the Europe/Middle East/Africa region.

A 11

Sales by Business Unit

€ million	Q3 2017	Q3 2018	Change %[1] Reported	Change %[1] Fx & p adj.	9M 2017	9M 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Crop Science	**2,031**	**3,733**	**+83.8**	**–9.5**	**7,314**	**9,605**	**+31.3**	**+3.2**
Herbicides	454	1,171	+157.9	–13.2	2,107	2,999	+42.3	–1.2
Corn Seed & Traits	13	600	.	–15.8	83	772	.	–11.8
Soybean Seed & Traits	48	392	.	–9.9	153	598	.	+5.8
Fungicides	553	453	–18.1	–15.0	1,842	1,890	+2.6	+7.6
Insecticides	421	353	–16.2	–13.8	978	981	+0.3	+6.2
Environmental Science	149	206	+38.3	+6.1	488	503	+3.1	–8.0
Vegetable Seeds	85	266	.	+10.7	332	538	+62.0	+1.3
Other	308	292	–5.2	–1.4	1,331	1,324	–0.5	+7.2

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

Sales by region

- // Sales in the Europe/Middle East/Africa region increased by 59.3% (Fx adj.) to €817 million, with a portfolio effect of €353 million. Sales fell by 7.9% on a currency- and portfolio-adjusted basis. The SeedGrowth business (Other) saw a decline due to a loss of registration in France. We also saw a decline in sales at Herbicides and Fungicides as a result of the dry weather.
- // Sales in North America increased by 145.5% (Fx adj.) to €948 million, with a portfolio effect of €541 million. The 5.4% increase on a currency- and portfolio-adjusted basis was mainly attributable to the Fungicides business, which posted gains due partly to a product launch in Canada, and the SeedGrowth business (Other). We also registered double-digit-percentage sales growth at Environmental Science. By contrast, there was a decline in sales at Soybean Seed & Traits, and sales of selective herbicides were down in the United States.
- // In the Asia/Pacific region, sales increased by 23.1% (Fx adj.) to €452 million, with a portfolio effect of €107 million. Sales fell by 5.3% on a currency- and portfolio-adjusted basis. Insecticides in particular saw a decline in sales in India against a strong prior-year quarter due to the introduction of a new sales tax system in the previous year.
- // In Latin America, sales advanced by 108.7% (Fx adj.) to €1,516 million, with a portfolio effect of €955 million. Sales fell by 20.4% after adjusting for currency and portfolio effects, due primarily to the accounting measures taken in Brazil in the prior year. We posted a slight increase in sales overall in the other Latin American countries on a currency- and portfolio-adjusted basis.

Earnings

EBITDA before special items of Crop Science climbed by 25.7% to €386 million in the third quarter of 2018 (Q3 2017: €307 million). This increase was primarily attributable to earnings contributions from the newly acquired business in the amount of €255 million. Negative factors included the aforementioned accounting measures taken in Brazil in the prior year, lower volumes in Europe, higher other operating income in the prior-year quarter, the prorated Q3 2017 earnings contributions from the businesses divested to BASF, and a negative currency effect of €59 million (excluding the acquired business).

EBIT increased to €3,054 million (Q3 2017: €84 million), after special gains of €3,163 million (Q3 2017: special charges of €121 million) primarily resulting from divestiture proceeds of approximately €3.9 billion before taxes in connection with the businesses divested to BASF. Special charges of €763 million were incurred in connection with the acquisition of Monsanto, including €518 million relating to the remeasurement of inventories. EBIT also included additional depreciation and amortization in the amount of €252 million resulting from remeasurements or the first-time recognition of assets in the course of the purchase price allocation.

A 12

Special Items[1] Crop Science

€ million	EBIT Q3 2017	EBIT Q3 2018	EBIT 9M 2017	EBIT 9M 2018	EBITDA Q3 2017	EBITDA Q3 2018	EBITDA 9M 2017	EBITDA 9M 2018
Restructuring	(3)	(2)	(25)	(8)	(4)	(2)	(12)	(8)
Litigations	(1)	(3)	(3)	(6)	(1)	(3)	(3)	(6)
Acquisition costs	(102)	(763)	(170)	(1,096)	(102)	(757)	(170)	(1,088)
Divestments	(15)	3,935	(55)	3,936	(1)	3,935	(31)	3,936
Other	–	(4)	–	(4)	–	(4)	–	(4)
Total special items	**(121)**	**3,163**	**(253)**	**2,822**	**(108)**	**3,169**	**(216)**	**2,830**

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

First nine months of 2018

Sales

In the first nine months of 2018, Crop Science posted **sales** of €9,605 million. The divested businesses accounted for approximately €1,500 million of this figure. Sales increased by 31.3% on a reported basis, thanks mainly to a positive portfolio effect of 34.2% due to the acquisition of Monsanto (€2,742 million), which took place on June 7, less the prorated contribution from the divested businesses in the prior year (€243 million). Sales were also impacted by a negative currency effect of 6.3%. The 3.2% increase on a currency- and portfolio-adjusted basis was mainly attributable to the Latin America region due to the significantly higher provisions for crop protection product returns recognized in the second quarter of 2017 due to high inventories in Brazil. The Asia/Pacific and North America regions also developed positively. By contrast, we registered a decline in the Europe/Middle East/Africa region that was mainly the result of exceptionally dry conditions in Western Europe and regulatory changes in France.

Earnings

EBITDA before special items of Crop Science increased by 18.4% to €2,059 million in the first nine months of 2018 (9M 2017: €1,739 million). This significant increase was primarily attributable to positive earnings contributions of €325 million from the newly acquired business and to the significantly higher provisions for product returns in Brazil recognized in the second quarter of 2017. Earnings were held back by a negative currency effect of €155 million (excluding the acquired business) and by lower volumes in Europe.

EBIT increased to €4,100 million (9M 2017: €1,171 million), after special gains of €2,822 million (9M 2017: special charges of €253 million) primarily resulting from the divestiture proceeds outlined above. Special charges of €1,096 million were incurred in connection with the acquired business, including €644 million associated with the sale of acquired inventories remeasured at fair value in connection with the purchase price allocation for Monsanto. EBIT also included additional depreciation and amortization in the amount of €307 million resulting from remeasurements or the first-time recognition of assets in the course of the purchase price allocation.

Pro-forma sales by strategic business entity (unaudited)

Due to the scope of the acquired activities and the seasonality of the business, we are presenting sales by strategic business entity on an unaudited, pro-forma basis, to more transparently reflect the underlying operational business development for the combined business of Crop Science and Monsanto, among other reasons. In this context, sales are presented as if both the acquisition of Monsanto and the associated divestitures had taken place already as of January 1, 2017.

A 13

Pro Forma Sales by Business Unit[1]

€ million	Q3 2017	Q3 2018	Change %[2] Reported	Change %[2] Fx adj.	9M 2017	9M 2018	Change %[2] Reported	Change %[2] Fx adj.
Crop Science	**3,704**	**3,578**	**–3.4**	**+1.4**	**15,684**	**14,821**	**–5.5**	**+2.9**
Herbicides	1,079	1,132	+4.9	+9.7	4,033	3,889	–3.6	+3.3
Corn Seed & Traits	572	600	+4.9	+9.2	4,090	3,835	–6.2	+4.5
Soybean Seed & Traits	303	375	+23.8	+39.8	1,955	1,727	–11.7	–0.4
Fungicides	552	453	–17.9	–13.8	1,842	1,890	+2.6	+8.4
Insecticides	421	353	–16.2	–12.7	980	980	0.0	+6.5
Environmental Science	208	206	–1.0	+0.7	825	727	–11.9	–4.9
Vegetable Seeds	217	228	+5.1	+7.3	599	579	–3.3	+1.9
Other	352	231	–34.4	–31.0	1,360	1,194	–12.2	–2.9

Fx adj. = currency-adjusted

[1] The unaudited pro forma data are presented as if both the acquisition of Monsanto and the associated divestments had taken place as of January 1, 2017. Sales of Monsanto are presented in periods as per the Bayer fiscal year. One-time effects of business operations, the accounting for discontinued operations and the recognition and measurement of sales from certain business transactions have been adjusted in line with our accounting. Due to this simplified procedure, they explicitly do not reflect sales according to IFRS or IDW RH HFA 1.004.

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

Third quarter of 2018

Sales in the third quarter of 2018 increased by 1.4% (Fx adj.) on a pro-forma basis.

- The increase at Herbicides resulted mostly from higher prices and from higher volumes in Latin America and North America. This was partly offset by the accounting measures taken in Brazil in the prior year.
- Corn Seed & Traits developed positively, particularly in North America, thanks to seasonal shifts and a strong start to the season in Latin America.
- The increase in sales at Soybean Seed & Traits was attributable especially to phasing from the upcoming quarters as well as the higher market penetration achieved by Intacta RR2 PRO™ in Latin America.
- At Fungicides and Insecticides, we registered a decline in sales due to the accounting measures taken in Brazil in the prior year and weather conditions in Europe.
- The decline at Other was attributable particularly to SeedGrowth and the aforementioned loss of registration in France, as well as to a decline in the rapeseed/canola market in Europe.

First nine months of 2018

Sales in the first nine months of 2018 increased by 2.9% (Fx adj.) on a pro-forma basis. Fungicides and Insecticides saw positive performance due to the significantly higher provisions for product returns in Brazil recognized in the second quarter of 2017. An encouraging performance was also registered by Corn Seed & Traits in North America and at Herbicides due to higher prices in Latin and North America. This was partly offset by the decline at Environmental Science due to planned lower product deliveries to the acquirer of the consumer business divested in the fourth quarter of 2016.

Animal Health

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Key Data – Animal Health

€ million	Q3 2017	Q3 2018	Change %[1] Reported	Change %[1] Fx & p adj.	9M 2017	9M 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Sales	**359**	**304**	**–15.3**	**–13.5**	**1,249**	**1,171**	**–6.2**	**–0.1**
Change in sales[1]								
Volume	+1.1%	–12.9%			–0.1%	+0.6%		
Price	+0.3%	–0.6%			+2.2%	–0.7%		
Currency	–3.9%	–1.8%			+0.4%	–6.1%		
Portfolio	+2.2%	0.0%			+2.1%	0.0%		
Sales by region								
Europe/Middle East/Africa	94	77	–18.1	–17.3	360	329	–8.6	–7.3
North America	144	112	–22.2	–22.9	529	492	–7.0	+1.0
Asia/Pacific	82	81	–1.2	+1.8	238	239	+0.4	+6.6
Latin America	39	34	–12.8	–1.6	122	111	–9.0	+3.8
EBITDA[1]	**73**	**41**	**–43.8**		**324**	**305**	**–5.9**	
Special items[1]	(8)	(3)			(8)	(6)		
EBITDA before special items[1]	**81**	**44**	**–45.7**		**332**	**311**	**–6.3**	
EBITDA margin before special items[1]	22.6%	14.5%			26.6%	26.6%		
EBIT[1]	**64**	**31**	**–51.6**		**297**	**276**	**–7.1**	
Special items[1]	(8)	(3)			(8)	(6)		
EBIT before special items[1]	**72**	**34**	**–52.8**		**305**	**282**	**–7.5**	
Net cash provided by operating activities	**68**	**99**	**+45.6**		**134**	**200**	**+49.3**	

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

Third quarter of 2018

Sales

Sales of Animal Health in the third quarter of 2018 fell by 13.5% (Fx & portfolio adj.) to €304 million. Business in the North America region declined sharply due to shifts in demand from the third quarter into the first six months. Sales were also down year on year in the Europe/Middle East/Africa and Latin America regions. By contrast, we achieved gains in the Asia/Pacific region on a currency- and portfolio adjusted basis. Sales continue to be negatively impacted by amended financial reporting standards (IFRS 15).

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Best-Selling Animal Health Products

€ million	Q3 2017	Q3 2018	Change %[1] Reported	Change %[1] Fx & p adj.	9M 2017	9M 2018	Change %[1] Reported	Change %[1] Fx & p adj.
Advantage™ product family	119	77	–35.3	–34.7	401	347	–13.5	–8.1
Seresto™	29	29	0.0	+3.0	186	216	+16.1	+23.3
Drontal™ product family	34	32	–5.9	–5.9	102	93	–8.8	–4.5
Baytril™	24	25	+4.2	+8.7	82	74	–9.8	–2.9
Total	**206**	**163**	**–20.9**	**–19.6**	**771**	**730**	**–5.3**	**+0.5**
Proportion of Animal Health sales	57%	54%			62%	62%		

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

Sales by product

- // Sales of our **Advantage™** line of flea, tick and worm control products declined, particularly in North America, due to substantial shifts in demand from the third quarter into the first six months. In the Europe/Middle East/Africa region, and particularly the U.K., our business continued to decline due to persistently high competitive pressure. We posted gains in the Latin America region.
- // Business with our **Seresto™** flea and tick collar expanded slightly. Growth was chiefly attributable to increased demand in the Latin America and Europe/Middle East/Africa regions.
- // Our **Drontal™** line of dewormers posted volume-related sales declines. Growth in the Asia/Pacific region was not sufficient to offset the declines in the other regions.
- // Our **Baytril™** antibiotic achieved strong sales growth in the North America and Latin America regions that more than offset the declines in the other regions.

Earnings

EBITDA before special items of Animal Health declined by 45.7% to €44 million in the third quarter of 2018 (Q3 2017: €81 million). Adjusted for negative currency effects in the amount of €3 million, earnings were down by 42.0%. This significant decline is primarily attributable to lower volumes, mainly due to shifts in demand from the third quarter into the first half of the year, and to a negative impact on earnings from the application of IFRS 15. A decline in expenses, especially selling expenses, was insufficient to offset these negative factors.

EBIT declined by 51.6% to €31 million, after special charges of €3 million (Q3 2017: €8 million).

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Special Items[1] Animal Health

€ million	EBIT Q3 2017	EBIT Q3 2018	EBIT 9M 2017	EBIT 9M 2018	EBITDA Q3 2017	EBITDA Q3 2018	EBITDA 9M 2017	EBITDA 9M 2018
Restructuring	(8)	(3)	(8)	(6)	(8)	(3)	(8)	(6)
Total special items	**(8)**	**(3)**	**(8)**	**(6)**	**(8)**	**(3)**	**(8)**	**(6)**

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

First nine months of 2018

Sales

Sales of Animal Health were level year on year in the first nine months of 2018, at €1,171 million (Fx & portfolio adj. – 0.1%). The sales decline in the Europe/Middle East/Africa region was offset by gains in the other regions. Business was negatively impacted by the first-time application of IFRS 15, among other factors.

Earnings

EBITDA before special items of Animal Health decreased by 6.3% to €311 million in the first nine months of 2018 (9M 2017: €332 million). Adjusted for negative currency effects in the amount of €23 million, earnings were up by 0.6%. A higher cost of goods sold, a negative impact on earnings from the application of IFRS 15, and negative price effects stood against a decline in expenses, especially selling expenses.

EBIT declined by 7.1% to €276 million, after special charges of €6 million (9M 2017: €8 million).

1.3 Asset and Financial Position of the Bayer Group

Statement of Cash Flows

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Bayer Group Summary Statements of Cash Flows

€ million	Q3 2017	Q3 2018	9M 2017	9M 2018
Net cash provided by (used in) operating activities, continuing operations	**1,903**	**2,051**	**4,355**	**4,949**
Net cash provided by (used in) operating activities, discontinued operations	808	–	1,510	–
Net cash provided by (used in) operating activities (total)	**2,711**	**2,051**	**5,865**	**4,949**
Net cash provided by (used in) investing activities (total)	**173**	**6,402**	**(2,141)**	**(33,581)**
Net cash provided by (used in) financing activities (total)	**(37)**	**(8,561)**	**25**	**26,604**
Change in cash and cash equivalents due to business activities	**2,847**	**(108)**	**3,749**	**(2,028)**
Cash and cash equivalents at beginning of period	**2,773**	**5,011**	**1,899**	**7,436**
Change due to exchange rate movements and to changes in scope of consolidation	(65)	(53)	(93)	(558)
Cash and cash equivalents at end of period	**5,555**	**4,850**	**5,555**	**4,850**

Net cash provided by operating activities

// In the third quarter of 2018, the net cash provided by operating activities (total) declined by 24.3% to €2,051 million. Covestro was still included in the prior-year quarter. The net cash provided by operating activities in continuing operations rose by 7.8% due mainly to a greater decline in cash tied up in working capital.

// In the first nine months of 2018, the net cash provided by operating activities (total) declined by 15.6% to €4,949 million. The prior-year figure still included Covestro. The net cash provided by operating activities in continuing operations rose by 13.6% due mainly to a greater decrease in cash tied up in working capital.

Net cash used in investing activities

// Cash outflows for property, plant and equipment and intangible assets were 18.3% higher in the third quarter of 2018 at €659 million (Q3 2017: €557 million) and included €149 million (Q3 2017: €132 million) at Pharmaceuticals, €53 million (Q3 2017: €41 million) at Consumer Health, €360 million (Q3 2017: €114 million) at Crop Science and €18 million (Q3 2017: €8 million) at Animal Health. The prior-year figures included €117 million at Covestro.

// There was an inflow of €7,291 million from the divestments to BASF (Q3 2017: €362 million for Covestro).

// Cash outflows for property, plant and equipment and intangible assets were 1.3% higher in the first nine months of 2018 at €1,467 million (9M 2017: €1,448 million) and included €489 million (9M 2017: €426 million) at Pharmaceuticals, €126 million (9M 2017: €96 million) at Consumer Health, €597 million (9M 2017: €348 million) at Crop Science and €32 million (9M 2017: €19 million) at Animal Health. The prior-year figures included €283 million at Covestro.

// There was a net cash inflow of €2,909 million from the acquisition and sale of Covestro shares.

// The net cash inflow from current financial assets amounted to €2,427 million (9M 2017: net cash outflow of €1,057 million).

Net cash used in financing activities

// In the third quarter of 2018, there was a net cash outflow of €8,561 million for financing activities, especially for net debt repayment totaling €8,180 million (Q3 2017: €904 million).

// In the first nine months of 2018, there was a net cash inflow of €26,604 million for financing activities, mainly from the issuance of bonds and from further net borrowings of €20,464 million (9M 2017: net debt repayment of €634 million).

// Capital increases resulted in a net inflow of €8,986 million.

// Dividend payments amounted to €2,406 million (9M 2017: €2,364 million).

// The figure for the prior-year period included a net inflow of €3,717 million from the sale of Covestro shares while that company remained fully consolidated.

Liquid assets and net financial debt

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Net Financial Debt[1]

€ million	Dec. 31, 2017	June 30, 2018	Sep. 30, 2018	Change vs. June 30, 2018 (%)
Bonds and notes/promissory notes	12,436	35,495	35,595	+ 0.3
of which hybrid bonds[2]	4,533	4,535	4,536	.
Liabilities to banks	534	14,441	7,040	– 51.2
Liabilities under finance leases	238	389	391	+ 0.5
Liabilities from derivatives[3]	240	201	208	+ 3.5
Other financial liabilities	970	1,603	616	– 61.6
Receivables from derivatives[3]	(244)	(355)	(195)	– 45.1
Financial debt	**14,174**	**51,774**	**43,655**	**– 15.7**
Cash and cash equivalents	(7,581)	(4,981)	(4,850)	– 2.6
Current financial assets[4]	(2,998)	(1,042)	(1,318)	+ 26.5
Noncurrent financial assets[5]	–	(1,054)	(963)	– 8.6
Net financial debt	**3,595**	**44,697**	**36,524**	**– 18.3**

[1] For definition see Annual Report 2017, A 2.4 “Alternative Performance Measures Used by the Bayer Group.”
[2] Classified as debt according to IFRS
[3] These include the market values of interest-rate and currency hedges of recorded transactions.
[4] These include short-term loans and receivables with maturities between 3 and 12 months outstanding from banks and other companies as well as financial investments in debt and equity instruments that were recorded as current on first-time recognition.
[5] These solely comprise the remaining interest in Covestro that is to be used to repay the convertible bond issued in 2017 that will mature in 2020.

// Net financial debt of the Bayer Group declined by €8.2 billion in the third quarter of 2018, due mainly to proceeds from the sale of Crop Science businesses to BASF. These were used to partially repay the bridge financing for the Monsanto acquisition.

// The other financial liabilities as of September 30, 2018, contained €307 million related to the mandatory convertible notes issued in November 2016.

// Net financial debt includes three subordinated hybrid bonds with a total volume of €4.5 billion, 50% of which is treated as equity by the rating agencies. As such, the hybrid bonds have a positive impact on the Group’s rating-specific debt indicators.

// The table below illustrates how the rating agencies assess our creditworthiness following the acquisition of Monsanto, with the investment-grade ratings from all three agencies demonstrating good creditworthiness.

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Rating

Rating agency	Long-term rating	Short-term rating	Outlook
S&P Global Ratings	BBB	A2	stable
Moody’s	Baa1	P2	negative
Fitch Ratings	A–	F2	stable

Asset and capital structure

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Bayer Group Summary Statements of Financial Position

€ million	Dec. 31, 2017	June 30, 2018	Sep. 30, 2018	Change %
Noncurrent assets	**45,014**	**98,713**	**97,316**	**– 1.4**
Assets held for sale	2,081	3,720	235	– 93.7
Other current assets	27,992	34,097	31,903	– 6.4
Current assets	**30,073**	**37,817**	**32,138**	**– 15.0**
Total assets	**75,087**	**136,530**	**129,454**	**– 5.2**
Equity	**36,861**	**47,219**	**50,417**	**+ 6.8**
Noncurrent liabilities	24,633	62,549	58,841	– 5.9
Liabilities directly related to assets held for sale	111	669	12	– 98.2
Other current liabilities	13,482	26,093	20,184	– 22.6
Current liabilities	13,593	26,762	20,196	– 24.5
Liabilities	**38,226**	**89,311**	**79,037**	**– 11.5**
Total equity and liabilities	**75,087**	**136,530**	**129,454**	**– 5.2**

// Between June 30, 2018, and September 30, 2018, total assets decreased by €7 billion to €129.5 billion.
// Noncurrent assets decreased by €1.4 billion to €97.3 billion. Deferred taxes declined by €1.0 billion to €3.8 billion.
// Total current assets decreased by €5.7 billion to €32.1 billion. Assets held for sale were reduced by €3.5 billion to €0.2 billion through the derecognition of the assets divested to BASF. There was also a €2.6 billion reduction in trade accounts receivable to €11.7 billion due to cash receipts, in a development that was mainly attributable to the North American business of Crop Science.
// Equity rose by €3.2 billion compared with June 30, 2018, to €50.4 billion, with income after income taxes accounting for €2.9 billion. The equity ratio increased to 38.9% as of September 30, 2018 (June 30, 2018: 34.6%).
// Liabilities fell by €10.3 billion as of September 30, 2018, to €79.0 billion. Noncurrent liabilities decreased by €3.7 billion to €58.8 billion. Financial liabilities in particular declined by €2.2 billion. Deferred taxes also decreased by €1.3 billion. Actuarial gains reduced provisions for pensions and other post-employment benefits by €0.4 billion. Current liabilities fell by €6.6 billion to €20.2 billion. The cash received from the divestments to BASF was used to reduce current financial liabilities. Refund liabilities fell by €1.3 billion.

2. Research, Development, Innovation

Bayer Group expenses for research and development amounted to €1,180 million in the third quarter of 2018 (Q3 2017: €1,079 million). R&D spending at Pharmaceuticals benefited from income of approximately €190 million from the aforementioned development collaboration, while expenses at Crop Science increased as a result of the newly acquired business.

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Research and Development Expenses

	R&D expenses						R&D expenses before special items					
			Change %			Change %			Change %			Change %
€ million	Q3 2017	Q3 2018	Fx adj.	9M 2017	9M 2018	Fx. adj.	Q3 2017	Q3 2018	Fx adj.	9M 2017	9M 2018	Fx. adj.
Pharmaceuticals	688	479	–30.0	2,107	1,937	–5.3	687	480	–29.8	2,004	1,895	–2.7
Consumer Health	56	58	+2.7	180	168	–2.1	55	56	+2.2	171	168	+3.5
Crop Science[1]	281	607	–14.9	839	1,254	–3.8	281	587	–22.2	836	1,224	–7.2
Animal Health	35	35	–0.3	106	102	–1.3	34	34	+0.6	105	99	–3.0
Reconciliation	19	1	–90.0	38	20	–45.5	19	1	–90.0	38	20	–45.5
Total Group[1]	**1,079**	**1,180**	**–24.5**	**3,270**	**3,481**	**–5.1**	**1,076**	**1,158**	**–26.3**	**3,154**	**3,406**	**–4.1**

[1] The currency-adjusted (Fx adj.) changes for Crop Science and the Group do not include the acquired business.

Pharmaceuticals

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

Progress in Phase II clinical projects

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

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Research and Development Projects (Phase II)[1]

Projects	Indication
BAY 1093884 (anti-TFPI antibody)	Hemophilia
Fulacimstat (BAY 1142524, chymase inhibitor)	Heart failure
Fulacimstat (BAY 1142524, chymase inhibitor)	Chronic kidney disease
BAY 1193397 (AR alpha 2c rec ant.)	Peripheral artery disease (PAD)
BAY 1213790 (anti-FXIa antibody)	Prevention of thrombosis
BAY 1902607 (P2X3 antagonist)	Chronic cough
BAY 2253651 (TASK channel blocker)	Obstructive sleep apnea
BAY 2306001 (IONIS-FXIRx)[2]	Prevention of thrombosis
Levonorgestrel (progestin) + indomethacin (NSAID) combi IUS	Contraception
Radium-223 dichloride (alpha emitter)	Multiple myeloma
Rogaratinib (pan-FGFR inhibitor)	Urothelial cancer
Vericiguat (sGC stimulator)	Chronic heart failure with preserved (HFpEF) ejection fraction
Vilaprisan (S-PRM)	Endometriosis

[1] As of October 24, 2018
[2] Sponsored by Ionis 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.

Based on the results of a Phase II trial investigating anetumab ravtansine as a second-line monotherapy for malignant mesothelioma, which failed to meet its primary endpoint of progression-free survival, we will not pursue any further studies in this indication. However, anetumab ravtansine will continue to be investigated in various other indications in Phase I studies.

In September 2018, the development of the oral AKR1C3 inhibitor to treat endometriosis was discontinued ahead of schedule due to an unfavorable benefit-risk profile.

Also in September 2018, the development of neladenoson bialanate, an oral partial adenosine A1 receptor agonist, was discontinued. Two Phase II studies involving heart failure patients did not reach their primary efficacy endpoints.

In October 2018, following an interim analysis of available clinical data to date, Bayer decided to not further pursue the development of radium-223 dichloride in breast cancer.

Also in October 2018, Bayer presented results of the Phase II study with riociguat in patients with diffuse cutaneous systemic sclerosis (RISE-SSc) at the Annual Meeting of the American College of Rheumatology (ACR). The primary endpoint did not reach statistical significance, while the favorable safety profile of riociguat was confirmed. Bayer and Merck & Co., Inc., United States, have decided to not pursue riociguat any further in the indication diffuse cutaneous systemic sclerosis.

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

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Research and Development Projects (Phase III)[1]

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

[1] As of October 24, 2018
[2] Sponsored by Janssen Research & Development, LLC. These trials did not meet their primary endpoints. Data are further analyzed and next steps evaluated.
[3] Sponsored by Merck & Co., Inc., U.S.A.
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 October 2018, the Phase III ARAMIS trial investigating the safety and efficacy of darolutamide in patients with nonmetastatic castration-resistant prostate cancer met its primary endpoint. The substance significantly extended metastasis-free survival compared to placebo, and its safety profile and tolerability were consistent with observations from previous trials. Darolutamide is a novel androgen receptor antagonist for oral treatment of prostate cancer that is being developed jointly by Bayer and the Finnish biopharmaceutical company Orion Corporation. The ARASENS trial is currently being conducted in metastatic hormone-sensitive prostate cancer.

On the basis of the results of the Phase III ERA-223 trial which were presented at ESMO 2018, Bayer decided to halt work in this indication (use of radium-223 dichloride in combination with abiraterone acetate and prednisone/prednisolone). Bayer had prematurely unblinded the trial in 2017 following reports of an elevated risk of bone fractures and reduced median overall survival in patients treated with this combination. The European, Japanese and U.S. health authorities have concluded their review of the data from the ERA-223 trial and confirmed overall that the risk-benefit profile of Xofigo™ (radium-223 dichloride) remains positive in the approved indication, subject to the required changes to the respective labeling.

Filings and approvals

The most important drug candidates in the approval process are shown below.

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Main Products Submitted for Approval[1]

Projects	Indication
Damoctocog alpha pegol (long-acting rFVIII)	Europe: Hemophilia A
Rivaroxaban (FXa inhibitor)[2]	U.S.A.: secondary prophylaxis of acute coronary syndrome (ACS), Rivaroxaban in combination with dual antiplatelet therapy (DAPT), ATLAS trial
Larotrectinib (LOXO-101, TRK fusion inhibitor)[3]	Europe, U.S.A.: Solid tumors with NTRK gene fusions

[1] As of October 24, 2018
[2] Submitted by Janssen Research & Development, LLC
[3] Loxo Oncology, Inc., is responsible for regulatory activities in the United States, and Bayer for regulatory activities outside the United States.

In August 2018, Bayer submitted the marketing authorization application for larotrectinib to the European Medicines Agency (EMA). Larotrectinib was developed for the treatment of cancer patients (adults and children) suffering from locally advanced or metastatic solid tumors with neurotrophic tyrosine receptor kinase (NTRK) gene fusions.

Also in August 2018, Bayer received regulatory approval in the United States for damoctocog alfa pegol (tradename: Jivi™), a long-acting hemophilia A product for routine prophylaxis, on-demand treatment and the perioperative management of bleeding in previously treated adults and adolescents who are 12 years of age or older. In September 2018, the product was approved in Japan and the Committee for Medicinal Products for Human Use (CHMP) of the EMA recommended marketing authorization.

In October 2018, the U.S. Food and Drug Administration (FDA) approved Xarelto™ (rivaroxaban), 2.5 mg twice daily, plus acetylsalicylic acid (ASA) low-dose once daily to reduce the risk of major cardiovascular events including cardiovascular death, heart attack or stroke in patients with chronic coronary artery disease (CAD) or peripheral artery disease (PAD). This marketing authorization in the United States is based on the results of the COMPASS Phase III clinical study.

Crop Science

In September, Bayer and Genedata AG, Basel, Switzerland, expanded their longstanding partnership in the digitalization of R&D processes. The expanded agreement includes a license for the Genedata Selector platform to support the processing, storage, analysis and evaluation of genomic data for the development of new innovative fungicides to treat plant disease.

Also in September, Bayer opened a state-of-the-art seed processing facility in Pochuiky, Ukraine, which is one of the largest and most innovative of its kind in Europe. The investments in the new plant are part of a long-term plan to expand DEKALB™ corn seed processing in Ukraine and Eastern Europe.

Animal Health

In September, we signed a global licensing agreement with NeuroCycle Therapeutics, Inc., United States, to advance the development of innovative allergy treatment options for companion animals.

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 2017	Growth forecast 2018
World	+ 3.3%	+ 3.2%
European Union	+ 2.5%	+ 2.0%
of which Germany	+ 2.5%	+ 1.9%
United States	+ 2.2%	+ 2.9%
Emerging Markets[2]	+ 4.8%	+ 4.7%

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

We continue to expect that the global economy in 2018 will grow at a similar pace as in the previous year. However, the risks for the world economy have increased compared with the previous year, especially due to the continuing conflicts over trade policy and the currency risks in a number of emerging countries. We continue to expect stronger growth in the United States than in the prior year, while growth in Europe will likely be slower. The increase in economic output in the Emerging Markets will likely match the pace of the prior year overall, while for China we continue to anticipate strong growth at a slightly slower rate than in the prior year.

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Economic Outlook for the Segments[1]

	Growth 2017	Growth forecast 2018
Pharmaceuticals market	+ 3%	+ 5%
Consumer health market	+ 4%	+ 3–4%
Seed and crop protection market	+ 2%	+ 2–3%
Animal health market	+ 2%	+ 4%

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

3.1.2 Corporate Outlook

We confirm the outlook for the Bayer Group that was updated in the second quarter of 2018 to reflect the acquisition, although the forecasts for Consumer Health and Animal Health are now becoming increasingly ambitious.

A 27

Forecast for Key Financial Data of the Group for 2018

	Closing rates on September 30, 2018	Currency-adjusted
Sales	More than €39 billion	Increase by a mid-single-digit percentage[1]
Development of EBITDA before special items	Increase by a low- to mid-single-digit percentage	Increase by a high-single-digit percentage
Development of core earnings per share	€5.70–€5.90	Decrease by a high-single-digit percentage

[1] Adjusted for currency and portfolio effects

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 fundamental opportunity and risk status excluding the Monsanto acquisition are outlined in detail in the Annual Report 2017, A 3.2 “Opportunity and Risk Report.” Changes to the risk portfolio due to the acquisition of Monsanto are outlined in the Interim Report for the Second Quarter of 2018, 3.2 “Opportunities and Risks.”

Overall assessment by the Board of Management

Compared with our commentary in the Annual Report 2017, we see no material changes in our risk situation, as we had anticipated an intensification of our risk situation as a result of the acquisition of Monsanto, which had been imminent at the time. We currently are not aware of any individual risks, risk combinations or risk interdependencies that could endanger the Bayer Group’s continued existence.

Significant developments that have occurred in respect of the legal risks since publication of the Bayer Annual Report 2017 (Note [32] to the Consolidated Financial Statements) are described in the Notes to the Condensed Consolidated Interim Financial Statements under “Legal Risks.” That section also contains Monsanto risks that appear material from the viewpoint of the Bayer Group.

Condensed Consolidated Interim Financial Statements as of September 30, 2018

Bayer Group Consolidated Income Statements

B 1

€ million	Q3 2017	Q3 2018	9M 2017	9M 2018
Net sales	**8,025**	**9,905**	**26,419**	**28,524**
Cost of goods sold	(2,565)	(4,507)	(8,335)	(10,928)
Gross profit	**5,460**	**5,398**	**18,084**	**17,596**
Selling expenses	(2,544)	(2,979)	(8,042)	(8,428)
Research and development expenses	(1,079)	(1,180)	(3,270)	(3,481)
General administration expenses	(485)	(850)	(1,438)	(1,850)
Other operating income	285	4,217	629	4,554
Other operating expenses	(249)	(183)	(685)	(307)
EBIT[1]	**1,388**	**4,423**	**5,278**	**8,084**
Equity-method income (loss)	(8)	(16)	(20)	82
Financial income	84	154	216	684
Financial expenses	(479)	(816)	(1,264)	(1,636)
Financial result	**(403)**	**(678)**	**(1,068)**	**(870)**
Income before income taxes	**985**	**3,745**	**4,210**	**7,214**
Income taxes	(212)	(851)	(894)	(1,561)
Income from continuing operations after income taxes	**773**	**2,894**	**3,316**	**5,653**
of which attributable to noncontrolling interest	(3)	8	(3)	14
of which attributable to Bayer AG stockholders	**776**	**2,886**	**3,319**	**5,639**
Income from discontinued operations after income taxes	**3,423**	**–**	**4,628**	**–**
of which attributable to noncontrolling interest	318	–	759	–
of which attributable to Bayer AG stockholders	**3,105**	**–**	**3,869**	**–**
Income after income taxes	**4,196**	**2,894**	**7,944**	**5,653**
of which attributable to noncontrolling interest	315	8	756	14
of which attributable to Bayer AG stockholders (net income)	**3,881**	**2,886**	**7,188**	**5,639**
Shares				
Weighted average number of shares[2]	885,546,889	980,151,964	885,066,889	927,477,704

€				
Earnings per share				
From continuing operations				
Basic	0.88	2.94	3.75	6.08
Diluted	0.88	2.94	3.75	6.08
From discontinued operations				
Basic	3.50	0.00	4.37	0.00
Diluted	3.50	0.00	4.37	0.00
From continuing and discontinued operations				
Basic	4.38	2.94	8.12	6.08
Diluted	4.38	2.94	8.12	6.08

2017 figures restated

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

[2] Weighted average number of shares (basic and diluted) restated for all periods prior to June 2018 to reflect the effect of the bonus component of the subscription rights issued as part of the June 2018 capital increase

Bayer Group Consolidated Statements of Comprehensive Income

B 2

€ million	Q3 2017	Q3 2018	9M 2017	9M 2018
Income after income taxes	**4,196**	**2,894**	**7,944**	**5,653**
of which attributable to noncontrolling interest	315	8	756	14
of which attributable to Bayer AG stockholders	3,881	2,886	7,188	5,639
Remeasurements of the net defined benefit liability for post-employment benefit plans	437	387	1,342	293
Income taxes	(80)	(117)	(407)	(59)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**357**	**270**	**935**	**234**
Changes in fair values of own credit risk component of financial liabilities measured at fair value	–	(6)	–	(6)
Income taxes	–	2	–	2
Other comprehensive income from financial liabilities measured at fair value through profit or loss	**–**	**(4)**	**–**	**(4)**
Changes in fair values of equity instruments measured at fair value	–	(60)	–	125
Income taxes	–	3	–	1
Other comprehensive income from equity instruments measured at fair value	**–**	**(57)**	**–**	**126**
Other comprehensive income relating to associates accounted for using the equity method	**–**	**–**	**–**	**4**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**357**	**209**	**935**	**360**
Changes in fair values of cash flow hedges	20	(111)	(58)	204
Reclassified to profit or loss	(25)	76	2	19
Income taxes	10	(11)	33	(94)
Other comprehensive income from cash flow hedges	**5**	**(46)**	**(23)**	**129**
Changes in fair values of available-for-sale financial assets	12	–	(22)	–
Reclassified to profit or loss	(4)	–	(4)	–
Income taxes	–	–	8	–
Other comprehensive income from available-for-sale financial assets	**8**	**–**	**(18)**	**–**
Changes in exchange differences recognized on translation of operations outside the eurozone	(523)	(119)	(1,907)	520
Reclassified to profit or loss	–	160	–	160
Other comprehensive income from exchange differences	**(523)**	**41**	**(1,907)**	**680**
Other comprehensive income relating to associates accounted for using the equity method	**45**	**(1)**	**92**	**1**
Other comprehensive income that may be reclassified subsequently to profit or loss	**(465)**	**(6)**	**(1,856)**	**810**
Total other comprehensive income[1]	**(108)**	**203**	**(921)**	**1,170**
of which attributable to noncontrolling interest	(43)	(12)	(106)	(17)
of which attributable to Bayer AG stockholders	(65)	215	(815)	1,187
Total comprehensive income	**4,088**	**3,097**	**7,023**	**6,823**
of which attributable to noncontrolling interest	272	(4)	650	(3)
of which attributable to Bayer AG stockholders	3,816	3,101	6,373	6,826

[1] Total income and expense items (including reclassifcations) that may not or must not be recognized through profit or loss according to other IFRS

Bayer Group Consolidated Statements of Financial Position

B 3

€ million	Sep. 30, 2017	Sep. 30, 2018	Dec. 31, 2017
Noncurrent assets			
Goodwill	14,910	37,801	14,751
Other intangible assets	11,949	37,846	11,674
Property, plant and equipment	7,405	13,938	7,633
Investments accounted for using the equity method	4,013	505	4,007
Other financial assets	1,478	2,659	1,634
Other receivables	472	762	400
Deferred taxes	5,733	3,805	4,915
	45,960	**97,316**	**45,014**
Current assets			
Inventories	6,737	11,142	6,550
Trade accounts receivable	8,791	11,729	8,582
Other financial assets	6,066	1,599	3,529
Other receivables	1,313	1,910	1,276
Claims for income tax refunds	464	673	474
Cash and cash equivalents	5,555	4,850	7,581
Assets held for sale	1,824	235	2,081
	30,750	**32,138**	**30,073**
Total assets	**76,710**	**129,454**	**75,087**
Equity			
Capital stock	2,117	2,387	2,117
Capital reserves	9,658	18,388	9,658
Other reserves	25,421	29,470	25,026
Equity attributable to Bayer AG stockholders	**37,196**	**50,245**	**36,801**
Equity attributable to noncontrolling interest	58	172	60
	37,254	**50,417**	**36,861**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	7,825	7,970	8,020
Other provisions	1,285	1,926	1,366
Refund liabilities	–	126	–
Contract liabilities	–	1,076	–
Financial liabilities	12,576	40,358	12,483
Income tax liabilities	632	826	495
Other liabilities	749	352	1,116
Deferred taxes	1,476	6,207	1,153
	24,543	**58,841**	**24,633**
Current liabilities			
Other provisions	5,052	2,964	4,344
Refund liabilities	–	4,617	–
Contract liabilities	–	741	–
Financial liabilities	3,541	3,492	1,935
Trade accounts payable	3,928	5,281	5,129
Income tax liabilities	424	1,140	422
Other liabilities	1,919	1,949	1,652
Liabilities directly related to assets held for sale	49	12	111
	14,913	**20,196**	**13,593**
Total equity and liabilities	**76,710**	**129,454**	**75,087**

Bayer Group Consolidated Statements of Cash Flows

B 4

€ million	Q3 2017	Q3 2018	9M 2017	9M 2018
Income from continuing operations after income taxes	773	2,894	3,316	5,653
Income taxes	212	851	894	1,561
Financial result	403	678	1,068	870
Income taxes paid	(546)	(612)	(1,530)	(1,540)
Depreciation, amortization and impairments	581	910	1,825	2,084
Change in pension provisions	(114)	(54)	(259)	(225)
(Gains) losses on retirements of noncurrent assets	(64)	(3,982)	(100)	(4,042)
Decrease (increase) in inventories	(314)	36	(383)	219
Decrease (increase) in trade accounts receivable	1,274	2,408	(37)	2,517
(Decrease) increase in trade accounts payable	(25)	440	(870)	(102)
Changes in other working capital, other noncash items	(277)	(1,518)	431	(2,046)
Net cash provided by (used in) operating activities from continuing operations	**1,903**	**2,051**	**4,355**	**4,949**
Net cash provided by (used in) operating activities from discontinued operations	808	–	1,510	–
Net cash provided by (used in) operating activities (total)	**2,711**	**2,051**	**5,865**	**4,949**
Cash outflows for additions to property, plant, equipment and intangible assets	(557)	(659)	(1,448)	(1,467)
Cash inflows from the sale of property, plant, equipment and other assets	96	47	169	129
Cash inflows from divestments	362	7,349	416	7,563
Cash inflows from (outflows for) noncurrent financial assets	(96)	(105)	(192)	2,883
Cash outflows for acquisitions less acquired cash	–	–	(158)	(45,316)
Interest and dividends received	66	55	129	200
Cash inflows from (outflows for) current financial assets	302	(285)	(1,057)	2,427
Net cash provided by (used in) investing activities (total)	**173**	**6,402**	**(2,141)**	**(33,581)**
Capital contributions	–	–	–	8,986
Proceeds from shares of Covestro AG	1,212	–	3,717	–
Dividend payments	(3)	(3)	(2,364)	(2,406)
Issuances of debt	3,479	3,877	5,195	61,205
Retirements of debt	(4,383)	(12,057)	(5,829)	(40,741)
Interest paid including interest-rate swaps	(338)	(349)	(727)	(793)
Interest received from interest-rate swaps	19	18	56	400
Cash outflows for the purchase of additional interests in subsidiaries	(23)	(47)	(23)	(47)
Net cash provided by (used in) financing activities (total)	**(37)**	**(8,561)**	**25**	**26,604**
Change in cash and cash equivalents due to business activities (total)	**2,847**	**(108)**	**3,749**	**(2,028)**
Cash and cash equivalents at beginning of year	**2,773**	**5,011**	**1,899**	**7,436**
Change in cash and cash equivalents due to changes in scope of consolidation	–	–	–	1
Change in cash and cash equivalents due to exchange rate movements	(65)	(53)	(93)	(559)
Cash and cash equivalents at end of year	**5,555**	**4,850**	**5,555**	**4,850**

Bayer Group Consolidated Statements of Changes in Equity

B 5

€ million	Capital stock	Capital reserves	Other reserves	Equity attributable to Bayer AG stockholders	Equity attributable to non-controlling interest	Equity
Dec. 31, 2016	**2,117**	**9,658**	**18,558**	**30,333**	**1,564**	**31,897**
Equity transactions with owners						
Capital increase/decrease						
Dividend payments			(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**
Dec. 31, 2017	**2,117**	**9,658**	**25,026**	**36,801**	**60**	**36,861**
Adjustment of retained earnings on adoption of IFRS 9 (net of tax)			(60)	(60)		(60)
Adjustment of retained earnings on adoption of IFRS 15 (net of tax)			86	86		86
Equity transactions with owners						
Capital increase/decrease	270	8,730		9,000		9,000
Dividend payments			(2,402)	(2,402)	(3)	(2,405)
Other changes			(6)	(6)	118	112
Total comprehensive income			6,826	6,826	(3)	6,823
Sep. 30, 2018	**2,387**	**18,388**	**29,470**	**50,245**	**172**	**50,417**

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

Key Data by Segment

B 6

Key Data by Segment

	Pharmaceuticals		Consumer Health		Crop Science		Animal Health	
€ million	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018
Net sales (external)	4,065	4,163	1,320	1,297	2,031	3,733	359	304
Change[1]	−2.1%	+2.4%	−7.4%	−1.7%	−1.3%	+83.8%	−0.3%	−15.3%
Currency-adjusted change[1]	+2.2%	+4.5%	−2.9%	+2.4%	+2.7%	+86.8%	+3.6%	−13.5%
Intersegment sales	8	8	3	–	7	8	3	2
Net sales (total)	4,073	4,171	1,323	1,297	2,038	3,741	362	306
EBIT[1]	1,209	1,299	155	162	84	3,054	64	31
EBIT before special items[1]	1,206	1,315	173	153	205	(109)	72	34
EBITDA before special items[1]	1,493	1,554	274	248	307	386	81	44
Net cash provided by operating activities	1,036	928	200	210	841	1,244	68	99
Depreciation, amortization, impairment losses/loss reversals	287	239	102	97	115	501	9	10

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

B 6 continued

Key Data by Segment

			Reconciliation			
	All Other Segments		Corporate Functions and Consolidation		Group	
€ million	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018
Net sales (external)	245	405	5	3	8,025	9,905
Change[1]	−6.1%	+65.3%	–	–	−2.8%	+23.4%
Currency-adjusted change[1]	−5.3%	+62.5%	–	–	+1.3%	+26.0%
Intersegment sales	583	620	(604)	(638)	–	–
Net sales (total)	828	1,025	(599)	(635)	8,025	9,905
EBIT[1]	(6)	35	(118)	(158)	1,388	4,423
EBIT before special items[1]	100	48	(119)	(141)	1,637	1,300
EBITDA before special items[1]	165	108	(116)	(138)	2,204	2,202
Net cash provided by operating activities	135	(795)	(377)	365	1,903	2,051
Depreciation, amortization, impairment losses/loss reversals	65	60	3	3	581	910

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

B 7

Key Data by Segment

€ million	Pharmaceuticals		Consumer Health		Crop Science		Animal Health	
	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018
Net sales (external)	12,632	12,455	4,463	4,119	7,314	9,605	1,249	1,171
Change[1]	+4.0%	−1.4%	−0.8%	−7.7%	−2.6%	+31.3%	+4.6%	−6.2%
Currency-adjusted change[1]	+4.6%	+3.4%	−0.8%	−0.6%	−3.2%	+37.4%	+4.2%	−0.1%
Intersegment sales	29	27	12	2	23	28	5	7
Net sales (total)	12,661	12,482	4,475	4,121	7,337	9,633	1,254	1,178
EBIT[1]	3,530	3,515	628	530	1,171	4,100	297	276
EBIT before special items[1]	3,683	3,588	670	525	1,424	1,278	305	282
EBITDA before special items[1]	4,476	4,332	980	817	1,739	2,059	332	311
Net cash provided by operating activities	2,537	2,789	762	531	1,332	2,194	134	200
Depreciation, amortization, impairment losses/loss reversals	939	787	320	294	352	789	27	29

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

B 7 continued

Key Data by Segment

€ million	All Other Segments		Reconciliation: Corporate Functions and Consolidation		Group	
	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018
Net sales (external)	749	1,161	12	13	26,419	28,524
Change[1]	−2.3%	+55.0%	–	–	+1.1%	+8.0%
Currency-adjusted change[1]	−1.4%	+54.4%	–	–	+1.2%	+13.4%
Intersegment sales	1,759	1,839	(1,828)	(1,903)	–	–
Net sales (total)	2,508	3,000	(1,816)	(1,890)	26,419	28,524
EBIT[1]	14	81	(362)	(418)	5,278	8,084
EBIT before special items[1]	150	114	(359)	(385)	5,873	5,402
EBITDA before special items[1]	328	288	(350)	(374)	7,505	7,433
Net cash provided by operating activities	(106)	(1,014)	(304)	249	4,355	4,949
Depreciation, amortization, impairment losses/loss reversals	178	174	9	11	1,825	2,084

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

Explanatory Notes

Accounting policies

The consolidated interim financial statements as of September 30, 2018, were prepared in condensed form in compliance with IAS 34 according to the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, which are endorsed by the European Union, and the Interpretations of the IFRS Interpretations Committee in effect at the closing date.

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

Financial reporting standards applied for the first time in 2018

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

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

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

B 8

Retained Earnings Reconciliation: IFRS 9 and IFRS 15

€ million	
Retained earnings incl. net income as at December 31, 2017	**26,851**
Effects of IFRS 9	(43)
Effects of IFRS 15	86
Retained earnings incl. net income as at January 1, 2018	**26,894**

B 9

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

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

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

Under IFRS 9, the classification and measurement of financial assets is determined by the company's business model and the characteristics of the cash flows of each financial asset. In the case of equity instruments held as of January 1, 2018, that are not held for trading, Bayer has uniformly opted to recognize future changes in their fair value through other comprehensive income in the statement of comprehensive income and to continue to classify these as equity upon the derecognition of the financial instrument. As for new instruments, Bayer can opt to make use of this option on an instrument-by-instrument basis upon recognition, but it must continue to do so thereafter. The 6.8% interest in Covestro acquired from Bayer Pension Trust at the beginning of May 2018 to service the exchangeable bond maturing in 2020 is recognized at fair value through profit or loss.

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

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

B 10

Financial Assets Reconciliation from IAS 39 to IFRS 9

€ million

Measurement category (IAS 39)[1]	Carrying amount Dec. 31, 2017 (IAS 39)	Reclassification	Effect due to change in measurement category	Effect of the expected loss model	Carrying amount Jan. 1, 2018 (IFRS 9)	Measurement category (IFRS 9)[2]
Trade accounts receivable						
LaR	8,582			(93)	8,489	AC
Other financial assets						
LaR	1,731				1,731	AC
AfS – debt instruments	34				34	AC
HtM	57				57	AC
AfS – equity instruments at amortized cost	35		11		46	FVTOCI (no recycling)
AfS – equity instruments	191				191	FVTOCI (no recycling)
AfS – equity instruments	39				39	FVTPL (debt instruments)
AfS – debt instruments	2,429	145			2,574	FVTPL
Derivatives	647				647	Derivatives
Other receivables						
LaR	380			(4)	376	AC
AfS – debt instruments	46				46	FVTPL
Cash and cash equivalents						
LaR	7,581	(145)		(1)	7,435	AC
Total financial assets	**21,752**	**0**	**11**	**(98)**	**21,665**	

[1] AfS: available for sale; at fair value through other comprehensive income
HtM: held to maturity; at amortized cost
LaR: loans and receivables; at amortized cost
[2] AC: at amortized cost
FVTOCI: at fair value through other comprehensive income
FVTPL: at fair value through profit or loss

There were no effects on financial liabilities.

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

B 11

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

€ million

Measurement category (IAS 39)[1]	Measurement category (IFRS 9)[1]	Retained earnings effect as of Jan. 1, 2018	OCI effect as of Jan. 1, 2018
Trade accounts receivable			
LaR	AC	(93)	
Other financial assets			
AfS – equity instruments at amortized cost	FVTOCI (no recycling)		11
AfS – equity instruments	FVTPL (debt instruments)	10	(10)
AfS – debt instruments	FVTPL	36	(36)
Other receivables			
LaR	AC	(4)	
AfS – debt instruments	FVTPL	(9)	9
Cash and cash equivalents			
LaR	AC	(1)	
Total financial assets		**(61)**	**(26)**

[1] See table B 10 for definition of measurement categories.

The following table shows the effects of the first-time application of IFRS 9 on financial assets and liabilities that are based on unobservable inputs and are measured at fair value (Level 3). The development of these assets and liabilities in the first nine months of 2018 is presented in Table B 27.

B 12

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

€ million

Measurement category (IAS 39)[1]	Carrying amount Dec. 31, 2017 (IAS 39)	Reclassi-fication due to change in fair value hierarchy	Remeasure-ment due to change in measurement category	Carrying amount Jan. 1, 2018 (IFRS 9)	Measurement category (IFRS 9)[1]
Other financial assets					
AfS – equity instruments at amortized cost		35	11	46	FVTOCI (no recycling)
AfS – equity instruments	18	4		22	FVTOCI (no recycling)
AfS – equity instruments	18			18	FVTPL (debt instruments)
AfS – debt instruments	757			757	FVTPL
Derivatives	10			10	Derivatives
Other receivables					
AfS – debt instruments	46			46	FVTPL
Total financial assets	**849**	**39**	**11**	**899**	

[1] See table B 10 for definition of measurement categories.

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

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

B 13

Reconciliation of Loss Allowances

€ million

Measurement category (IAS 39)[1]	Closing loss allowances Dec. 31, 2017 (IAS 39)	Effect of the expected loss model (IFRS 9)	Opening loss allowances Jan 1, 2018 (IFRS 9)	Measurement category (IFRS 9)[1]
Trade accounts receivable				
LaR	(425)	(93)	(518)	AC
Other receivables				
LaR	(3)	(4)	(7)	AC
Cash and cash equivalents				
LaR		(1)	(1)	AC
Total	**(428)**	**(98)**	**(526)**	

[1] See table B 10 for definition of measurement categories.

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

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

In October 2017, the IASB published an amendment to IFRS 9 (Financial Instruments) under the title "Prepayment Features with Negative Compensation." It also published a clarification regarding the accounting for a modification of a financial liability that does not result in its derecognition. For these nonsubstantial modifications, modification gains or losses – including the costs of the modification – must be immediately recognized in profit or loss. This amendment to IFRS 9 is to be applied for annual periods beginning on or after January 1, 2018. As there were no past nonsubstantial modifications of liabilities, this amendment did not have any impact on the presentation of the Group's financial position and results of operations. A bond exchange program constituting a nonsubstantial modification was initiated in June 2018 for the Monsanto bonds acquired as part of the Monsanto acquisition. In this connection, expenses of €13 million were recognized in profit or loss in the second quarter of 2018.

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

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

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

Changes in the timing of recognition

- IFRS 15 requires catch-up adjustments to revenue when milestone payments for right-to-access licenses become unconstrained, leading to earlier revenue recognition. This change resulted in an increase in retained earnings by €64 million after deferred taxes and a decrease in contract liabilities (under IAS 18, amounts were presented as deferred income in other liabilities) by €86 million. For the Pharmaceuticals segment, the introduction of IFRS 15 translates into a €7 million decrease in net sales in the first nine months and a €2 million decrease in third-quarter net sales, resulting in a €3 million decrease in deferred tax expense in the first nine months and a €1 million decrease in third-quarter deferred tax expense compared with IAS 18.
- IFRS 15 in conjunction with IAS 38 (Intangible Assets) generally requires the recognition of the purchase price related to a brand divestment net of associated carrying amounts in other operating income or expenses upon transfer of control. Some cases were identified where the purchase price was deferred under former policy in line with IAS 18, but would have been recognized in income earlier under IFRS 15, leading to a €21 million increase in retained earnings after deferred taxes and a €27 million decrease in contract liabilities (under IAS 18, amounts were presented as deferred income in other liabilities) on the date of transition. For the Pharmaceuticals and Animal Health segments, the introduction of IFRS 15 translates into a combined €30 million decrease in net sales in the first nine months and a combined €7 million decrease in third-quarter net sales, resulting in a €6 million decrease in deferred tax expense in the first nine months and a €1 million decrease in third-quarter deferred tax expense as compared with IAS 18.
- Including the effects described individually, the change in the timing of revenue recognition led to a €17 million decrease in earnings in the first nine months and an €8 million decrease in third-quarter earnings as compared to revenue recognition under IAS 18. These earnings effects pertain to the Bayer Group prior to the first-time consolidation of the former Monsanto Group, whose financial information for the reference periods was prepared according to U.S. accounting standards and therefore does not permit an appropriate comparison with net sales as determined according to IAS 18.

Presentational changes

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

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

The effects of applying the modified retrospective method on the opening statement of financial position as of January 1, 2018, are shown in table B 14. The impact of the transition from IAS 18 to IFRS 15 on the consolidated statement of financial position as at September 30, 2018, which includes the former Monsanto Group, is presented in table B 15.

B 14

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

	Dec. 31, 2017			Jan. 1, 2018
€ million	Before accounting changes	Presentational changes	Changes in timing of recognition	After accounting changes
Deferred taxes	4,915		(5)	4,910
Inventories	6,550	76		6,626
Other reserves	25,026		86	25,112
Other provisions (current)	1,366	(152)		1,214
Refund liabilities (current)	–	152		152
Contract liabilities (current)	–	905	(78)	827
Other liabilities (current)	1,116	(905)		211
Deferred taxes	1,153		24	1,177
Other provisions (noncurrent)	4,344	(2,197)		2,147
Refund liabilities (noncurrent)	–	2,275		2,275
Contract liabilities (noncurrent)	–	740	(37)	703
Trade accounts payable	5,129	(561)		4,568
Other liabilities (noncurrent)	1,652	(181)		1,471

B 15

**Reconciliation IFRS 15 to IAS 18 for Presentational Changes:
Consolidated Statements of Financial Position as of September 30, 2018**

€ million	IFRS 15 Sep. 30, 2018	Presentational changes	IAS 18 Sep. 30, 2018
Inventories	11,142	(66)	11,076
Other provisions (current)	1,926	126	2,052
Refund liabilities (current)	126	(126)	–
Contract liabilities (current)	1,076	(1,076)	–
Other liabilities (current)	352	959	1,311
Other provisions (noncurrent)	2,964	4,551	7,515
Refund liabilities (noncurrent)	4,617	(4,617)	–
Contract liabilities (noncurrent)	741	(741)	–
Trade accounts payable	5,281	648	5,929
Other liabilities (noncurrent)	1,949	211	2,160

Published financial reporting standards that have not yet been applied

In January 2016, the IASB published the new standard for lease accounting, IFRS 16 (Leases), which replaces the existing rules contained in IAS 17 (Leases), IFRIC 4 (Determining Whether an Arrangement Contains a Lease), SIC-15 (Operating Leases – Incentives) and SIC-27 (Evaluating the Substance of Transactions Involving the Legal Form of a Lease). It was endorsed by the European Union in October 2017. The new standard is to be applied for annual periods beginning on or after January 1, 2019. The standard introduces a single lessee accounting model, requiring lessees to recognize assets for granted rights of use and corresponding lease liabilities. It will eliminate the current requirement for lessees to differentiate between operating leases – without recognizing the respective assets or liabilities – and finance leases. However, IFRS 16 contains optional recognition exemptions. As in the previous standard, IAS 17, lessors still have to differentiate between operating and finance leases.

Bayer will apply IFRS 16 for the first time as of January 1, 2019, retrospectively without restating the prior-year figures. In this connection, various practical expedients can be applied as of the transition date for lease agreements in which a Bayer company is the lessee. Bayer will exercise the option of exempting intangible assets from the scope of application of IFRS 16.

A Group-wide project is steering the implementation of this new standard. In connection with the acquisition of Monsanto, Bayer and Monsanto had to be managed as separate companies until the fulfillment of all antitrust conditions. The newly acquired and fully consolidated companies could not be included in the project to introduce IFRS 16 until this hold-separate order was lifted in mid-August 2018 and the integration began. The analysis of the quantitative impact of IFRS 16 on the Group's financial position and results of operations has therefore not yet been completed. The following effects are anticipated: Instead of the minimum lease payments arising from operating leases being presented under other financial commitments as at present, application of IFRS 16 will increase noncurrent assets by requiring the recognition of rights of use assets. Similarly, financial liabilities will be increased by recognition of the corresponding lease liabilities. In the statement of comprehensive income, the amortization of rights of use assets and the interest expense for the liabilities will be recognized in place of the expenses for operating leases. In the statement of cash flows, IFRS 16 will probably lead to an improvement in the operating cash flow by reducing cash outflows for operating activities, while the repayment component of lease payments and the interest expense will be recognized in the financing cash flow.

The specific quantitative effects of the first-time application depend partly on the development of the incremental borrowing rate as of January 1, 2019, the composition of the lease portfolio as of that date, and the assessment then to be made as regards the exercise of extension or termination options, for instance. An assessment also has not yet been completed as to whether and how options and exemption rules will be applied.

In June 2017, the IASB published IFRIC Interpretation 23 (Uncertainty over Income Tax Treatments) to clarify uncertainty relating to the accounting treatment of income taxes. IFRIC 23 is to be applied for annual periods beginning on or after January 1, 2019. It has not yet been endorsed by the European Union. Bayer is currently evaluating the impact the amendments will have on the presentation of its 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 16

Exchange Rates for Major Currencies

			Closing rate		Average rate	
€1		**Dec. 31, 2017**	**Sep. 30, 2017**	**Sep. 30, 2018**	**9M 2017**	**9M 2018**
BRL	Brazil	3.98	3.77	4.68	3.52	4.27
CAD	Canada	1.51	1.47	1.51	1.45	1.54
CHF	Switzerland	1.17	1.15	1.13	1.09	1.16
CNY	China	7.81	7.85	7.96	7.55	7.77
GBP	United Kingdom	0.89	0.88	0.89	0.87	0.88
JPY	Japan	135.01	132.89	131.31	124.36	130.92
MXN	Mexico	23.66	21.45	21.82	20.97	22.73
RUB	Russia	69.41	68.28	76.20	64.74	73.21
USD	United States	1.20	1.18	1.16	1.11	1.19

Argentina’s economy has been classed as hyperinflationary since July 1, 2018, which is why we have applied IAS 29 (Financial Reporting in Hyperinflationary Economies) for Bayer S.A. in Argentina. The resulting effects in ongoing accounting have so far been immaterial for the Group.

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

B 17

Discount Rate for Pension Obligations

%	**Dec. 31, 2017**	**June 30, 2018**	**Sep. 30, 2018**
Germany	1.90	1.90	2.10
United Kingdom	2.50	2.80	2.85
United States	3.40	4.10	4.10

Bayer uses the Heubeck mortality tables to calculate pension obligations in Germany. The RT 2005 G tables were used in recent years. However, we have now switched to the RT 2018 G tables, as we believe that basing calculations on these new tables provides a more appropriate presentation of the actual economic impact on the respective closing date. If we had not switched to the Heubeck RT 2018 G tables, provisions would have been €0.3 billion lower.

When determining the discount rate for measuring pension obligations, we previously applied the Macauley Duration method as part of our calculations. However, Bayer decided to switch to the uniform discount rate method, which is used more frequently in the market and is mathematically superior. Without this modification, the discount rate as of September 30, 2018, would have been 10 basis points lower. Provisions would therefore have been €0.3 billion higher.

Segment reporting

As of September 30, 2018, the Bayer Group comprises the four reportable segments Pharmaceuticals, Consumer Health, Crop Science and Animal Health.

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

B 18

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

€ million	Q3 2017	Q3 2018	9M 2017	9M 2018
EBITDA before special items of segments	2,320	2,340	7,855	7,807
EBITDA before special items of Corporate Functions and Consolidation	(116)	(138)	(350)	(374)
EBITDA before special items[1]	**2,204**	**2,202**	**7,505**	**7,433**
Depreciation, amortization and impairment losses before special items of segments	(565)	(899)	(1,623)	(2,020)
Depreciation, amortization and impairment losses before special items of Corporate Functions and Consolidation	(2)	(3)	(9)	(11)
Depreciation, amortization and impairment losses before special items	**(567)**	**(902)**	**(1,632)**	**(2,031)**
EBIT before special items of segments	1,755	1,441	6,232	5,787
EBIT before special items of Corporate Functions and Consolidation	(118)	(141)	(359)	(385)
EBIT before special items[1]	**1,637**	**1,300**	**5,873**	**5,402**
Special items of segments	(249)	3,140	(592)	2,715
Special items of Corporate Functions and Consolidation	–	(17)	(3)	(33)
Special items[1]	**(249)**	**3,123**	**(595)**	**2,682**
EBIT of segments	1,506	4,581	5,640	8,502
EBIT of Corporate Functions and Consolidation	(118)	(158)	(362)	(418)
EBIT[1]	**1,388**	**4,423**	**5,278**	**8,084**
Financial result	(403)	(678)	(1,068)	(870)
Income before income taxes	**985**	**3,745**	**4,210**	**7,214**

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

Scope of consolidation

Changes in the scope of consolidation

The consolidated financial statements as of September 30, 2018, included 456 companies (December 31, 2017: 237 companies). Nine (December 31, 2017: eight) joint ventures and four (December 31, 2017: four) associates were accounted for in the consolidated financial statements using the equity method according to IAS 28 (Investments in Associates and Joint Ventures). As the parent company of the Covestro Group, Covestro AG was accounted for in the consolidated financial statements using the equity method until May 2018. Since May 2018, Bayer has been presenting its interest in Covestro as an equity instrument.

Capital increase

On April 16, 2018, the investment company Temasek subscribed to 31 million new shares of Bayer at an issue price that was close to market prices (total gross proceeds of around €3 billion). This corresponded to around 3.6% of the capital stock as of the acquisition date. The transaction increased Temasek's interest in Bayer AG to approximately 4%.

On June 3, 2018, with the consent of the Supervisory Board, the Board of Management of Bayer AG resolved to execute a capital increase out of authorized capital against cash contributions and with subscription rights for existing Bayer stockholders. For this purpose, Bayer issued 74,604,156 new registered (no-par value) shares with an entitlement to dividends as of January 1, 2018.

For every 23 Bayer shares they held, stockholders were able to acquire two new shares at a subscription price of €81.00 per new share by way of indirect subscription rights. This option was exercised for 73,343,177 shares. The 1,261,039 shares not subscribed to were purchased by institutional investors at an average placement price of €96.6437 per share as part of a private placement. After deducting transaction costs, net proceeds totaled around €6 billion.

Together with the mandatory convertible notes issued in November 2016, the two capital increases conclude the equity component, announced in September 2016, to finance the acquisition of Monsanto.

Acquisitions, divestments and discontinued operations

Acquisitions

Bayer acquired 100% of the outstanding shares of Monsanto Company, St. Louis, Missouri, United States (Monsanto), on June 7, 2018. The acquisition of Monsanto brings together two strong and highly complementary businesses: Bayer's innovative chemical and biological crop protection portfolio and Monsanto's exceptional expertise in the field of seeds and traits. Among the production sites maintained by Monsanto are facilities in Luling, Muscatine and Soda Springs (all United States), Antwerp (Belgium), Zarate (Argentina) and Camacari (Brazil). Monsanto's portfolio of established brands includes DEKALB™, Asgrow™ and Roundup™, among others. The purchase price of €48,029 million pertained mainly to intangible assets for technologies in the areas of seeds and traits (useful lives of between 9 and 30 years), herbicides (useful lives of 20 years) and digital platforms (useful lives of 15 years), as well as for R&D projects and brands (useful lives of between 10 and 30 years), property, plant and equipment, inventories and goodwill. No value was assigned to the company name "Monsanto."

The goodwill included expected synergies in administration processes and infrastructure, including cost savings in the cost of goods, selling, R&D and general administration functions, as well as expected sales synergies resulting from the combined offering of products. The goodwill is non-tax-deductible.

Sales of €2,758 million and an after-tax loss of €627 million were recorded for the acquired businesses since the date of first-time consolidation.

The purchase price allocation for Monsanto currently remains incomplete pending compilation and review of the relevant financial information. It is therefore possible that changes will be made in the allocation of the purchase price to the individual assets and liabilities.

The following bonds with total nominal volumes of US$15 billion and €5 billion in total were issued in June 2018 to finance the acquisition:

B 19

Newly issued bonds

Issuer	Coupon (%)	Nominal volume	Issue date	Maturity date
Bayer U.S. Finance II LLC, U.S.A.				
	3.5	US$ 1,250 million	June 25, 2018	June 25, 2021
	3 month USD LIBOR + 0.63	US$ 1,250 million	June 25, 2018	June 25, 2021
	3.875	US$ 2,250 million	June 25, 2018	Dec. 15, 2023
	3 month USD LIBOR + 1.01	US$ 1,250 million	June 25, 2018	Dec. 15, 2023
	4.25	US$ 2,500 million	June 25, 2018	Dec. 15, 2025
	4.375	US$ 3,500 million	June 25, 2018	Dec. 15, 2028
	4.625	US$ 1,000 million	June 25, 2018	June 25, 2038
	4.875	US$ 2,000 million	June 25, 2018	Jun. 25, 2048
Bayer Capital Corporation B.V., Netherlands				
	3 month EURIBOR + 0.55	€750 million	June 26, 2018	June 26, 2022
	0.625	€1,000 million	June 26, 2018	Dec. 15, 2022
	1.5	€1,750 million	June 26, 2018	June 26, 2026
	2.125	€1,500 million	June 26, 2018	Dec. 15, 2029

As part of the acquisition, bonds with a nominal volume of US$6.9 billion were taken over from Monsanto.

On May 2, 2018, Bayer increased its interest in the joint venture Bayer Zydus Pharma Private Limited, Thane, India, from 50% to 75% plus one share. A purchase price of €28 million was agreed. Bayer is obligated to purchase the remaining 25% minus one share of Bayer Zydus Pharma by 2021 and has recognized a liability of €9 million in connection with this obligation. Bayer is obligated to purchase the remaining 25% minus one share of Bayer Zydus Pharma by 2021 and has recognized a liability of €9 million in connection with this obligation. As a result, the accounting method used for this business changed from the equity method to full consolidation, with 100% of the shares of Bayer Zydus Pharma being consolidated. Remeasurement of the shares previously accounted for using the equity method resulted in an amount of €18 million. The gain of €15 million resulting from the derecognition of the shares previously accounted for using the equity method was recognized in the financial result. The purchase price pertained mainly to goodwill that in turn was based primarily on a control premium. Bayer Zydus Pharma is active in core segments of the Indian pharmaceutical market and focuses on women's health, diagnostic imaging, cardiovascular disease, diabetes treatment and oncology. This acquisition increases Bayer's presence in the Indian pharmaceutical market.

The effects of these transactions on the Group's assets and liabilities are shown in the table. Net of acquired cash and cash equivalents, they resulted in the following cash outflow:

B 20

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

€ million	9M 2018	of which Monsanto	of which Zydus
Goodwill	23,027	22,979	48
Patents and technologies	17,366	17,366	–
Trademarks	4,195	4,195	–
Marketing and distribution rights	821	821	–
R&D projects	4,300	4,300	–
Other rights	394	394	–
Property, plant and equipment	6,293	6,293	–
Investments accounted for using the equity method	52	52	–
Other financial assets	253	250	3
Inventories	4,885	4,882	3
Receivables	7,203	7,201	2
Other assets	26	26	–
Cash and cash equivalents	2,659	2,657	2
Deferred tax assets	1,564	1,562	2
Provisions for pensions and other post-employment benefits	(367)	(367)	–
Other provisions	(1,536)	(1,535)	(1)
Refund liabilities	(3,322)	(3,321)	(1)
Financial liabilities	(8,657)	(8,656)	(1)
Other liabilities	(2,873)	(2,871)	(2)
Deferred tax liabilities	(8,022)	(8,022)	–
Net assets	**48,261**	**48,206**	**55**
Changes in noncontrolling interest	(177)	(177)	–
Remeasurement of previously held equity interest and net assets	(18)	–	(18)
Consideration transferred	**48,066**	**48,029**	**37**
Acquired cash and cash equivalents	(2,659)	(2,657)	(2)
Noncash components	(91)	(82)	(9)
Net cash outflow for acquisitions	**45,316**	**45,290**	**26**

There were adjustments to the purchase price allocation for Monsanto in the third quarter of 2018 that primarily related to goodwill (€19 million).

The fair value of the acquired receivables in the amount of €7.2 billion primarily comprises trade accounts receivable. As of the date of the acquisition, the gross amount of the contractual receivables amounted to €7.7 billion, with €0.4 billion of this figure assessed as irrecoverable.

If the aforementioned acquisitions had already been made as of January 1, 2018, the Bayer Group would have had total sales of €35,226 million. Income after income taxes would have been €5,778 million, and earnings per share €6.23. This takes into account significant effects relating to financing costs and purchase price allocations for the first nine months of the year. In particular, the remeasurement of inventories at fair value and their subsequent utilization as well as planned amortization had a negative impact. In addition, no adjustment for special items is included.

Divestments and discontinued operations

Bayer ceded de facto control of Covestro and deconsolidated the company at the end of September 2017. As of the loss of control, Covestro fulfills the conditions for presentation as a discontinued operation. In connection with the sale of Covestro AG shares in 2017, Bayer AG entered into derivative contracts. These resulted in exchange gains of €8 million through the second quarter of 2018.

B 21

Income Statements for Discontinued Operations

	Covestro		Diabetes Care		Total	
€ million	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018
Net sales	**3,513**	**–**	**137**	**–**	**3,650**	**–**
Cost of goods sold	(2,279)	–	(8)	–	(2,287)	–
Gross profit	**1,234**	**–**	**129**	**–**	**1,363**	**–**
Selling expenses	(326)	–	(1)	–	(327)	–
Research and development expenses	(68)	–	–	–	(68)	–
General administration expenses	(118)	–	(3)	–	(121)	–
Other operating income/expenses	2,886	–	1	–	2,887	–
EBIT[1]	**3,608**	**–**	**126**	**–**	**3,734**	**–**
Financial result	**(36)**	**–**	**–**	**–**	**(36)**	**–**
Income before income taxes	**3,572**	**–**	**126**	**–**	**3,698**	**–**
Income taxes	(255)	–	(20)	–	(275)	–
Income after income taxes	**3,317**	**–**	**106**	**–**	**3,423**	**–**
of which attributable to noncontrolling interest	318	–	–	–	318	–
of which attributable to Bayer AG stockholders (net income)	2,999	–	106	–	3,105	–

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

Income from discontinued operations in the first nine months of 2018 was as follows:

B 22

Income Statements for Discontinued Operations

	Covestro		Diabetes Care		Total	
€ million	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018
Net sales	**10,556**	**–**	**449**	**–**	**11,005**	**–**
Cost of goods sold	(6,973)	–	(22)	–	(6,995)	–
Gross profit	**3,583**	**–**	**427**	**–**	**4,010**	**–**
Selling expenses	(1,016)	–	(3)	–	(1,019)	–
Research and development expenses	(200)	–	–	–	(200)	–
General administration expenses	(345)	–	(7)	–	(352)	–
Other operating income/expenses	2,963	8	4	–	2,967	8
EBIT[1]	**4,985**	**8**	**421**	**–**	**5,406**	**8**
Financial result	**(124)**	**–**	**–**	**–**	**(124)**	**–**
Income before income taxes	**4,861**	**8**	**421**	**–**	**5,282**	**8**
Income taxes	(585)	(8)	(69)	–	(654)	(8)
Income after income taxes	**4,276**	**0**	**352**	**–**	**4,628**	**0**
of which attributable to noncontrolling interest	759	0	–	–	759	0
of which attributable to Bayer AG stockholders (net income)	3,517	0	352	–	3,869	0

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

In the third quarter of 2018, discontinued operations had no impact on the Bayer Group statement of cash flows, as illustrated in the following table:

B 23

Statements of Cash Flows for Discontinued Operations

	Covestro		Diabetes Care		Total	
€ million	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018
Net cash provided by (used in) operating activities	783	–	25	–	808	–
Net cash provided by (used in) investing activities	(355)	–	–	–	(355)	–
Net cash provided by (used in) financing activities	(107)	–	(25)	–	(132)	–
Change in cash and cash equivalents	**321**	**–**	**–**	**–**	**321**	**–**

The effect of discontinued operations on the statements of cash flows in the first nine months of 2018 was as follows:

B 24

Statements of Cash Flows for Discontinued Operations

	Covestro		Diabetes Care		Total	
€ million	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018
Net cash provided by (used in) operating activities	1,473	–	37	–	1,510	–
Net cash provided by (used in) investing activities	(742)	–	–	–	(742)	–
Net cash provided by (used in) financing activities	(224)	–	(37)	–	(261)	–
Change in cash and cash equivalents	**507**	**–**	**–**	**–**	**507**	**–**

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

In connection with the acquisition of Monsanto, Bayer signed an agreement with BASF on October 13, 2017, concerning the sale of selected Crop Science businesses. All of the transactions closed on August 1, 2018, apart from the divestment of the vegetable seed business, which closed on August 16, 2018. In accordance with the conditions imposed by antitrust authorities, the divestment of Crop Science businesses to BASF also comprises further significant obligations by Bayer that will be fulfilled over a number of years subsequent to the date of divestment. Another of these conditions is for deliveries under the supply agreement (finished products and active ingredients) to be made at prices based on the respective variable costs. In this connection, a contract liability of €0.3 billion was determined based on customary sales prices and recognized in the statement of financial position. It will be dissolved as the obligations are fulfilled.

The preliminary purchase price paid amounts to approximately €7.3 billion, and income before taxes to €3.9 billion.

On September 4, 2018, the U.S. activities of the Consumer Health prescription dermatology business were transferred to the acquirer LEO Pharma A/S, Ballerup, Denmark. The base purchase price amounted to €58 million.

On June 30, 2018, the Pharmaceuticals segment sold its MK Generics business in Central America and the Caribbean to Tecnoquímicas S.A. The divested business includes the Bonima production plant in El Salvador. The base purchase price was €44 million.

Assets held for sale

Bayer signed an agreement on July 27, 2018, to divest the Consumer Health prescription dermatology business to LEO Pharma A/S, Ballerup, Denmark. The global prescription dermatology business excluding the U.S. activities is expected to be transferred to LEO Pharma A/S in the second half of 2019 subject to the fulfillment of the closing conditions. The portfolio being divested comprises prescription brands including Advantan™, Skinoren™ and Travocort™. The base purchase price amounts to €555 million and is subject to customary purchase price adjustments.

The assets and liabilities held for sale are presented below:

B 25

Assets and Liabilities Held for Sale

€ million	Sep. 30, 2018
Goodwill	156
Other intangible assets	33
Property, plant and equipment	42
Other assets	4
Assets held for sale	**235**
Provisions for pensions and other post-employment benefits	5
Deferred taxes	7
Liabilities directly related to assets held for sale	**12**

Financial instruments

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

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

B 26

Carrying Amounts and Fair Values of Financial Instruments

						September 30, 2018
	Carried at amortized cost	Carried at fair value [Fair value for information[2]]			Nonfinancial assets/ liabilities	
Measurement category (IFRS 9)[1]		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	11,528				201	11,729
AC	11,528					11,528
Nonfinancial assets					201	201
Other financial assets	161	2,576	428	1,093		4,258
AC	161		[161]			161
FVTPL		2,341	145	859		3,345
FVTOCI (no recycling)		223		214		437
Derivatives		12	283	20		315
Other receivables	744			44	1,884	2,672
AC	744		[745]			744
FVTPL				44		44
Nonfinancial assets					1,884	1,884
Cash and cash equivalents	4,850					4,850
AC	4,850		[4,850]			4,850
Total financial assets	**17,283**	**2,576**	**428**	**1,137**		**21,424**
of which AC	17,283					17,283
of which FVTPL		2,341	145	903		3,389
Financial liabilities	42,549	1,093	208			43,850
AC	42,549	[28,466]	[14,120]			42,549
FVTPL (nonderivative)		1,093				1,093
Derivatives			208			208
Trade accounts payable	5,281					5,281
AC	5,281					5,281
Other liabilities	1,125	7	264	15	890	2,301
AC	1,125		[1,125]			1,125
FVTPL (nonderivative)				15		15
Derivatives		7	264			271
Nonfinancial liabilities					890	890
Total financial liabilities	**48,955**	**1,100**	**472**	**15**		**50,542**
of which AC	48,955					48,955
of which FVTPL (nonderivative)		1,093		15		1,108
of which derivatives		7	472			479

[1] AC: at amortized cost
FVTOCI: at fair value through other comprehensive income
FVTPL: at fair value through profit or loss
[2] Fair value of the financial instruments at amortized cost; IFRS 7.29(a) was applied for information on specific fair values.

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

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

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

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

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

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

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

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

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

The changes in the amount of financial assets and liabilities recognized at fair value based on unobservable inputs (Level 3) for each financial instrument category (see table B 26 for definitions) were as follows:

B 27

Development of Financial Assets and Liabilities (Level 3)

€ million	FVTPL	FVTOCI (no recycling)	Derivatives (net)	FVTPL (non-derivative)	Total
Carrying amounts (net), January 1, 2018	**821**	**68**	**10**	**(7)**	**892**
Gains (losses) recognized in profit or loss	29	–	(7)	–	22
of which related to assets/liabilities recognized in the statements of financial position	29	–	(7)	–	22
Gains (losses) recognized outside profit or loss	–	12	–	–	12
Additions of assets (liabilities)	67	145	17	(10)	219
Settlements of (assets) liabilities	(14)	(7)	–	1	(20)
Transfers (IFRS 5)	–	–	–	–	–
Disposals from divestments/changes in scope of consolidation	–	(4)	–	1	(3)
Carrying amounts (net), September 30, 2018	**903**	**214**	**20**	**(15)**	**1,122**

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

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

B 28

Carrying Amounts and Fair Values of Financial Instruments

						Dec. 31, 2017
	Carried at amortized cost	Carried at fair value [Fair value for information[2]]			Nonfinancial assets/ liabilities	
Measurement category (IAS 39)[1]		Based on quoted prices in active markets (Level 1)	Based on observable market data (Level 2)	Based on unobservable inputs (Level 3)		
€ million	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount in the statement of financial position**
Trade accounts receivable	8,582					8,582
LaR	8,582					8,582
Other financial assets	1,823	452	2,085	803		5,163
LaR	1,731		[1,731]			1,731
AfS	35	448	1,452	793		2,728
HtM	57		[58]			57
Derivatives		4	633	10		647
Other receivables	380			46	1,250	1,676
LaR	380		[380]			380
AfS				46		46
Nonfinancial assets					1,250	1,250
Cash and cash equivalents	7,581					7,581
LaR	7,581		[7,581]			7,581
Total financial assets	**18,366**	**452**	**2,085**	**849**		**21,752**
of which LaR	18,274					18,274
of which AfS	35	448	1,452	839		2,774
Financial liabilities	12,958	1,220	240			14,418
At amortized cost	12,958	[11,327]	[2,183]			12,958
At fair value (nonderivative)		1,220				1,220
Derivatives			240			240
Trade accounts payable	4,568				561	5,129
At amortized cost	4,568					4,568
Nonfinancial liabilities					561	561
Other liabilities	681	2	319	7	1,759	2,768
At amortized cost	681		[681]			681
At fair value (nonderivative)				7		7
Derivatives		2	319			321
Nonfinancial liabilities					1,759	1,759
Total financial liabilities	**18,207**	**1,222**	**559**	**7**		**19,995**
of which at amortized cost	18,207					18,207
of which derivatives		2	559			561

[1] AfS: available for sale; at fair value through other comprehensive income
HtM: held to maturity; at amortized cost
LaR: loans and receivables; at amortized cost
[2] Fair value of the financial instruments at amortized cost; IFRS 7.29(a) was applied for information on specific fair values.

The following table shows the changes in the amounts of financial assets and liabilities recognized at fair value based on unobservable inputs (Level 3) for each financial instrument category (see table B 28 for definitions) for the comparative period under IAS 39:

B 29

Development of Financial Assets and Liabilities (Level 3)

€ million	AfS	Derivatives (net)	Liabilities – at fair value (non-derivative)	Total
Carrying amounts (net), January 1, 2017	**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 (net), September 30, 2017	**833**	**9**	**(7)**	**835**

Interest held in Covestro reduced to 6.8%

In the first quarter, Bayer sold 21.0 million shares of Covestro AG to institutional investors at a price of €86.25 per share. A further 28.81 million shares of Covestro AG were sold to institutional investors in the second quarter at a price of €75.50 per share. In addition, 13.79 million shares of Covestro AG were acquired from Bayer Pension Trust e. V., which no longer holds any Covestro shares. Bayer AG thus now holds only a 6.8% interest in Covestro to service the exchangeable bond issued in 2017 that matures in 2020.

Until May 2018, the interest in Covestro was accounted for in the Bayer Group consolidated financial statements as an associate using the equity method. The aforementioned share disposals led to the loss of significant influence on the financial and business policy decisions of Covestro. This in turn resulted in a change in the accounting method. Since May 2018, Bayer has reported the Covestro interest as an equity instrument. Changes in its fair value are recognized through profit or loss.

Contingent liabilities and other financial commitments

The Group's contingent liabilities amounted to €808 million as of September 30, 2018, and mainly comprised pending legal cases in a number of countries. There were also other financial commitments of €8,714 million. Compared with December 31, 2017, the decline in other financial commitments was predominantly attributable to the successful closing of the acquisition of the Monsanto Company, St. Louis, Missouri, United States.

Legal Risks

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

Product-related litigation

Mirena™: As of October 30, 2018, lawsuits from approximately 2,300 users of Mirena™, an intrauterine system providing long-term contraception, had been served upon Bayer in the United States. Plaintiffs allege personal injuries resulting from the use of Mirena™, including perforation of the uterus, ectopic pregnancy or idiopathic intracranial hypertension, and seek compensatory and punitive damages. Additional lawsuits are anticipated. As of October 30, 2018, lawsuits from approximately 680 users of Mirena™ alleging idiopathic intracranial hypertension had been served upon Bayer in the United States.

In April 2018, the Master Settlement Agreement regarding the global settlement of the perforation cases for a total amount of US$12.2 million was executed. Bayer may withdraw from the agreement if fewer than 98% of those who are eligible choose to participate. As of October 30, 2018, a total of approximately 4,600 cases would be included in the settlement.

Xarelto™: As of October 30, 2018, U.S. lawsuits from approximately 24,700 recipients of Xarelto™, an oral anticoagulant for the treatment and prevention of blood clots, had been served upon Bayer. Plaintiffs allege that users have suffered personal injuries from the use of Xarelto™, including cerebral, gastrointestinal or other bleeding and death, and seek compensatory and punitive damages. Additional lawsuits are anticipated. As reported in the Bayer Annual Report 2017, the first three federal trials and the first Pennsylvania state court trial resulted in complete defense verdicts. In April and August 2018, the second and third Pennsylvania state court trials also resulted in complete defense verdicts. In April and August 2018, the second and third trial in Pennsylvania state court both also resulted in a complete defense verdict. Appeals and post-trial motions are pending in all cases.

Essure™: As of October 30, 2018, U.S. lawsuits from approximately 18,000 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.

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

Patent disputes

Betaferon™/Betaseron™: Since 2010, Bayer and Biogen Idec MA Inc. (“Biogen”) have been engaged in a dispute in the United States about the validity of a patent issued to Biogen and whether Bayer’s production and distribution of Betaseron™ would infringe such patent. Betaseron™ is Bayer’s drug product for the treatment of multiple sclerosis. In February 2018, a jury decided that Biogen’s patent is invalid at the end of a trial regarding Biogen’s claims against EMD Serono, Inc. (“Serono”) and Pfizer Inc. (“Pfizer”) for infringement of the same patent. In September 2018, the court overturned the jury decision and granted judgment in favor of Biogen. Serono and Pfizer appealed. The trial of Biogen’s claim against Bayer has not yet been scheduled.

Damoctocog alfa pegol (Jivi™, BAY 94-9027, long-acting recombinant factor VIII): In August 2018, Nektar Therapeutics (“Nektar”), Baxalta Incorporated and Baxalta U.S., Inc. (together “Baxalta”) filed another complaint in a U.S. federal court against Bayer alleging that BAY 94-9027, approved as Jivi™ in the United States for the treatment of hemophilia, infringes five patents by Nektar. The five patents are part of a patent family registered in the name of Nektar and further comprising a European patent application with the title “Branched polymers and their conjugates”. This patent family is different from the one at issue in the patent disputes already pending in the United States and Germany. In October 2018, Bayer filed a lawsuit in the administrative court of Munich, Germany, claiming rights to the European patent application based on a past collaboration between Bayer and Nektar in the field of hemophilia. Bayer believes it has meritorious defenses and intends to defend itself vigorously.

Stivarga™: In 2016, Bayer filed patent infringement lawsuits in a U.S. federal court against Apotex and against Teva Pharmaceuticals USA, Inc. and Teva Pharmaceutical Industries Ltd. (together “Teva”). Bayer had received notices of an ANDA IV application pursuant to which Apotex and Teva each seek approval of a generic version of Bayer’s cancer drug Stivarga™ in the United States. In October 2018, Bayer and Teva reached agreement to settle their patent dispute. Under the settlement terms, Teva will obtain a license to sell its generic version of Stivarga™ in the United States at a date shortly before the expiration of the patent protection for the active ingredient.

Xarelto™: In 2015, Bayer and Janssen Pharmaceuticals filed a patent infringement lawsuit in a U.S. federal court against Mylan Pharmaceuticals Inc. (“Mylan”), Prinston Pharmaceutical Inc. (“Prinston“), Sigmapharm Laboratories, LLC (“Sigmapharm”) and further defendants. Bayer had received notices of an ANDA IV application by Mylan, Sigmapharm and the other defendants, each seeking approval to market a generic version of Xarelto™, an oral anticoagulant for the treatment and prevention of blood clots, in the United States. In July 2018, the court ordered that Bayer’s compound patent protection for Xarelto™ until 2024 is valid and that the patent is infringed. The decision is final.

Further Legal Proceedings

Newark Bay Environmental Matters: In the United States, Bayer is one of numerous parties involved in a series of claims brought by federal and state environmental protection agencies. In the Lower Passaic River matter, a group of more than sixty companies including Bayer is investigating contaminated sediments in the riverbed under the supervision of the United States Environmental Protection Agency (EPA) and other governmental authorities. Future remediation will involve some form of dredging, the nature and scope of which are not yet defined, and potentially other tasks. The cost of the investigation and the remediation work may be substantial if the final remedy involves extensive dredging and disposal of impacted sediments. In July 2018, Occidental Chemical Company, one of the parties potentially liable for cleanup costs in the Lower Passaic River, filed a lawsuit in New Jersey federal court seeking contribution and cost recovery from dozens of other potentially responsible parties, including a Bayer subsidiary, for past and future cleanup costs. Bayer is currently unable to determine the extent of its liability in this matter.

One A Day™ vitamins: Bayer has been named in a class action lawsuit in the United States alleging Bayer’s claims on its One A Day™ vitamins regarding the support of heart health, immunity and physical energy are false and misleading. The class is defined as California, Florida and New York residents who purchased One A Day™ products with the claims at issue. In September 2018, plaintiffs asserted through the filing of an expert report their alleged potential damages. Bayer’s challenge of the class certification is currently pending in the Court of Appeals for the Ninth Circuit. Bayer believes it has meritorious defenses and intends to defend itself vigorously.

Monsanto Legal Risks

In June 2018, Bayer became the sole shareholder of Monsanto Company, St. Louis, USA (“Monsanto”). Bayer considers the following legal proceedings of Monsanto to involve risks that are material for the Bayer Group. The legal proceedings referred to do not represent an exhaustive list.

PCB: Monsanto has been named in lawsuits brought by various governmental entities in the United States claiming that Monsanto, Pharmacia and Solutia, collectively as a manufacturer of PCBs, should be responsible for a variety of damages due to PCBs in bodies of water, regardless of how PCBs came to be located there. PCBs are man-made chemicals that were widely used for various purposes until prohibited by the Environmental Protection Agency (EPA) in the United States in 1979. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

Roundup™ (Glyphosate): As of October 30, 2018, lawsuits from approximately 9,300 plaintiffs claiming to have been exposed to glyphosate-based products manufactured by Monsanto had been served upon Monsanto in the United States. Glyphosate is the active ingredient contained in certain of Monsanto’s herbicides, including Roundup™-branded products. Plaintiffs allege personal injuries resulting from exposure to those products, including non-Hodgkin lymphoma (NHL) and multiple myeloma, and seek compensatory and punitive damages. Plaintiffs claim, inter alia, that Monsanto’s glyphosate-based herbicide products are defective and that Monsanto knew, or should have known, of the risks allegedly associated with such products and failed to adequately warn its users. Additional lawsuits are anticipated. The majority of plaintiffs have brought actions in state courts in Missouri, Delaware and California, while the remainder of plaintiffs’ cases were filed in many different federal courts. In 2016, the Judicial Panel on Multi-District Litigation transferred to the Northern District of California all of the federal cases for pretrial purposes. In August 2018, a state court jury in San Francisco, California, awarded roughly USD 39 million in compensatory and USD 250 million in punitive damages to a plaintiff who claimed that a Monsanto product caused his NHL. We disagree with the verdict and sought trial court review in September 2018. In October 2018, the trial judge decided to reduce the punitive damages from USD 250 million to roughly USD 39 million. The roughly USD 39 million compensatory damages were not reduced. The decision to reduce the punitive damage award by more than USD 200 million is a step in the right direction, but we plan to file an appeal with the California Court of Appeal. In view of more than 800 scientific studies and regulatory authorities all over the world confirming that glyphosate is safe for use when used according to label instructions, including an independent study which followed more than 50,000 licensed pesticide applicators and farm workers and their spouses for more than 20 years which found no association between glyphosate-based herbicides and cancer, and the U.S. Environmental Protection Agency's 2018 risk assessment which examined more than 100 studies and concluded that glyphosate is "not likely to be carcinogenic to humans," we continue to believe that we have meritorious defenses and intend to defend ourselves vigorously in all of these lawsuits.

In connection with the above-mentioned Monsanto proceedings, Monsanto is insured against statutory product liability claims against Monsanto to the extent customary in the respective industries and has, based on the information currently available, taken appropriate accounting measures for anticipated defense costs.

Notes to the Statements of Cash Flows

Operating cash flows for the first nine months of 2018 amounted to €4,949 million. There was an outflow of €45,290 million for the acquisition of Monsanto, net of €2,657 million in cash acquired from Monsanto. Divestments provided inflows of €7,563 million. The sale of Covestro shares resulted in a net cash inflow of €2,909 million. The issue of bonds and further net borrowings resulted in an inflow of €20,464 million, and capital increases in an inflow of €8,986 million. In addition, there was an outflow of €2,406 million for dividend payments.

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, non-consolidated subsidiaries, joint ventures and associates included in the consolidated financial statements at cost of acquisition or using the equity method, post-employment benefit plans and the corporate officers of Bayer AG.

Sales to related parties were not material from the viewpoint of the Bayer Group. As was the case on December 31, 2017, liabilities to joint ventures amounted to €0.2 billion, and primarily pertained to the joint venture Casebia Therapeutics Limited Liability Partnership, Ascot, United Kingdom, which was established together with CRISPR Therapeutics AG, Basel, Switzerland.

In May 2018, Bayer AG acquired a 6.8% interest in Covestro from Bayer Pension Trust e.V. at market value for a total amount of €1.1 billion to repay the exchangeable bond that matures in 2020.

Covestro ceased to be recognized as an associate in May 2018. In this connection, receivables from associates declined by €0.1 billion to €0.0 billion

Events After the End of the Reporting Period

Repayment of financial liabilities

The syndicated credit facility drawn in June 2018 as financing for the acquisition of Monsanto was reduced by a further US$1.5 billion in October 2018.

Leverkusen, November 8, 2018
Bayer Aktiengesellschaft

The Board of Management

Werner Baumann

Liam Condon
Dr. Hartmut Klusik
Kemal Malik

Wolfgang Nickl
Stefan Oelrich
Heiko Schipper

Review Report

To Bayer Aktiengesellschaft, Leverkusen / Germany

We have reviewed the condensed interim consolidated financial statements – comprising the income statement and the statement of comprehensive income, the statement of financial position, the statement of cash flows, the condensed statement of changes in equity as well as selected explanatory notes to the financial statements – and the interim group management report for the period from 1 January until 30 September 2018 of Bayer Aktiengesellschaft, Leverkusen, that are part of the quarterly financial report under § 115 WpHG (Wertpapierhandelsgesetz: German Securities Trading Act). The preparation of the condensed interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the entity's Management Board. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

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

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

Munich / Germany, 8 November 2018

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

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

Financial Calendar

Announcement of proposed dividend	*February 26, 2019*
Annual Report 2018	*February 27, 2019*
Q1 2019 Quarterly Statement[2]	*April 25, 2019*
Annual Stockholders' Meeting 2019	*April 26, 2019*
Planned dividend payment day	*May 2, 2019*
Half-Year Report 2019	*July 30, 2019*
Q3 2019 Quarterly Statement[2]	*October 30, 2019*

Masthead

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Cautionary Statements Regarding Forward-Looking Information
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: the risk that the parties may be unable to achieve expected synergies and operating efficiencies in the merger within the expected timeframes (or at all) and to successfully integrate the operations of Monsanto Company ("Monsanto") into those of Bayer Aktiengesellschaft ("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 difficulties in maintaining relationships with employees, customers, clients or suppliers) may be greater or more significant than expected following the transaction; the retention of certain key employees at Monsanto; the parties' ability to meet expectations regarding the accounting and tax treatments of the merger; the impact of refinancing the loans taken out for the transaction; the impact of indebtedness incurred by Bayer in connection with the transaction and the potential impact on Bayer's rating of indebtedness; 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 U.S. Securities and Exchange Commission (the "SEC") for the fiscal year ended August 31, 2017, 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 assumes 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 hereof.

[2] In 2019, Bayer will for the first time publish quarterly statements pursuant to Section 53 of the Exchange Rules for the Frankfurter Wertpapierbörse (FWB) for the first and third quarters.