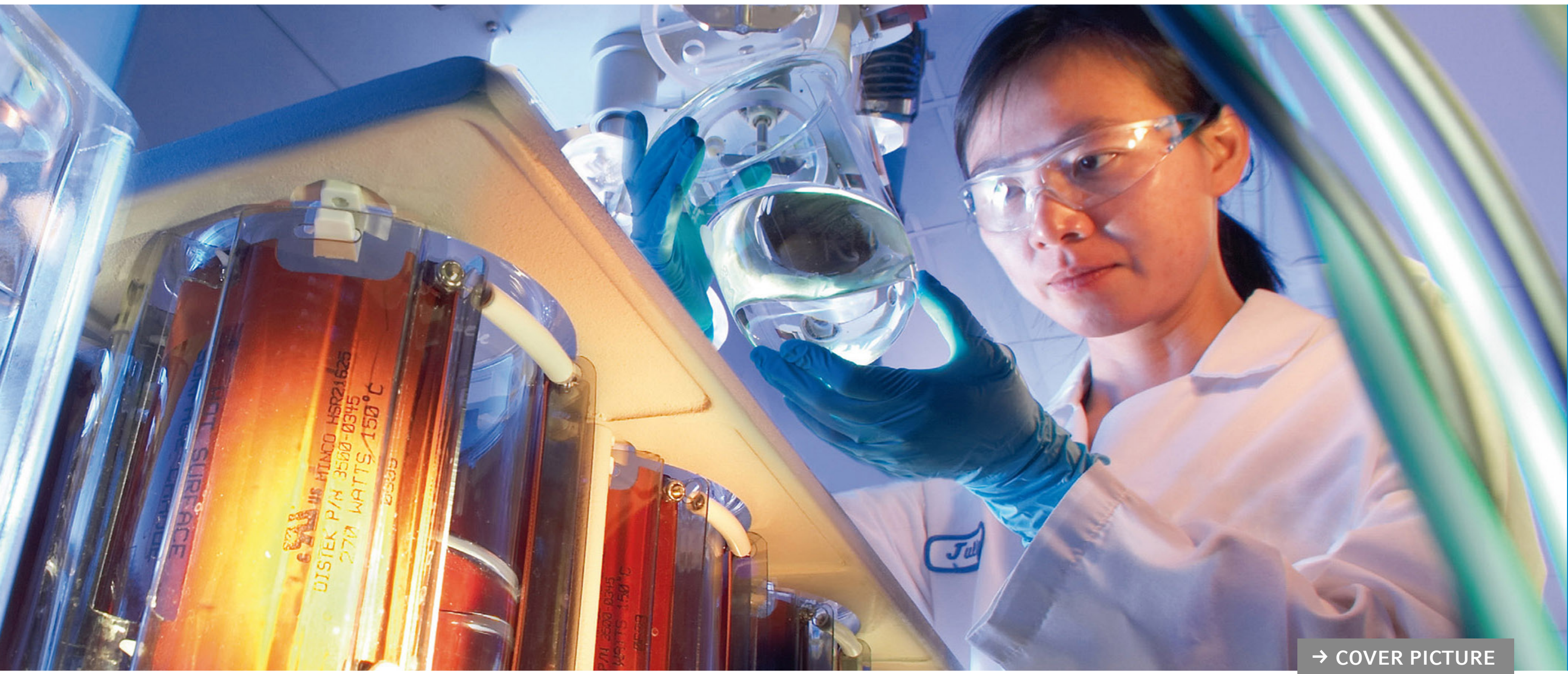
Science For A Better Life



→ COVER PICTURE

Stockholders' Newsletter

FINANCIAL REPORT AS OF JUNE 30, 2014

Second quarter of 2014
Bayer continues positive business development

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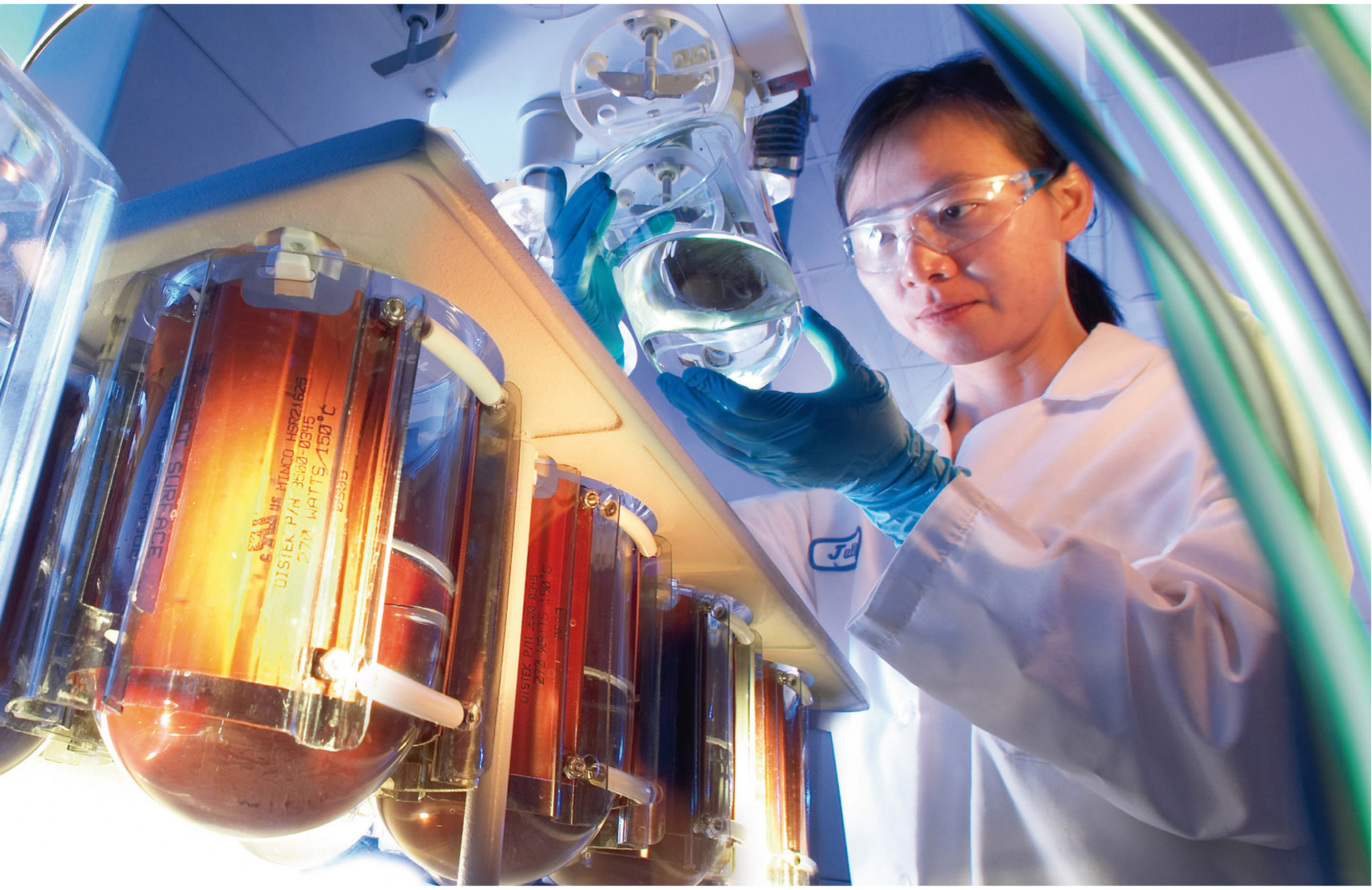
Bayer Group Key Data

	2nd Quarter 2013	2nd Quarter 2014	Change	1st Half 2013	1st Half 2014	Change	Full Year 2013
	€ million	€ million	%	€ million	€ million	%	€ million
Sales	**10,360**	**10,458**	**+0.9**	**20,626**	**21,013**	**+1.9**	**40,157**
Change (adjusted for currency and portfolio effects)			+6.3			+7.3	
Change in sales							
Volume	+4.3%	+5.7%		+2.9%	+7.2%		+4.3%
Price	+0.3%	+0.6%		+1.3%	+0.1%		+0.8%
Currency	−2.9%	−5.5%		−2.3%	−5.6%		−4.4%
Portfolio	+0.2%	+0.1%		+0.1%	+0.2%		+0.3%
EBIT[1]	**1,287**	**1,473**	**+14.5**	**3,058**	**3,569**	**+16.7**	**4,934**
Special items	*(256)*	*(48)*		*(301)*	*(41)*		*(839)*
EBIT before special items[2]	***1,543***	***1,521***	***−1.4***	***3,359***	***3,610***	***+7.5***	***5,773***
EBIT margin before special items[3]	14.9%	14.5%		16.3%	17.2%		14.4%
EBITDA[4]	**2,086**	**2,176**	**+4.3**	**4,502**	**4,921**	**+9.3**	**7,830**
Special items	*(109)*	*(41)*		*(146)*	*(34)*		*(571)*
EBITDA before special items[2]	***2,195***	***2,217***	***+1.0***	***4,648***	***4,955***	***+6.6***	***8,401***
EBITDA margin before special items[3]	21.2%	21.2%		22.5%	23.6%		20.9%
Financial result	**(225)**	**(173)**	**+23.1**	**(415)**	**(332)**	**+20.0**	**(727)**
Net income	**841**	**953**	**+13.3**	**2,001**	**2,376**	**+18.7**	**3,189**
Earnings per share (€)	1.02	1.15	+12.7	2.42	2.87	+18.6	3.86
Core earnings per share (€)[5]	1.54	1.53	−0.6	3.24	3.48	+7.4	5.61
Gross cash flow[6]	**1,680**	**1,705**	**+1.5**	**3,487**	**3,753**	**+7.6**	**5,832**
Net cash flow[7]	**1,536**	**1,601**	**+4.2**	**1,863**	**1,764**	**−5.3**	**5,171**
Cash outflows for capital expenditures	**502**	**529**	**+5.4**	**867**	**886**	**+2.2**	**2,157**
Research and development expenses	**908**	**850**	**−6.4**	**1,633**	**1,670**	**+2.3**	**3,406**
Depreciation, amortization and impairments	**799**	**703**	**−12.0**	**1,444**	**1,352**	**−6.4**	**2,896**
Number of employees at end of period[8]	**113,033**	**115,487**	**+2.2**	**113,033**	**115,487**	**+2.2**	**113,187**
Personnel expenses (including pension expenses)	2,342	2,403	+2.6	4,712	4,826	+2.4	9,430

2013 figures restated
In some cases, the sum of the figures given in this report may not precisely equal the stated totals and percentages may not be exact due to rounding.
[1] EBIT = earnings before financial result and taxes
[2] EBIT before special items and EBITDA before special items are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. EBITDA before special items is a meaningful indicator of operating performance since it is not affected by depreciation, amortization, impairments or special items. By reporting this indicator, the company aims to give readers a clear picture of the results of operations and ensure comparability of data over time. See also Chapter 6 "Calculation of EBIT(DA) Before Special Items."
[3] The EBIT(DA) margin before special items is calculated by dividing EBIT(DA) before special items by sales.
[4] EBITDA = EBIT plus amortization and impairment losses on intangible assets and depreciation and impairment losses on property, plant and equipment, minus impairment loss reversals
[5] Core earnings per share are not defined in the International Financial Reporting Standards. By reporting this indicator, the company aims to give readers a clear picture of the results of operations and ensure comparability of data over time. The calculation of core earnings per share is explained in Chapter 7 "Core Earnings Per Share."
[6] Gross cash flow = income after income taxes, plus income taxes, plus financial result, minus income taxes paid or accrued, plus depreciation, amortization and impairment losses, minus impairment loss reversals, plus/minus changes in pension provisions, minus gains/plus losses on retirements of noncurrent assets, minus gains from the remeasurement of already held assets in step acquisitions. The change in pension provisions includes the elimination of non-cash components of EBIT. It also contains benefit payments during the year. For details see Chapter 8 "Financial Position of the Bayer Group."
[7] Net cash flow = cash flow from operating activities according to IAS 7
[8] Full-time equivalents



COVER PICTURE

The acquisition of the consumer care business of U.S. pharmaceuticals company Merck & Co., Inc., New Jersey, is a milestone on the road to achieving Bayer's goal of global market leadership in non-prescription medicines. Our picture shows Bayer employee Julin Tong in a laboratory of Bayer HealthCare in Morristown, New Jersey, where new formulations of the active ingredient of Aspirin™ are tested.

Second Quarter of 2014

Bayer continues positive business development

// Sales growth in all subgroups

// Group sales €10.5 billion (Fx & portfolio adj. +6.3%)

// EBIT €1.5 billion (+14.5%)

// EBITDA before special items €2.2 billion (+1.0%)
– despite currency effects of -7%

// Net income €1.0 billion (+13.3%)

// Core earnings per share €1.53 (-0.6%)

// Group outlook for 2014 confirmed

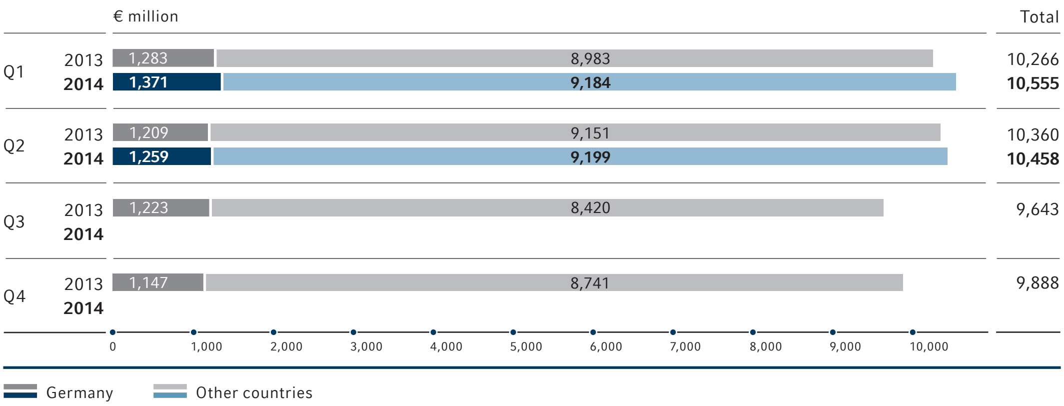
The Bayer Group was again successful in the second quarter of 2014. Our Life Science businesses, in particular, saw unabated growth momentum, with very encouraging sales gains for our recently launched pharmaceutical products and our North and Latin American CropScience business. Although earnings growth was again held back by substantial negative currency effects, these were offset by the good business development. EBITDA before special items and core earnings per share were at the previous year's level.

We will strategically strengthen our Consumer Health business with the planned acquisition of the consumer care activities of U.S. company Merck & Co., Inc.

1. Overview of Sales, Earnings and Financial Position

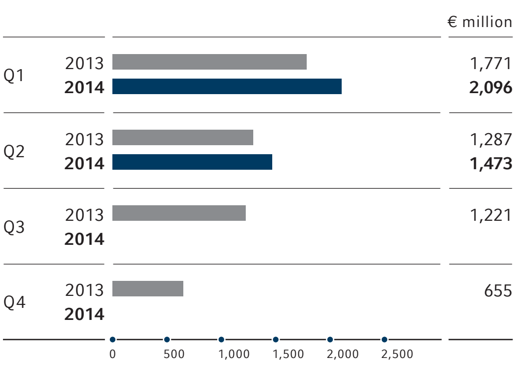
SECOND QUARTER OF 2014

Bayer Group Quarterly Sales [Graphic 1]

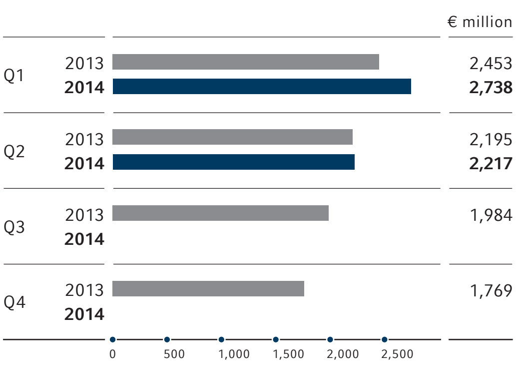


Sales of the Bayer Group advanced by 6.3% after adjusting for currency and portfolio effects (Fx & portfolio adj.) in the second quarter of 2014 to €10,458 million (reported: +0.9%; Q2 2013: €10,360 million). Sales of HealthCare improved by 6.3% (Fx & portfolio adj.) to €4,845 million (reported: +0.9%; Q2 2013: €4,800 million). CropScience raised sales by 10.5% (Fx & portfolio adj.) against the prior-year quarter to €2,470 million (reported: +3.3%; Q2 2013: €2,392 million). Sales of MaterialScience increased by 3.6% (Fx & portfolio adj.) to €2,864 million (reported: −0.4%; Q2 2013: €2,875 million).

Bayer Group Quarterly EBIT [Graphic 2]



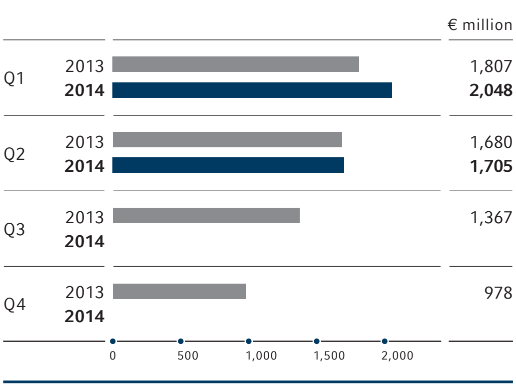
Bayer Group Quarterly EBITDA Before Special Items [Graphic 3]



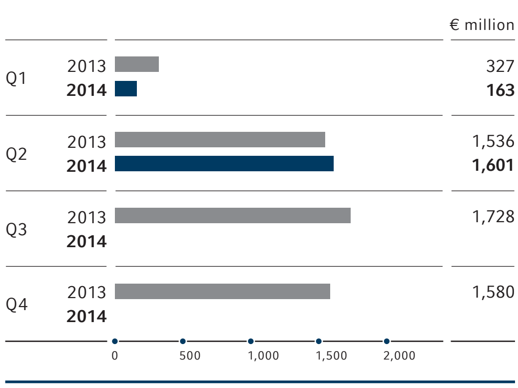
EBIT of the Bayer Group advanced by 14.5% to €1,473 million (Q2 2013: €1,287 million) after special charges of €48 million (Q2 2013: €256 million). EBIT before special items of the Bayer Group amounted to €1,521 million (−1.4%; Q2 2013: €1,543 million). Despite negative currency effects of about €160 million, **EBITDA** before special items improved to €2,217 million (+1.0%; Q2 2013: €2,195 million; currency effect approx. −7%) after additional research and development expenses of roughly €70 million. At HealthCare, EBITDA before special items improved by 2.0% to €1,355 million (Q2 2013: €1,328 million; currency effect approx. −9%). EBITDA before special items of CropScience came in at €615 million (−1.4%; Q2 2013: €624 million). In addition to negative currency effects of approximately 6%, there was also an increase in research and development expenses. At MaterialScience, EBITDA before special items fell slightly against the prior-year quarter to €270 million (−1.5%; Q2 2013: €274 million; currency effect approx. −3%), partly because of scheduled maintenance shutdowns in Asia and North America.

After a **financial result** of minus €173 million (Q2 2013: minus €225 million), **income before income taxes** climbed to €1,300 million (Q2 2013: €1,062 million). The principal components of the financial result were interest cost of €70 million (Q2 2013: €78 million) for pension and other provisions, net interest expense of €57 million (Q2 2013: €120 million) and exchange losses of €31 million (Q2 2013: €17 million). After tax expense of €345 million (Q2 2013: €218 million) and non-controlling interest, **net income** in the second quarter of 2014 advanced by 13.3% against the prior-year period to €953 million (Q2 2013: €841 million). Earnings per share rose by 12.7% to €1.15 (Q2 2013: €1.02), while core earnings per share (calculated as explained in Chapter 7) were flat with the prior-year quarter at €1.53 (Q2 2013: €1.54).

Quarterly Gross Cash Flow [Graphic 4]



Quarterly Net Cash Flow [Graphic 5]



Gross cash flow in the second quarter of 2014 advanced by 1.5% to €1,705 million (Q2 2013: €1,680 million) due to the improvement in EBITDA. Net cash flow moved ahead by 4.2% to €1,601 million (Q2 2013: €1,536 million).

Net financial debt increased from €9.1 billion on March 31, 2014, to €9.9 billion on June 30, 2014, with cash inflows from operating activities only partially offsetting the outflow for the dividend payment. The net defined benefit liability for post-employment benefits – the difference between benefit obligations and plan assets – increased from €8.6 billion to €9.8 billion, mainly due to a decline in long-term capital market interest rates in Germany.

FIRST HALF OF 2014

The Bayer Group grew both sales and EBITDA before special items in the first half of 2014. All subgroups contributed to the increases.

Sales advanced by 7.3% (Fx & portfolio adj.) to €21,013 million (reported: +1.9%; H1 2013: €20,626 million). HealthCare sales gained 7.6% (Fx & portfolio adj.; reported: +1.9%). Sales of CropScience climbed by 11.2% (Fx & portfolio adj.; reported: +4.2%), while those of MaterialScience increased by 4.2% (Fx & portfolio adj.; reported: +0.3%).

EBIT improved by 16.7% to €3,569 million (H1 2013: €3,058 million). Net special charges amounted to €41 million (H1 2013: €301 million). EBIT before special items rose by 7.5% to €3,610 million (H1 2013: €3,359 million). **EBITDA** before special items came in 6.6% ahead of the prior-year period at €4,955 million (H1 2013: €4,648 million), reflecting negative currency effects of about €360 million and additional R&D expenses of roughly €170 million.

After a **financial result** of minus €332 million (H1 2013: minus €415 million), **income before income taxes** amounted to €3,237 million (H1 2013: €2,643 million). The financial result mainly comprised interest cost of €139 million (H1 2013: €158 million) for pension and other provisions, exchange losses of €85 million (H1 2013: €56 million) and net interest expense of €86 million (H1 2013: €183 million). This figure included technical positive effects of €46 million (H1 2013: €4 million) from the valuation of a subsidiary. After tax expense of €857 million (H1 2013: €637 million), income after income taxes was €2,380 million (H1 2013: €2,006 million).

After non-controlling interest, **net income** amounted to €2,376 million (H1 2013: €2,001 million). Earnings per share rose to €2.87 (H1 2013: €2.42), and core earnings per share (calculated as explained in Chapter 7) to €3.48 (H1 2013: €3.24).

Gross cash flow advanced by 7.6% to €3,753 million (H1 2013: €3,487 million). Net cash flow, however, decreased by 5.3% to €1,764 million (H1 2013: €1,863 million), reflecting income tax payments of €735 million (H1 2013: €650 million). Net financial debt rose to €9.9 billion as of June 30, 2014, compared with €6.7 billion on December 31, 2013. The net defined benefit liability for post-employment benefits increased from €7.3 billion on December 31, 2013, to €9.8 billion, mainly due to a decline in long-term capital market interest rates.

2. Economic Outlook

Economic Outlook [Table 1]

	Growth* 2013	Growth* forecast 2014
World	+2.5%	+2.9%
European Union	+0.1%	+1.5%
of which Germany	+0.4%	+1.8%
United States	+1.9%	+2.2%
Emerging markets**	+4.8%	+4.5%

as of June 2014
* real growth of gross domestic product, source: Global Insight; source for Germany: Federal Statistical Office (2013)/Federal Ministry of Economics and Technology (2014)
** including about 50 countries defined by Global Insight as Emerging Markets in line with the World Bank

We continue to expect the **global economy** to grow more quickly in 2014 than in the previous year, with positive impetus likely to come mainly from the industrialized countries. The upswing in the United States should persist despite the weak first quarter. The European economy is expected to show slight growth. The emerging countries are likely to grow somewhat more slowly than in the previous year.

Economic Outlook for the Subgroups [Table 2]

	Growth* 2013	Growth* forecast 2014
HealthCare		
Pharmaceuticals market	+5%	+5%
Consumer care market	+5%	+4%
Medical care market	−3%	−3%
Animal health market	+3%	+4%
CropScience		
Seed and crop protection markets	≥5%	≥5%
MaterialScience (main customer industries)		
Automotive	+4%	+4%
Construction	+3%	+4%
Electrical/electronics	+3%	+6%
Furniture	+3%	+4%

as of June 2014
* Bayer's estimate; excluding pharmaceuticals market, source: IMS Health, IMS Market Prognosis. Copyright 2014. All rights reserved; currency-adjusted; some 2013 data provisional

We expect growth in the **pharmaceuticals market** in 2014 to be level with the prior year, with steady growth in the emerging countries. Pharmaceutical sales will probably increase in the United States and a number of European countries, mainly due to the launch of new products – despite a persistently restrictive health policy environment.

Following the strong cold season in the previous year, the **consumer care market** will likely normalize and expand at a somewhat slower pace in 2014. We expect the **medical care market** to shrink, with the diabetes care market weakening and the market for contrast agents and medical equipment (Radiology & Interventional business unit) almost reaching the previous year's level. Growth in the **animal health market** in 2014 is forecasted to exceed the previous year in view of favorable economic prospects in important markets.

In 2014 we expect the market environment for **seed and crop protection products** to be slightly weaker than in the prior year yet persistently favorable. All regions will likely contribute to growth, with above-average growth impetus continuing to come from the Latin American and Asian markets.

We expect the business climate in the **principal customer industries** of MaterialScience to improve during 2014. In North America there are clear stimuli to growth, raising hopes that the economy will continue to stabilize. There are also positive signs in the emerging economies of Asia and major parts of Western Europe. However, recent events in Eastern Europe and the Middle East create additional uncertainty for the business environment in these regions. The positive development in Latin America involves certain risks.

3. Sales and Earnings Forecast

The following forecast for 2014 is based on the business development described in this report, taking into account the potential risks and opportunities. Further details of the business forecast are given in Chapter 20.2 of the Annual Report 2013. We are adhering to the forecasts for 2016 given there and issued in March 2014.

BAYER GROUP

We have adjusted the exchange rate assumptions on which our forecast is based to reflect current developments. With respect to the second half of 2014, we are now using the exchange rates prevailing on June 30, 2014 (previously: average exchange rates for the fourth quarter of 2013). Based on these exchange rates, the negative currency impact on sales and earnings will increase. However, we are upholding the previous guidance for the Group in light of our good operational performance. This forecast does not take into account the planned acquisitions of Merck & Co., Inc.'s OTC business and Dihon Pharmaceutical Group Co., Ltd. or the divestiture of our Interventional devices business. We expect closing of these transactions to occur in the second half of 2014.

We now plan to grow sales by about 6% (previously: about 5%) on a currency- and portfolio-adjusted basis. Allowing for negative currency effects of about 4% (previously: about 2%) compared to the previous year, Group sales would be approximately €41 billion (previously: approximately €41 billion to €42 billion). As before, we plan to raise EBITDA before special items by a low- to mid-single-digit percentage, allowing for expected negative currency effects of about €550 million or roughly 6% (previously: about €450 million or roughly 5%). We continue to aim to increase core earnings per share (calculated as explained in Chapter 7) by a mid-single-digit percentage, allowing for expected negative currency effects of around 9% (previously: around 6%).

	Forecast 2014	Currency effects allowed for in the forecast**
Group sales	Approx. 6% increase* (previously: approx. 5%*)	
	Approx. €41 billion (previously: approx. €41 billion to €42 billion)	Minus approx. 4% (previously: minus approx. 2%)
EBITDA before special items	Low- to mid-single-digit percentage increase	Minus approx. 6% (previously: minus approx. 5%) Minus approx. €550 million (previously: minus approx. €450 million)
Core earnings per share	Mid-single-digit percentage increase	Minus approx. 9% (previously: minus approx. 6%)

* currency- and portfolio-adjusted
** second half of 2014 calculated at exchange rates as of June 30, 2014, compared to full year 2013 rates

We anticipate an effective tax rate for 2014 of around 25%. We continue to expect net financial debt at year end to be less than €9 billion. Taking into account the planned acquisitions, net financial debt at year end would be around €19 billion.

HEALTHCARE

We expect HealthCare sales to advance by a mid-single-digit percentage on a currency- and portfolio-adjusted basis. Allowing for expected negative currency effects of about 4% (previously: about 2%), sales would be approximately €19.5 billion (previously: approximately €19.5 billion to €20 billion). We predict EBITDA before special items to slightly exceed the prior-year level, allowing for negative currency effects of roughly €380 million (previously: roughly €250 million).

In the Pharmaceuticals segment, we expect sales to move ahead by about 10% (previously: a high-single-digit percentage) on a currency- and portfolio-adjusted basis. We predict negative currency effects of around 4% (previously: around 2%). We intend to raise sales of our recently launched products to €2.8 billion. Additional marketing and R&D expenditures totaling €0.5 billion are expected for 2014. Against this background we continue to predict a low- to mid-single-digit percentage increase in EBITDA before special items, allowing for negative currency effects of about €310 million (previously: about €150 million). As before, we expect the EBITDA margin before special items to be level with the previous year.

In the Consumer Health segment, we are planning for a low-single-digit (previously: low- to mid-single-digit) sales increase on a currency- and portfolio-adjusted basis. We expect negative currency effects of around 4% (previously: around 3%) compared to 2013. Mainly in view of the weak market environment for Diabetes Care, EBITDA before special items is anticipated to come in below (previously: slightly below) the level of the prior year, allowing for negative currency effects of about €70 million (previously: about €100 million).

CROPSCIENCE

We expect to grow faster than the market and raise sales by a high-single-digit (previously: mid- to high-single-digit) percentage on a currency- and portfolio-adjusted basis. We anticipate negative currency effects of about 5% (previously: about 3%) compared to 2013. We continue to expect to increase EBITDA before special items by a low-single-digit percentage, allowing as before for negative currency effects of approximately €150 million.

MATERIALSCIENCE

We continue to expect sales of MaterialScience to increase in 2014 by a mid-single-digit percentage on a currency- and portfolio-adjusted basis, allowing for negative currency effects of about 2% compared to 2013. We also continue to anticipate an increase in EBITDA before special items, allowing for negative currency effects of roughly €30 million (previously: roughly €50 million).

In the third quarter of 2014, we expect to raise sales and EBITDA before special items compared to the second quarter.

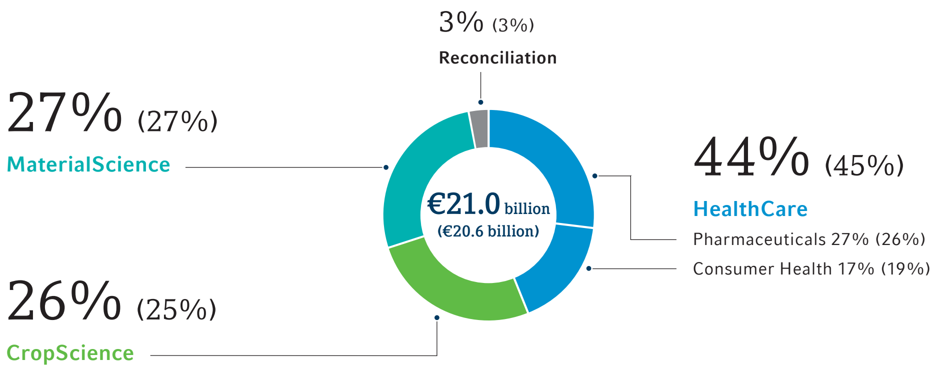
RECONCILIATION

For 2014 we continue to anticipate sales on a currency- and portfolio-adjusted basis to be level with the previous year. We expect EBITDA before special items to be roughly minus €0.2 billion.

4. Corporate Structure

Bayer AG, headquartered in Leverkusen, Germany, is the strategic management holding company for the Bayer Group. Business operations are conducted by the HealthCare, CropScience and MaterialScience subgroups.

Sales in the 1st Half of 2014 [Graphic 6]



2013 in parentheses

Our subgroups are supported by the Business Services, Technology Services and Currenta service companies, which are reported in the reconciliation as "All Other Segments" along with "Corporate Center and Consolidation."

Key Data by Subgroup and Segment [Table 3]

	Sales		EBIT		EBITDA before special items*	
	2nd Quarter 2013	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter 2014
	€ million	€ million	€ million	€ million	€ million	€ million
HealthCare	**4,800**	**4,845**	**729**	**966**	**1,328**	**1,355**
Pharmaceuticals	2,831	2,960	472	656	921	927
Consumer Health	1,969	1,885	257	310	407	428
CropScience	**2,392**	**2,470**	**496**	**470**	**624**	**615**
MaterialScience	**2,875**	**2,864**	**143**	**109**	**274**	**270**
Reconciliation	**293**	**279**	**(81)**	**(72)**	**(31)**	**(23)**
Group	**10,360**	**10,458**	**1,287**	**1,473**	**2,195**	**2,217**
	1st Half 2013	1st Half 2014	1st Half 2013	1st Half 2014	1st Half 2013	1st Half 2014
HealthCare	**9,243**	**9,417**	**1,651**	**1,928**	**2,605**	**2,656**
Pharmaceuticals	5,395	5,742	1,073	1,297	1,753	1,800
Consumer Health	3,848	3,675	578	631	852	856
CropScience	**5,156**	**5,370**	**1,460**	**1,458**	**1,705**	**1,713**
MaterialScience	**5,650**	**5,667**	**185**	**328**	**478**	**636**
Reconciliation	**577**	**559**	**(238)**	**(145)**	**(140)**	**(50)**
Group	**20,626**	**21,013**	**3,058**	**3,569**	**4,648**	**4,955**

* For definition see Chapter 6 "Calculation of EBIT(DA) Before Special Items."

5. Business Development by Subgroup, Segment and Region

5.1 HealthCare

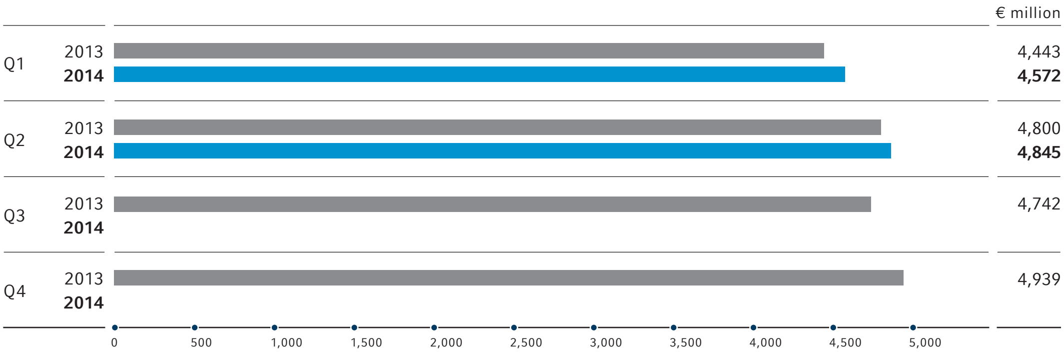
Key Data – HealthCare [Table 4]

	2nd Quarter 2013	2nd Quarter 2014	Change		1st Half 2013	1st Half 2014	Change	
	€ million	€ million	%	Fx (& p) adj. %	€ million	€ million	%	Fx (& p) adj. %
Sales	**4,800**	**4,845**	**+0.9**	**+6.3**	**9,243**	**9,417**	**+1.9**	**+7.6**
Change in sales								
Volume	+7.3%	+5.0%			+5.8%	+6.9%		
Price	+0.3%	+1.3%			+0.5%	+0.7%		
Currency	−4.1%	−6.1%			−3.3%	−6.5%		
Portfolio	+0.3%	+0.7%			+0.1%	+0.8%		
Sales by segment								
Pharmaceuticals	2,831	2,960	+4.6	+10.0	5,395	5,742	+6.4	+12.3
Consumer Health	1,969	1,885	−4.3	+1.1	3,848	3,675	−4.5	+0.9
Sales by region								
Europe	1,694	1,817	+7.3	+8.8	3,316	3,574	+7.8	+9.4
North America	1,293	1,260	−2.6	+2.6	2,469	2,392	−3.1	+1.7
Asia/Pacific	1,079	1,083	+0.4	+7.9	2,072	2,153	+3.9	+12.7
Latin America/Africa/Middle East	734	685	−6.7	+9.3	1,386	1,298	−6.3	+11.3
EBIT	**729**	**966**	**+32.5**		**1,651**	**1,928**	**+16.8**	
Special items	*(258)*	*(25)*			*(289)*	*(9)*		
EBIT before special items*	***987***	***991***	***+0.4***		***1,940***	***1,937***	***−0.2***	
EBITDA*	**1,208**	**1,334**	**+10.4**		**2,461**	**2,651**	**+7.7**	
Special items	*(120)*	*(21)*			*(144)*	*(5)*		
EBITDA before special items*	***1,328***	***1,355***	***+2.0***		***2,605***	***2,656***	***+2.0***	
EBITDA margin before special items*	27.7%	28.0%			28.2%	28.2%		
Gross cash flow**	**915**	**960**	**+4.9**		**1,802**	**1,841**	**+2.2**	
Net cash flow**	**565**	**497**	**−12.0**		**1,370**	**1,156**	**−15.6**	

Fx (& p) adj. = currency- (and portfolio-)adjusted (Fx & p adj.: Sales and Sales by segment; Fx adj.: Sales by region)
* For definition see Chapter 6 "Calculation of EBIT(DA) Before Special Items."
** For definition see Chapter 8 "Financial Position of the Bayer Group."

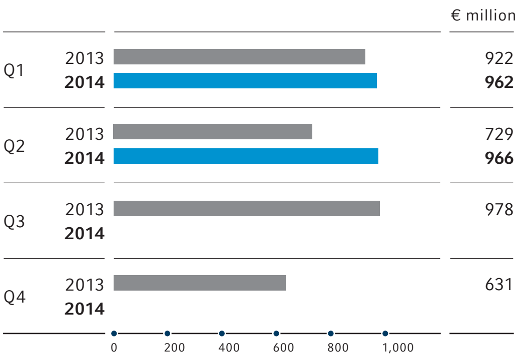
Sales of the **HealthCare** subgroup increased by 6.3% on a currency- and portfolio-adjusted basis (Fx & portfolio adj.) in the **second quarter of 2014**, to €4,845 million (reported: +0.9%). This growth continued to be driven by our recently launched pharmaceutical products, while sales at Consumer Health were only slightly above the prior-year period. Sales in the Emerging Markets developed at an above-average rate.

HealthCare Quarterly Sales [Graphic 7]

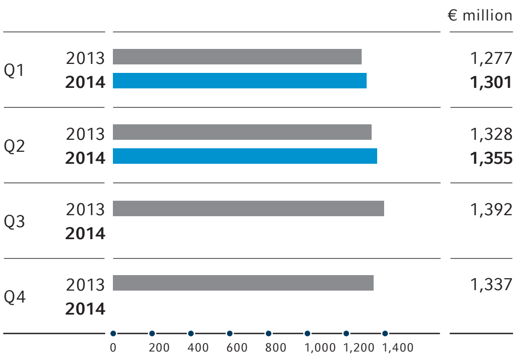


EBIT of HealthCare grew by 32.5% in the second quarter of 2014 to €966 million, after special charges of €25 million (Q2 2013: €258 million). EBIT before special items, at €991 million (+0.4%), was at the level of the prior-year quarter. Despite substantial negative currency effects of approximately €120 million, **EBITDA** before special items moved ahead by 2.0% to €1,355 million. Earnings growth was driven by the very good business development at Pharmaceuticals and efficiency improvements at Medical Care.

HealthCare Quarterly EBIT [Graphic 8]



HealthCare Quarterly EBITDA Before Special Items [Graphic 9]



PHARMACEUTICALS

Key Data – Pharmaceuticals [Table 5]

	2nd Quarter 2013	2nd Quarter 2014	Change		1st Half 2013	1st Half 2014	Change	
	€ million	€ million	%	Fx (& p) adj. %	€ million	€ million	%	Fx (& p) adj. %
Sales	**2,831**	**2,960**	**+4.6**	**+10.0**	**5,395**	**5,742**	**+6.4**	**+12.3**
Sales by region								
Europe	974	1,091	+12.0	+13.1	1,881	2,126	+13.0	+14.2
North America	649	671	+3.4	+8.5	1,225	1,262	+3.0	+7.8
Asia/Pacific	778	797	+2.4	+10.3	1,478	1,598	+8.1	+17.3
Latin America/Africa/Middle East	430	401	−6.7	+8.6	811	756	−6.8	+10.7
EBIT	**472**	**656**	**+39.0**		**1,073**	**1,297**	**+20.9**	
Special items	*(213)*	*(12)*			*(222)*	*4*		
EBIT before special items*	***685***	***668***	***−2.5***		***1,295***	***1,293***	***−0.2***	
EBITDA*	**801**	**919**	**+14.7**		**1,631**	**1,808**	**+10.9**	
Special items	*(120)*	*(8)*			*(122)*	*8*		
EBITDA before special items*	***921***	***927***	***+0.7***		***1,753***	***1,800***	***+2.7***	
EBITDA margin before special items*	32.5%	31.3%			32.5%	31.3%		
Gross cash flow**	**595**	**662**	**+11.3**		**1,177**	**1,236**	**+5.0**	
Net cash flow**	**261**	**292**	**+11.9**		**814**	**739**	**−9.2**	

Fx (& p) adj. = currency- (and portfolio-)adjusted (Fx & p adj.: Sales; Fx adj.: Sales by region)
* For definition see Chapter 6 "Calculation of EBIT(DA) Before Special Items."
** For definition see Chapter 8 "Financial Position of the Bayer Group."

Sales in our **Pharmaceuticals** segment rose by 10.0% (Fx & portfolio adj.) in the **second quarter of 2014**, to €2,960 million. This pleasing performance was driven by our recently launched products Xarelto™, Eylea™, Stivarga™, Xofigo™ and Adempas™, which posted combined sales of €702 million (Q2 2013: €339 million). Our Pharmaceuticals business grew substantially in all regions on a currency-adjusted basis.

Best-Selling Pharmaceuticals Products [Table 6]

	2nd Quarter 2013	2nd Quarter 2014	Change		1st Half 2013	1st Half 2014	Change	
	€ million	€ million	%	Fx adj. %	€ million	€ million	%	Fx adj. %
Xarelto™	219	381	+74.0	+79.3	374	723	+93.3	+101.3
Kogenate™	306	243	−20.6	−16.8	607	513	−15.5	−11.3
Betaferon™/Betaseron™	269	216	−19.7	−15.8	523	406	−22.4	−18.6
Mirena™	193	208	+7.8	+13.1	359	386	+7.5	+12.6
Nexavar™	200	196	−2.0	+3.4	373	379	+1.6	+8.1
YAZ™/Yasmin™/Yasminelle™	215	191	−11.2	−3.3	421	372	−11.6	−3.0
Eylea™	73	194	+165.8	+175.0	122	351	+187.7	+200.6
Adalat™	157	156	−0.6	+7.1	312	296	−5.1	+3.2
Aspirin™ Cardio	116	117	+0.9	+8.9	218	232	+6.4	+13.7
Glucobay™	108	106	−1.9	+4.2	209	208	−0.5	+4.2
Avalox™/Avelox™	105	92	−12.4	−7.4	220	200	−9.1	−4.3
Levitra™	76	62	−18.4	−15.1	144	124	−13.9	−9.9
Stivarga™	47	61	+29.8	+38.2	87	115	+32.2	+40.7
Cipro™/Ciprobay™	59	49	−16.9	−13.3	105	96	−8.6	−2.1
Fosrenol™	41	33	−19.5	−15.2	76	80	+5.3	+18.5
Total	**2,184**	**2,305**	**+5.5**	**+11.1**	**4,150**	**4,481**	**+8.0**	**+14.3**
Proportion of Pharmaceuticals sales	77%	78%			77%	78%		

Fx adj. = currency-adjusted

Xarelto™ maintained its growth momentum, with strong sales gains especially in Europe and Japan. Business development was also very positive in the United States, where Xarelto™ is marketed by a subsidiary of Johnson & Johnson. Sales of our eye medicine Eylea™ rose substantially in Europe and Japan. The cancer drugs Xofigo™ (Q2 2014: €43 million; Q2 2013: €0 million) and Stivarga™ also made an encouraging contribution to sales development. Adempas™ to treat pulmonary hypertension achieved total sales of €23 million after being approved in further countries in addition to the United States (Q2 2013: €0 million).

Sales of the hormone-releasing intrauterine device Mirena™ rose mainly as a result of a price increase in the United States. Our cancer drug Nexavar™ posted sales gains both in the Emerging Markets and the United States. Adalat™ for the treatment of hypertension and coronary heart disease, Aspirin™ Cardio for secondary prevention of heart attacks and Glucobay™, our oral diabetes treatment, registered significant growth in demand, especially in China.

Sales of our blood-clotting medicine Kogenate™ receded, mainly due to capacity shortages caused by the use of production capacities to develop the next-generation hemophilia medicines. Business with our multiple sclerosis drug Betaferon™/Betaseron™ was again held back mainly by increased competition in the United States. Sales increases in the United States for our YAZ™/Yasmin™/Yasminelle™ line of oral contraceptives only partly offset the declines in Western Europe, which were attributable to generic competition. Sales of the antibiotic Avalox™/Avelox™ declined overall despite higher volumes in China. The erectile dysfunction treatment Levitra™ registered lower sales particularly in the United States. Sales of the antibiotic Cipro™/Ciprobay™ were down against a strong prior-year quarter in which we benefited from a government contract in the United States.

EBIT of the **Pharmaceuticals** segment rose by 39.0% in the second quarter of 2014 to €656 million. This increase was partly attributable to the lower special charges of €12 million (Q2 2013: €213 million). EBIT before special items, however, declined by 2.5% to €668 million. **EBITDA** before special items came in level with the prior-year quarter at €927 million (+0.7%). Positive earnings effects from the strong growth in sales of our recently launched products were very nearly offset by higher selling and R&D expenses along with negative currency effects of around €100 million.

Sales of our **Pharmaceuticals** segment in the **first half of 2014** moved forward by 12.3% (Fx & portfolio adj.) to €5,742 million. This increase was driven by our recently launched products Xarelto™, Eylea™, Stivarga™, Xofigo™ and Adempas™, which generated combined sales of €1,300 million (H1 2013: €583 million). Business developed positively in all regions.

EBIT for the first half of 2014 advanced by 20.9% to €1,297 million. Net special gains of €4 million were recorded (H1 2013: net special charges of €222 million), including a positive one-time valuation effect of €35 million from the acquisition of Algeta ASA, Norway. Integration costs of €31 million had a negative effect. EBIT before special items was flat with the prior-year period at €1,293 million (–0.2%). **EBITDA** before special items improved by 2.7% to €1,800 million after negative currency effects of about €200 million.

CONSUMER HEALTH

Key Data – Consumer Health [Table 7]

	2nd Quarter 2013	2nd Quarter 2014	Change		1st Half 2013	1st Half 2014	Change	
	€ million	€ million	%	Fx (& p) adj. %	€ million	€ million	%	Fx (& p) adj. %
Sales	**1,969**	**1,885**	**−4.3**	**+1.1**	**3,848**	**3,675**	**−4.5**	**+0.9**
Consumer Care	950	932	−1.9	+4.2	1,905	1,855	−2.6	+3.2
Medical Care	657	595	−9.4	−5.5	1,254	1,132	−9.7	−5.7
Animal Health	362	358	−1.1	+5.0	689	688	−0.1	+6.1
Sales by region								
Europe	720	726	+0.8	+2.9	1,435	1,448	+0.9	+3.1
North America	644	589	−8.5	−3.3	1,244	1,130	−9.2	−4.4
Asia/Pacific	301	286	−5.0	+1.7	594	555	−6.6	+1.3
Latin America/Africa/Middle East	304	284	−6.6	+10.2	575	542	−5.7	+12.2
EBIT	**257**	**310**	**+20.6**		**578**	**631**	**+9.2**	
Special items	*(45)*	*(13)*			*(67)*	*(13)*		
EBIT before special items*	***302***	***323***	***+7.0***		***645***	***644***	***−0.2***	
EBITDA*	**407**	**415**	**+2.0**		**830**	**843**	**+1.6**	
Special items	*0*	*(13)*			*(22)*	*(13)*		
EBITDA before special items*	***407***	***428***	***+5.2***		***852***	***856***	***+0.5***	
EBITDA margin before special items*	20.7%	22.7%			22.1%	23.3%		
Gross cash flow**	**320**	**298**	**−6.9**		**625**	**605**	**−3.2**	
Net cash flow**	**304**	**205**	**−32.6**		**556**	**417**	**−25.0**	

Fx (& p) adj. = currency- (and portfolio-)adjusted (Fx & p adj.: Sales; Fx adj.: Sales by region)
* For definition see Chapter 6 "Calculation of EBIT(DA) Before Special Items."
** For definition see Chapter 8 "Financial Position of the Bayer Group."

Sales in the **Consumer Health** segment showed a slight increase of 1.1% (Fx & portfolio adj.) in the **second quarter of 2014**, to €1,885 million. The Consumer Care and Animal Health divisions posted sales gains, especially in the Emerging Markets. Sales of the Medical Care Division, however, continued to decline, particularly in the United States.

Best-Selling Consumer Health Products [Table 8]

	2nd Quarter 2013	2nd Quarter 2014	Change		1st Half 2013	1st Half 2014	Change	
	€ million	€ million	%	Fx adj. %	€ million	€ million	%	Fx adj. %
Contour™ (Medical Care)	197	165	−16.2	−13.9	367	311	−15.3	−12.8
Advantage™ product line (Animal Health)	148	140	−5.4	−1.7	271	270	−0.4	+4.0
Aspirin™ (Consumer Care)	110	92	−16.4	−9.0	226	194	−14.2	−7.4
Bepanthen™/Bepanthol™ (Consumer Care)	78	91	+16.7	+22.4	154	177	+14.9	+22.2
Aleve™ (Consumer Care)	85	83	−2.4	+4.5	160	157	−1.9	+4.4
Ultravist™ (Medical Care)	87	76	−12.6	−8.4	165	145	−12.1	−8.1
Canesten™ (Consumer Care)	70	66	−5.7	+0.9	132	126	−4.5	+2.1
Gadovist™/Gadavist™ (Medical Care)	49	57	+16.3	+22.3	99	110	+11.1	+15.2
Supradyn™ (Consumer Care)	38	38	0.0	+7.8	76	77	+1.3	+11.4
One-A-Day™ (Consumer Care)	45	43	−4.4	−0.8	84	73	−13.1	−9.0
Total	**907**	**851**	**−6.2**	**−1.3**	**1,734**	**1,640**	**−5.4**	**−0.4**
Proportion of Consumer Health sales	46%	45%			45%	45%		

Fx adj.= currency-adjusted
Total sales of Aspirin™ – including Aspirin™ Cardio, which is reflected in sales of the Pharmaceuticals segment – decreased in Q2 2014 by 7.5% (Fx adj. +0.2%) to €209 million (Q2 2013: €226 million). These total sales decreased in the first half of 2014 by 4.1% (Fx adj. +3.0%) to €426 million (H1 2013: €444 million).

Sales of the **Consumer Care** Division advanced by 4.2% (Fx & portfolio adj.) to €932 million. Our skincare product Bepanthen™/Bepanthol™ posted considerably higher sales in all regions, particularly the Emerging Markets. Volumes increased for our analgesic Aleve™, mainly in Latin America. Our dietary supplement Supradyn™ also saw growth in sales that was partly the result of a product line expansion. Sales of the pain reliever Aspirin™ were held back mainly by a weak cold season in Europe.

Sales of the **Medical Care** Division fell by 5.5% (Fx & portfolio adj.) to €595 million. The Diabetes Care business in the United States continued to be held back by reimbursement pressure and price declines, particularly for our Contour™ line of blood glucose meters. Sales of our contrast agents and medical equipment in the Radiology & Interventional business were flat with the prior-year period on a currency- and portfolio-adjusted basis.

Sales in the **Animal Health** Division moved forward by 5.0% (Fx & portfolio adj.) to €358 million. The Seresto™ flea and tick collar contributed to this increase, partly on account of volume gains in the United States. Sales of the Advantage™ line of flea, tick and worm control products showed a slight decrease.

EBIT of the **Consumer Health** segment improved by 20.6% in the second quarter of 2014, to €310 million. This increase was mainly due to the lower special charges of €13 million (Q2 2013: €45 million). EBIT before special items rose by 7.0% to €323 million. **EBITDA** before special items increased by 5.2% to €428 million, driven by efficiency improvements at Medical Care. Negative effects mainly included about €20 million from shifts in exchange rates.

Sales of our **Consumer Health** segment in the **first half of 2014** were level year on year on a currency- and portfolio-adjusted basis at €3,675 million (Fx & portfolio adj. +0.9%). Sales of the Consumer Care and Animal Health divisions moved higher, while those of the Medical Care Division declined.

EBIT for the first half of 2014 climbed by 9.2% to €631 million after special charges of €13 million (H1 2013: €67 million), which resulted mainly from integration costs. EBIT before special items amounted to €644 million (H1 2013: €645 million). **EBITDA** before special items came in level with the prior-year period at €856 million (H1 2013: €852 million), partly due to some €40 million in negative currency effects.

5.2 CropScience

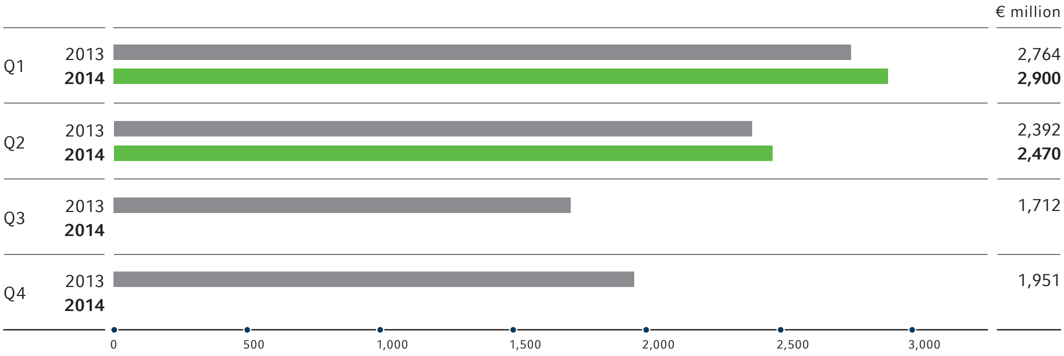
Key Data – CropScience [Table 9]

	2nd Quarter 2013	2nd Quarter 2014	Change		1st Half 2013	1st Half 2014	Change	
	€ million	€ million	%	Fx (& p) adj. %	€ million	€ million	%	Fx (& p) adj. %
Sales	**2,392**	**2,470**	**+3.3**	**+10.5**	**5,156**	**5,370**	**+4.2**	**+11.2**
Change in sales								
Volume	+4.8%	+7.5%			+4.3%	+9.0%		
Price	+2.5%	+3.0%			+2.9%	+2.2%		
Currency	−2.9%	−7.2%			−2.2%	−7.1%		
Portfolio	+0.7%	0.0%			+0.5%	+0.1%		
Sales by operating segment								
Crop Protection/Seeds	2,199	2,273	+3.4	+10.8	4,799	5,007	+4.3	+11.5
Environmental Science	193	197	+2.1	+7.8	357	363	+1.7	+7.8
Sales by region								
Europe	905	887	−2.0	+0.7	1,982	2,126	+7.3	+9.5
North America	680	748	+10.0	+18.5	1,664	1,702	+2.3	+10.1
Asia/Pacific	376	371	−1.3	+8.2	717	700	−2.4	+8.2
Latin America/Africa/Middle East	431	464	+7.7	+20.7	793	842	+6.2	+20.9
EBIT	**496**	**470**	**−5.2**		**1,460**	**1,458**	**−0.1**	
Special items	*(18)*	*0*			*(23)*	*0*		
EBIT before special items*	***514***	***470***	***−8.6***		***1,483***	***1,458***	***−1.7***	
EBITDA*	**607**	**615**	**+1.3**		**1,684**	**1,713**	**+1.7**	
Special items	*(17)*	*0*			*(21)*	*0*		
EBITDA before special items*	***624***	***615***	***−1.4***		***1,705***	***1,713***	***+0.5***	
EBITDA margin before special items*	26.1%	24.9%			33.1%	31.9%		
Gross cash flow**	**447**	**469**	**+4.9**		**1,190**	**1,239**	**+4.1**	
Net cash flow**	**856**	**971**	**+13.4**		**39**	**249**	**.**	

Fx (& p) adj. = currency- (and portfolio-)adjusted (Fx & p adj.: Sales and Sales by operating segment; Fx adj.: Sales by region)
* For definition see Chapter 6 "Calculation of EBIT(DA) Before Special Items."
** For definition see Chapter 8 "Financial Position of the Bayer Group."

Sales of the **CropScience** subgroup in the **second quarter of 2014** rose by 10.5% (Fx & portfolio adj.; reported: +3.3%) to €2,470 million. Both Crop Protection/Seeds and Environmental Science contributed to this growth. Our business in the second quarter mainly benefited from strong sales in North and Latin America.

CropScience Quarterly Sales [Graphic 10]



Sales of **Crop Protection/Seeds** in the second quarter of 2014, at €2,273 million, were up 10.8% (Fx & portfolio adj.) year on year. Our SeedGrowth products were very successful. The Insecticides and Fungicides units also posted double-digit growth rates. Herbicides registered steady growth. The new Crop Protection products launched since 2006 again contributed significantly to the positive sales development in the quarter. Business in our Seeds unit also grew substantially, largely thanks to positive development for oilseed rape/canola and cotton. Sales of rice and soybean seeds developed well, while those of vegetable seeds showed a slight decline.

Sales of **Environmental Science** advanced by 7.8% (Fx & portfolio adj.) to €197 million. Sales of consumer products gained strongly. The business with products for professional users posted a small increase.

Sales by Business Unit [Table 10]

	2nd Quarter 2013	2nd Quarter 2014	Change		1st Half 2013	1st Half 2014	Change	
	€ million	€ million	%	Fx & p adj. %	€ million	€ million	%	Fx & p adj. %
Herbicides	700	683	−2.4	+6.0	1,647	1,648	+0.1	+6.9
Fungicides	733	781	+6.5	+11.2	1,330	1,443	+8.5	+13.6
Insecticides	374	390	+4.3	+11.5	716	742	+3.6	+12.0
SeedGrowth	146	156	+6.8	+20.5	371	408	+10.0	+19.7
Crop Protection	1,953	2,010	+2.9	+10.1	4,064	4,241	+4.4	+11.2
Seeds	246	263	+6.9	+15.9	735	766	+4.2	+13.2
Crop Protection/Seeds	**2,199**	**2,273**	**+3.4**	**+10.8**	**4,799**	**5,007**	**+4.3**	**+11.5**
Environmental Science	**193**	**197**	**+2.1**	**+7.8**	**357**	**363**	**+1.7**	**+7.8**

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

CropScience achieved currency-adjusted sales growth in all regions:

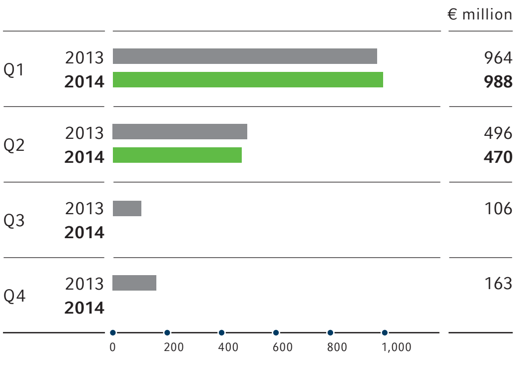
Sales in **Europe** saw a slight 0.7% (Fx adj.) increase to €887 million. Crop Protection sales in the second quarter of 2014 were at the high level of the prior-year period following an early start to the season. Sales gains for Fungicides offset the declines recorded in the other units, particularly Herbicides. Sales of the Seeds unit registered a moderate increase. The consumer business of Environmental Science expanded significantly.

Sales developed very positively throughout the **North America** region in the second quarter of 2014, climbing to €748 million (Fx adj. +18.5%). We achieved significant sales gains in our Fungicides, Herbicides and SeedGrowth units, particularly with products for canola. Our Seeds business, especially sales of canola seeds, also developed very positively. Sales of Environmental Science posted a small increase.

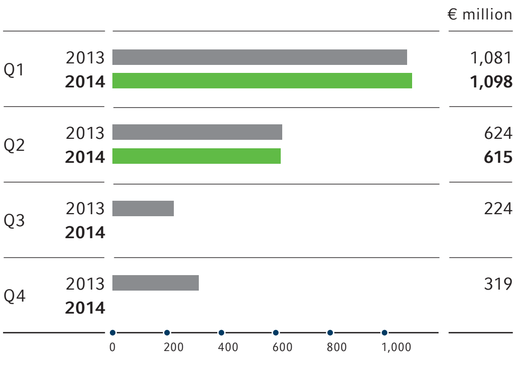
In the **Asia/Pacific** region, sales moved forward by 8.2% (Fx adj.) to €371 million, driven by higher sales of Herbicides and Fungicides. Our business with rice and cotton seed also performed positively. Environmental Science grew sales by a double-digit percentage. Sales gains in Australia, China and India more than offset declines in Japan.

Sales in the **Latin America/Africa/Middle East** region improved by a substantial 20.7% (Fx adj.) to €464 million. Crop Protection/Seeds saw particularly robust development in Latin America, where sales rose markedly for nearly all product groups. We also achieved higher sales in Africa and the Middle East.

CropScience
Quarterly EBIT [Graphic 11]



CropScience
Quarterly EBITDA Before Special Items [Graphic 12]



EBIT of **CropScience** fell by 5.2% in the second quarter of 2014 to €470 million. **EBITDA** before special items came in slightly below the prior-year quarter at 615 million (–1.4%; Q2 2013: €624 million). The favorable business development, with significantly higher volumes and selling prices, did not fully offset the negative currency effects of roughly €40 million and increases in selling and R&D expenses.

Sales of **CropScience** in the **first half of 2014** climbed by 11.2% (Fx & portfolio adj.), to €5,370 million. Crop Protection/Seeds showed very positive development, with double-digit growth rates for nearly all product groups. The positive business performance was driven by an attractive overall market environment and the new Crop Protection products launched since 2006. The Environmental Science business also saw encouraging sales gains.

EBIT of **CropScience** for the first half of 2014 came in level with the prior-year period at €1,458 million (–0.1%). No special charges were taken in this reporting period (H1 2013: €23 million). **EBITDA** before special items also came in level with the prior-year period at €1,713 million (+0.5%) despite negative currency effects of about €100 million. Volumes were up and selling prices moved higher, while selling and R&D expenses increased.

5.3 MaterialScience

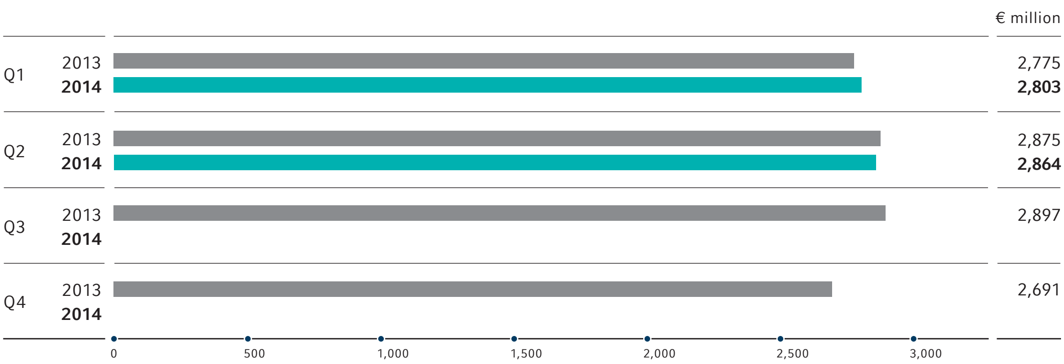
Key Data – MaterialScience [Table 11]

	2nd Quarter 2013	2nd Quarter 2014	Change	Change	1st Half 2013	1st Half 2014	Change	Change
	€ million	€ million	%	Fx (& p) adj. %	€ million	€ million	%	Fx (& p) adj. %
Sales	**2,875**	**2,864**	**−0.4**	**+3.6**	**5,650**	**5,667**	**+0.3**	**+4.2**
Change in sales								
Volume	−0.4%	+5.6%			−2.1%	+6.6%		
Price	−1.1%	−2.0%			+1.5%	−2.4%		
Currency	−1.1%	−3.6%			−1.0%	−3.4%		
Portfolio	−0.1%	−0.4%			0.0%	−0.5%		
Sales by business unit								
Polyurethanes	1,546	1,532	−0.9	+3.0	3,015	3,042	+0.9	+4.7
Polycarbonates	664	694	+4.5	+8.3	1,327	1,353	+2.0	+5.3
Coatings, Adhesives, Specialties	493	483	−2.0	+3.7	960	952	−0.8	+5.1
Industrial Operations	172	155	−9.9	−8.7	348	320	−8.0	−6.9
Sales by region								
Europe	1,098	1,142	+4.0	+4.2	2,184	2,283	+4.5	+4.6
North America	642	646	+0.6	+5.6	1,236	1,242	+0.5	+4.9
Asia/Pacific	774	746	−3.6	+2.5	1,505	1,482	−1.5	+4.1
Latin America/Africa/Middle East	361	330	−8.6	−2.8	725	660	−9.0	−2.8
EBIT	**143**	**109**	**−23.8**		**185**	**328**	**+77.3**	
Special items	*31*	*(17)*			*30*	*(19)*		
EBIT before special items*	***112***	***126***	***+12.5***		***155***	***347***	.	
EBITDA*	**313**	**256**	**−18.2**		**516**	**620**	**+20.2**	
Special items	*39*	*(14)*			*38*	*(16)*		
EBITDA before special items*	***274***	***270***	***−1.5***		***478***	***636***	***+33.1***	
EBITDA margin before special items*	9.5%	9.4%			8.5%	11.2%		
Gross cash flow**	**223**	**214**	**−4.0**		**400**	**499**	**+24.8**	
Net cash flow**	**167**	**133**	**−20.4**		**67**	**89**	**+32.8**	

Fx (& p) adj. = currency- (and portfolio-)adjusted (Fx & p adj.: Sales and Sales by business unit; Fx adj.: Sales by region)
* For definition see Chapter 6 "Calculation of EBIT(DA) Before Special Items."
** For definition see Chapter 8 "Financial Position of the Bayer Group."

In the **MaterialScience** subgroup, **sales** advanced by 3.6% (Fx & portfolio adj.) in the **second quarter of 2014** to €2,864 million (reported: −0.4%). This growth was due to significantly higher volumes for Polycarbonates; Polyurethanes; and Coatings, Adhesives, Specialties. Higher volumes in North America, Europe and Asia/Pacific more than offset volume declines in Latin America/Africa/Middle East. Selling prices were below the prior-year quarter in all regions.

MaterialScience Quarterly Sales [Graphic 13]



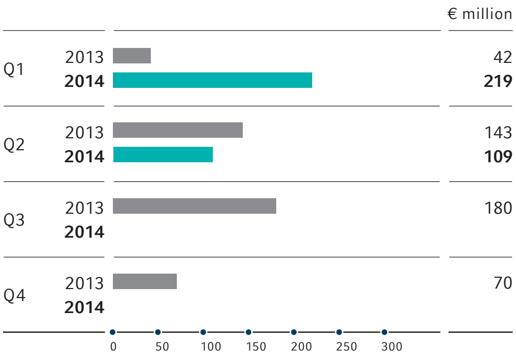
The **Polyurethanes** business unit grew sales by 3.0% (Fx & portfolio adj.) to €1,532 million, thanks to improved demand in all the main customer industries. We raised volumes in North America and Europe in particular, while in Asia/Pacific they were flat with the same period of last year. Selling prices, however, were down overall against the prior-year period. Volumes of diphenylmethane diisocyanate (MDI) improved, while prices receded. Both volumes and selling prices for toluene diisocyanate (TDI) were below the prior-year quarter. Both volumes and prices for polyether (PET) increased.

The **Polycarbonates** business unit raised sales by 8.3% (Fx & portfolio adj.) to €694 million, thanks to higher volumes in all regions except Latin America/Africa/Middle East. The volume gains were mainly attributable to improved demand from customers in the automotive and electrical/electronics industries. Selling prices were down overall compared with the prior-year period.

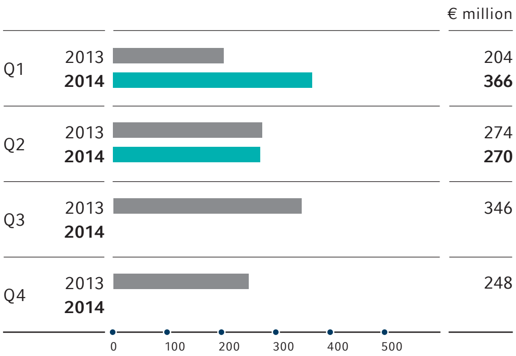
Sales in the **Coatings, Adhesives, Specialties** business unit moved forward by 3.7% (Fx & portfolio adj.) to €483 million, due to higher volumes in nearly all regions. Volumes were unchanged in Asia/Pacific. Selling prices were level with the prior-year quarter.

Sales of **Industrial Operations** receded by 8.7% (Fx & portfolio adj.) to €155 million due to lower selling prices and volumes.

MaterialScience
Quarterly EBIT [Graphic 14]



MaterialScience
Quarterly EBITDA Before Special Items [Graphic 15]



EBIT of **MaterialScience** receded in the second quarter of 2014 to €109 million (Q2 2013: €143 million), reflecting special charges of €17 million for restructuring (Q2 2013: special gains of €31 million). EBIT before special items advanced to €126 million (Q2 2013: €112 million). **EBITDA** before special items was slightly down from the prior-year quarter at €270 million (–1.5%). Earnings were helped by higher volumes, lower raw material prices and our efficiency improvements. Negative factors were a drop in selling prices and costs for scheduled maintenance shutdowns in Asia and North America. Earnings were also held back by negative currency effects of around €10 million.

In the **first half of 2014**, **sales** of **MaterialScience** increased by 4.2% (Fx & portfolio adj.; reported: +0.3%) to €5,667 million due to significantly higher volumes for Polycarbonates; Polyurethanes; and Coatings, Adhesives, Specialties. We achieved volume gains in all regions except Latin America/Africa/Middle East. Selling prices as a whole were below the prior-year period.

EBIT for the first half of 2014 climbed by a substantial 77.3% to €328 million. **EBITDA** before special items rose by 33.1% to €636 million after about €10 million in negative currency effects.

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5.4 Business Development by Region

Sales by Region and Segment (by Market) [Table 12]

	Europe				North America				Asia/Pacific				Latin America/Africa/Middle East				Total			
	2nd Quarter 2013	2nd Quarter 2014			2nd Quarter 2013	2nd Quarter 2014			2nd Quarter 2013	2nd Quarter 2014			2nd Quarter 2013	2nd Quarter 2014			2nd Quarter 2013	2nd Quarter 2014		
	€ million	€ million	% yoy	Fx.adj. % yoy	€ million	€ million	% yoy	Fx.adj. % yoy	€ million	€ million	% yoy	Fx.adj. % yoy	€ million	€ million	% yoy	Fx.adj. % yoy	€ million	€ million	% yoy	Fx.adj. % yoy
HealthCare	**1,694**	**1,817**	**+7.3**	**+8.8**	**1,293**	**1,260**	**−2.6**	**+2.6**	**1,079**	**1,083**	**+0.4**	**+7.9**	**734**	**685**	**−6.7**	**+9.3**	**4,800**	**4,845**	**+0.9**	**+7.0**
Pharmaceuticals	974	1,091	+12.0	+13.1	649	671	+3.4	+8.5	778	797	+2.4	+10.3	430	401	−6.7	+8.6	2,831	2,960	+4.6	+10.6
Consumer Health	720	726	+0.8	+2.9	644	589	−8.5	−3.3	301	286	−5.0	+1.7	304	284	−6.6	+10.2	1,969	1,885	−4.3	+1.8
CropScience	**905**	**887**	**−2.0**	**+0.7**	**680**	**748**	**+10.0**	**+18.5**	**376**	**371**	**−1.3**	**+8.2**	**431**	**464**	**+7.7**	**+20.7**	**2,392**	**2,470**	**+3.3**	**+10.5**
MaterialScience	**1,098**	**1,142**	**+4.0**	**+4.2**	**642**	**646**	**+0.6**	**+5.6**	**774**	**746**	**−3.6**	**+2.5**	**361**	**330**	**−8.6**	**−2.8**	**2,875**	**2,864**	**−0.4**	**+3.2**
Group (incl. reconciliation)	**3,960**	**4,108**	**+3.7**	**+5.1**	**2,623**	**2,656**	**+1.3**	**+7.3**	**2,236**	**2,205**	**−1.4**	**+5.9**	**1,541**	**1,489**	**−3.4**	**+9.3**	**10,360**	**10,458**	**+0.9**	**+6.4**
	1st Half 2013	1st Half 2014			1st Half 2013	1st Half 2014			1st Half 2013	1st Half 2014			1st Half 2013	1st Half 2014			1st Half 2013	1st Half 2014		
HealthCare	**3,316**	**3,574**	**+7.8**	**+9.4**	**2,469**	**2,392**	**−3.1**	**+1.7**	**2,072**	**2,153**	**+3.9**	**+12.7**	**1,386**	**1,298**	**−6.3**	**+11.3**	**9,243**	**9,417**	**+1.9**	**+8.4**
Pharmaceuticals	1,881	2,126	+13.0	+14.2	1,225	1,262	+3.0	+7.8	1,478	1,598	+8.1	+17.3	811	756	−6.8	+10.7	5,395	5,742	+6.4	+13.1
Consumer Health	1,435	1,448	+0.9	+3.1	1,244	1,130	−9.2	−4.4	594	555	−6.6	+1.3	575	542	−5.7	+12.2	3,848	3,675	−4.5	+1.8
CropScience	**1,982**	**2,126**	**+7.3**	**+9.5**	**1,664**	**1,702**	**+2.3**	**+10.1**	**717**	**700**	**−2.4**	**+8.2**	**793**	**842**	**+6.2**	**+20.9**	**5,156**	**5,370**	**+4.2**	**+11.3**
MaterialScience	**2,184**	**2,283**	**+4.5**	**+4.6**	**1,236**	**1,242**	**+0.5**	**+4.9**	**1,505**	**1,482**	**−1.5**	**+4.1**	**725**	**660**	**−9.0**	**−2.8**	**5,650**	**5,667**	**+0.3**	**+3.7**
Group (incl. reconciliation)	**8,003**	**8,508**	**+6.3**	**+7.6**	**5,381**	**5,340**	**−0.8**	**+4.9**	**4,306**	**4,345**	**+0.9**	**+8.9**	**2,936**	**2,820**	**−4.0**	**+10.1**	**20,626**	**21,013**	**+1.9**	**+7.5**

yoy = year on year; Fx. adj. = currency-adjusted

6. Calculation of EBIT(DA) Before Special Items

Key performance indicators for the Bayer Group are EBIT before special items and EBITDA before special items. These indicators are reported in order to allow a more accurate assessment of business operations. The special items – comprising effects that are non-recurring or do not regularly recur or attain similar magnitudes – are detailed in the following table. EBITDA, EBITDA before special items and EBIT before special items are not defined in the International Financial Reporting Standards (IFRS) and should therefore be regarded only as supplementary information. EBITDA before special items is a meaningful indicator of operating performance since it is not affected by depreciation, amortization, impairment losses, impairment loss reversals or special items. By reporting this indicator, the company aims to give readers a clear picture of the results of operations and ensure comparability of data over time. The EBITDA margin before special items, which is the ratio of EBITDA before special items to sales, serves as a relative indicator for the internal and external comparison of operational earning power.

Depreciation, amortization and impairments decreased by 6.4% in the first half of 2014 to €1,352 million (H1 2013: €1,444 million), comprising €715 million (H1 2013: €780 million) in amortization and impairments of intangible assets and €637 million (H1 2013: €664 million) in depreciation and impairments of property, plant and equipment. Impairments totaled €49 million (H1 2013: €147 million), of which €7 million (H1 2013: €138 million) were included in special items. Of the €1,303 million (H1 2013: €1,297 million) in depreciation and amortization, €0 million (H1 2013: €17 million) was included in special items.

Special Items Reconciliation [Table 13]

	EBIT* 2nd Quarter 2013	EBIT* 2nd Quarter 2014	EBIT* 1st Half 2013	EBIT* 1st Half 2014	EBITDA** 2nd Quarter 2013	EBITDA** 2nd Quarter 2014	EBITDA** 1st Half 2013	EBITDA** 1st Half 2014
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Before special items	**1,543**	**1,521**	**3,359**	**3,610**	**2,195**	**2,217**	**4,648**	**4,955**
HealthCare	**(258)**	**(25)**	**(289)**	**(9)**	**(120)**	**(21)**	**(144)**	**(5)**
Impairment losses/impairment loss reversals	(115)	–	(115)	–	15	–	15	–
Restructuring	(32)	–	(62)	–	(24)	–	(47)	–
Litigations	(89)	–	(89)	–	(89)	–	(89)	–
Integration costs	(22)	(25)	(23)	(44)	(22)	(21)	(23)	(40)
Settlement of pre-existing relationship***	–	–	–	35	–	–	–	35
CropScience	**(18)**	**–**	**(23)**	**–**	**(17)**	**–**	**(21)**	**–**
Restructuring	(13)	–	(18)	–	(12)	–	(16)	–
Litigations	(5)	–	(5)	–	(5)	–	(5)	–
MaterialScience	**31**	**(17)**	**30**	**(19)**	**39**	**(14)**	**38**	**(16)**
Restructuring	(11)	(17)	(12)	(19)	(3)	(14)	(4)	(16)
Divestitures	42	–	42	–	42	–	42	–
Reconciliation	**(11)**	**(6)**	**(19)**	**(13)**	**(11)**	**(6)**	**(19)**	**(13)**
Restructuring	(11)	(6)	(19)	(13)	(11)	(6)	(19)	(13)
Total special items	**(256)**	**(48)**	**(301)**	**(41)**	**(109)**	**(41)**	**(146)**	**(34)**
of which cost of goods sold	(18)	(10)	(21)	(10)	(26)	(10)	(27)	(10)
of which selling expenses	(12)	(7)	(22)	(11)	(12)	(7)	(22)	(11)
of which research and development expenses	(132)	(2)	(133)	(2)	16	(2)	15	(2)
of which general administration expenses	(7)	(17)	(8)	(27)	(7)	(13)	(8)	(23)
of which other operating income/expenses	(87)	(12)	(117)	9	(80)	(9)	(104)	12
After special items	**1,287**	**1,473**	**3,058**	**3,569**	**2,086**	**2,176**	**4,502**	**4,921**

* EBIT = earnings before financial result and taxes
** EBITDA = EBIT plus amortization and impairment losses on intangible assets and depreciation and impairment losses on property, plant and equipment, minus impairment loss reversals
*** For details see Notes to the Condensed Consolidated Interim Financial Statements of the Bayer Group under "Acquisitions and divestitures"

7. Core Earnings Per Share

Earnings per share according to IFRS are affected by the purchase price allocation for acquisitions and other special factors. To enhance comparability, we also determine core net income after eliminating amortization and impairment losses/impairment loss reversals of intangible assets, impairment losses/impairment loss reversals of property, plant and equipment, and special items, including the related tax effects.

From this core net income we calculate core earnings per share in the same way as earnings per share. Core earnings per share form the basis for our dividend policy. Core earnings per share for the second quarter of 2014 came in at €1.53 (Q2 2013: €1.54).

Core Earnings per Share [Table 14]

	2nd Quarter 2013	2nd Quarter 2014	1st Half 2013	1st Half 2014
	€ million	€ million	€ million	€ million
EBIT (as per income statements)	**1,287**	**1,473**	**3,058**	**3,569**
Amortization and impairment losses/loss reversals on intangible assets	459	367	780	715
Impairment losses/loss reversals on property, plant and equipment	13	35	13	35
Special items (other than amortization and impairment losses/loss reversals)	109	41	146	34
Core EBIT	**1,868**	**1,916**	**3,997**	**4,353**
Financial result (as per income statements)	(225)	(173)	(415)	(332)
Special items in the financial result	57	(5)	57	(49)
Income taxes (as per income statements)	(218)	(345)	(637)	(857)
Tax effects related to amortization, impairment losses/loss reversals and special items	(211)	(129)	(320)	(236)
Income after income taxes attributable to non-controlling interest (as per income statements)	(3)	(2)	(5)	(4)
Core net income	**1,268**	**1,262**	**2,677**	**2,875**
	Shares	Shares	Shares	Shares
Number of issued ordinary shares	**826,947,808**	**826,947,808**	**826,947,808**	**826,947,808**
Core earnings per share (€)	**1.54**	**1.53**	**3.24**	**3.48**

Core net income, core earnings per share and core EBIT are not defined in IFRS.

8. Financial Position of the Bayer Group

Bayer Group Summary Statements of Cash Flows [Table 15]

	2nd Quarter 2013	2nd Quarter 2014	1st Half 2013	1st Half 2014
	€ million	€ million	€ million	€ million
Gross cash flow*	**1,680**	**1,705**	**3,487**	**3,753**
Changes in working capital/other non-cash items	(144)	(104)	(1,624)	(1,989)
Net cash provided by (used in) operating activities (net cash flow)	**1,536**	**1,601**	**1,863**	**1,764**
Net cash provided by (used in) investing activities	**(1,107)**	**(517)**	**(1,484)**	**(2,697)**
Net cash provided by (used in) financing activities	**(139)**	**(2,507)**	**(304)**	**512**
Change in cash and cash equivalents due to business activities	**290**	**(1,423)**	**75**	**(421)**
Cash and cash equivalents at beginning of period	**1,479**	**2,631**	**1,698**	**1,662**
Change due to exchange rate movements and to changes in scope of consolidation	(37)	20	(41)	(13)
Cash and cash equivalents at end of period	**1,732**	**1,228**	**1,732**	**1,228**

* Gross cash flow = income after income taxes, plus income taxes, plus financial result, minus income taxes paid or accrued, plus depreciation, amortization and impairment losses, minus impairment loss reversals, plus/minus changes in pension provisions, minus gains/plus losses on retirements of noncurrent assets, minus gains from the remeasurement of already held assets in step acquisitions. The change in pension provisions includes the elimination of non-cash components of EBIT. It also contains benefit payments during the year.

OPERATING CASH FLOW

Gross cash flow in the **second quarter of 2014** advanced by 1.5% against the prior-year period to €1,705 million due to the improvement in EBITDA. Cash tied up in working capital rose by €104 million, a smaller increase than in the prior-year quarter. Net cash flow thus moved ahead by 4.2% to €1,601 million. Net cash flow reflected income tax payments of €360 million (Q2 2013: €304 million).

Gross cash flow in the **first half of 2014** advanced by 7.6% against the prior-year period to €3,753 million. Net cash flow decreased by 5.3% to €1,764 million, reflecting income tax payments of €735 million (H1 2013: €650 million).

INVESTING CASH FLOW

Net cash outflow for investing activities in the **second quarter of 2014** was €517 million. Disbursements for property, plant, equipment and intangible assets increased by 5.4% to €529 million (Q2 2013: €502 million). Of this amount, HealthCare accounted for €225 million (Q2 2013: €197 million), CropScience for €125 million (Q2 2013: €108 million) and MaterialScience for €139 million (Q2 2013: €140 million). Disbursements in the prior-year quarter included €724 million for acquisitions, mainly that of the U.S. company Conceptus, Inc.

The net cash outflow for investing activities in the **first half of 2014** was €2,697 million. Disbursements for property, plant and equipment and intangible assets increased by 2.2% to €886 million (H1 2013: €867 million). Of this amount, HealthCare accounted for €326 million (H1 2013: €355 million), CropScience for €240 million (H1 2013: €183 million) and MaterialScience for €237 million (H1 2013: €244 million). The €1,857 million (H1 2013: €846 million) in outflows for acquisitions related mainly to the purchase of Algeta ASA, Norway.

FINANCING CASH FLOW

In the **second quarter of 2014**, there was a net cash outflow of €2,507 million for financing activities, including net loan repayments of €705 million (Q2 2013: net borrowings of €1,530 million). Net interest payments were 33.0% lower at €65 million (Q2 2013: €97 million). The cash outflow for "dividend payments and withholding tax on dividends" amounted to €1,737 million (Q2 2013: €1,572 million).

In the **first half of 2014**, there was a net cash inflow of €512 million from financing activities, including net borrowings of €2,373 million (H1 2013: €1,421 million). Net interest payments were 18.0% lower at €123 million (H1 2013: €150 million).

LIQUID ASSETS AND NET FINANCIAL DEBT

Net Financial Debt [Table 16]

	Dec. 31, 2013	March 31, 2014	June 30, 2014
	€ million	€ million	€ million
Bonds and notes/promissory notes	4,520	6,885	6,783
of which hybrid bond	1,344	1,338	1,332
Liabilities to banks	2,302	2,297	2,391
Liabilities under finance leases	382	371	369
Liabilities from derivatives	310	364	380
Other financial liabilities	1,516	2,320	1,671
Positive fair values of hedges of recorded transactions	(504)	(413)	(296)
Financial liabilities	**8,526**	**11,824**	**11,298**
Cash and cash equivalents	(1,662)	(2,631)	(1,228)
Current financial assets	(133)	(128)	(128)
Net financial debt	**6,731**	**9,065**	**9,942**

Net financial debt of the Bayer Group increased by 9.7%, from €9.1 billion on March 31, 2014, to €9.9 billion on June 30, 2014. Cash inflows from operating activities only partially offset the outflow for the dividend payment.

Financial debt included the subordinated hybrid bond issued in July 2005, which was reflected at €1.3 billion. Net financial debt should be viewed against the fact that Moody's and Standard & Poor's treat 75% and 50%, respectively, of the hybrid bond as equity. The hybrid bond thus has a more limited effect on the Group's rating-specific debt indicators than conventional borrowings. The other financial liabilities as of June 30, 2014, included commercial paper of €1.1 billion. Our noncurrent financial liabilities declined in the second quarter of 2014 from €8.1 billion to €8.0 billion, while current financial liabilities decreased from €4.1 billion to €3.6 billion.

Standard & Poor's gives Bayer a long-term issuer rating of A– with stable outlook, while Moody's gives us a long-term rating of A3 with stable outlook. The short-term ratings are A–2 (Standard & Poor's) and P–2 (Moody's). These investment-grade ratings document good creditworthiness.

ASSET AND CAPITAL STRUCTURE

Bayer Group Summary Statements of Financial Position [Table 17]

	Dec. 31, 2013	March 31, 2014	June 30, 2014
	€ million	€ million	€ million
Noncurrent assets	32,289	34,372	33,949
Current assets	19,028	22,085	20,627
Assets held for sale	–	–	363
Total current assets	**19,028**	**22,085**	**20,990**
Total assets	**51,317**	**56,457**	**54,939**
Equity	**20,804**	**21,094**	**19,541**
Noncurrent liabilities	16,490	20,078	20,728
Current liabilities	14,023	15,285	14,670
Liabilities	**30,513**	**35,363**	**35,398**
Total equity and liabilities	**51,317**	**56,457**	**54,939**

Total assets, at €54.9 billion, decreased by 2.7% compared to March 31, 2014. Noncurrent assets declined by €0.5 billion to €33.9 billion, largely due to reclassifications to assets held for sale. Current assets shrank by €1.1 billion to €21.0 billion, mainly due to cash outflows.

Equity declined by €1.6 billion to €19.5 billion. Income after income taxes amounted to €1.0 billion, while equity was diminished by the €0.8 billion increase – recognized outside profit or loss – in post-employment benefit obligations and the €1.7 billion dividend payment. The equity ratio (equity coverage of total assets) as of June 30, 2014, was 35.6% (March 31, 2014: 37.4%).

Liabilities in the second quarter of 2014 were unchanged on aggregate. Provisions for pensions and other post-employment benefits rose by €1.2 billion, while deferred taxes decreased by €0.5 billion and financial liabilities by €0.6 billion.

Net Defined Benefit Liability for Post-Employment Benefits [Table 18]

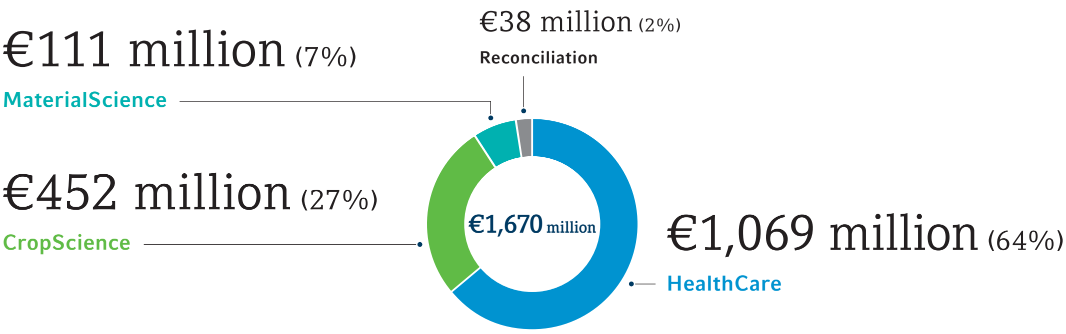
	Dec. 31, 2013	March 31, 2014	June 30, 2014
	€ million	€ million	€ million
Provisions for pensions and other post-employment benefits	7,368	8,647	9,824
Net defined benefit asset	(117)	(81)	(52)
Net defined benefit liability for post-employment benefits	**7,251**	**8,566**	**9,772**

The net defined benefit liability for post-employment benefits rose in the second quarter of 2014 from €8.6 billion to €9.8 billion, mainly due to a decline in long-term capital market interest rates in Germany.

9. Growth and Innovation

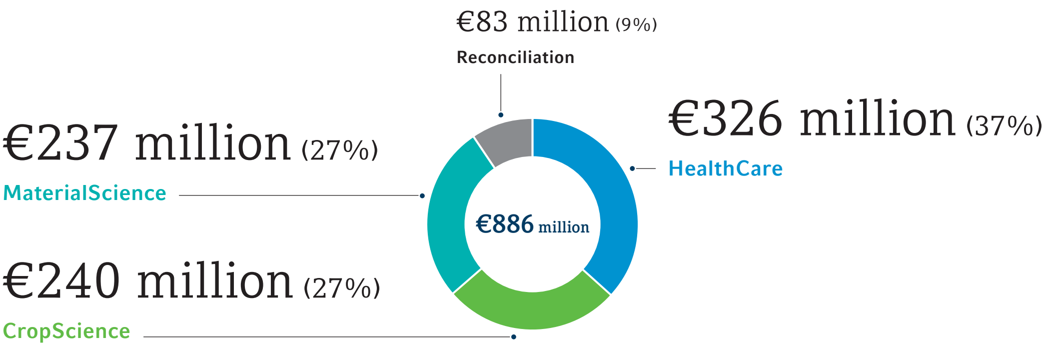
Our expenses for research and development, before special items, rose by a substantial 13.3% (Fx adj.) in the first half of 2014 to €1,668 million (H1 2013: €1,500 million), including €848 million (Fx adj. +11.5%) in the second quarter (Q2 2013: €776 million). Capital expenditures for property, plant and equipment and intangible assets in the first half of 2014 amounted to €886 million (H1 2013: €867 million), including €529 million in the second quarter (Q2 2013: €502 million).

Research and Development Expenses in the First Half of 2014 [Graphic 16]



Subgroup shares in parentheses

Capital Expenditures in the First Half of 2014 [Graphic 17]

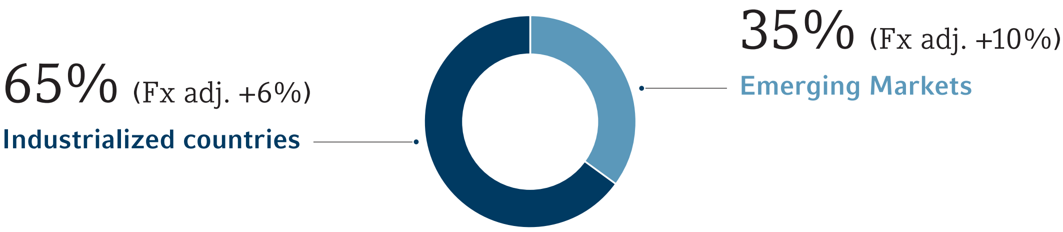


Subgroup shares in parentheses

The Emerging Markets as a whole accounted for a disproportionate share of currency-adjusted sales growth in the first half of 2014. For reporting purposes we have defined the Emerging Markets as Asia (excluding Japan), Latin America, Eastern Europe, Africa and the Middle East.

Sales in the Emerging Markets advanced to €7,275 million in the first half of 2014 (Fx. adj. +9.6%; H1 2013: €7,273 million), including €3,737 million in the second quarter (Fx adj. +8.2%; Q2 2013: €3,782 million). All regions contributed to this development. The Emerging Markets' share of total sales declined to 34.6% in the first half of 2014 due to currency effects (H1 2013: 35.3%). The respective figure for the second quarter of 2014 was 35.7% (Q2 2013: 36.5%).

Sales Development in the 1st Half of 2014 [Graphic 18]



currency-adjusted changes in parentheses

9.1 HealthCare

RESEARCH AND DEVELOPMENT

Research and development expenses at HealthCare, before special items, rose by 10.8% (Fx adj.) in the first half of 2014 to €1,067 million (H1 2013: €977 million), including €537 million (Fx adj. +7.7%) in the second quarter (Q2 2013: €507 million). We made further progress with our research and development pipeline. (The following description does not include ongoing activities already described in the Annual Report 2013.)

The most important drug candidates in the approval process are:

Products Submitted for Approval* [Table 19]

	Indication
Aflibercept	E.U., Japan; treatment of diabetic macular edema
Aflibercept	Japan; treatment of myopic choroidal neovascularization
Aflibercept	E.U.; treatment of macular edema secondary to branch retinal vein occlusion
Regorafenib	E.U.; treatment of metastatic and/or unresectable gastrointestinal stromal tumors
Riociguat	Japan; treatment of pulmonary arterial hypertension
Rivaroxaban**	U.S.A.; secondary prophylaxis of acute coronary syndrome
Rivaroxaban	Japan; treatment of deep vein thrombosis and pulmonary embolism, prevention of recurrent venous thromboembolism

* as of July 21, 2014
** submitted by Janssen Research & Development, LLC

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

Research and Development Projects (Phases II and III)* [Table 20]

	Indication	Status
Amikacin inhale	Treatment of pulmonary infection	Phase III
Damoctocog alfa pegol (BAY 94-9027, long-acting rFVIII)	Treatment of hemophilia A	Phase III
Ciprofloxacin DPI	Treatment of pulmonary infection	Phase III
LCS-16 (ULD LNG Contraceptive System)	Intrauterine contraception, duration of use: up to 5 years	Phase III
ODM-201 (AR antagonist)	Treatment of prostate cancer	Phase III
Prasterone**	Treatment of vulvovaginal atrophy	Phase III
Radium-223 dichloride	Combination treatment of castration-resistant prostate cancer	Phase III
Regorafenib	Treatment of refractory liver cancer	Phase III
Regorafenib	Treatment of colorectal cancer following surgical removal of liver metastases	Phase III
Riociguat	Pulmonary arterial hypertension (PAH) in patients who do not sufficiently respond to PDE-5i/ERA	Phase III
Rivaroxaban	Prevention of major adverse cardiac events (MACE)	Phase III
Rivaroxaban	Anti-coagulation in patients with chronic heart failure***	Phase III
Rivaroxaban	Long-term prevention of venous thromboembolism	Phase III
Rivaroxaban	Prevention of venous thromboembolism in high-risk patients after discharge from hospital***	Phase III
Sorafenib	Treatment of breast cancer	Phase III
Sorafenib	Treatment of kidney cancer, adjuvant therapy	Phase III
Tedizolid	Treatment of complicated skin infections and pneumonia	Phase III
Copanlisib (PI3k inhibitor)	Treatment of recurrent/resistant non-Hodgkin's lymphoma	Phase II
BAY 85-8501 (neutrophil elastase inhibitor)	Lung diseases	Phase II
Vericiguat (BAY 1021189, sGC stimulator)	Chronic heart failure	Phase II
BAY 1067197 (partial adenosine A1 agonist)	Heart failure	Phase II
Finerenone (MR antagonist)	Chronic heart failure	Phase II
Finerenone (MR antagonist)	Diabetic nephropathy	Phase II
Molidustat (HIF-PH inhibitor)	Anemia	Phase II
Radium-223 dichloride	Treatment of bone metastases in cancer	Phase II
Refametinib (MEK inhibitor)	Cancer therapy	Phase II
Regorafenib	Cancer therapy	Phase II
Riociguat	Pulmonary hypertension (IIP)	Phase II
Riociguat	Raynaud's phenomenon	Phase II
Riociguat	Diffuse systemic sclerosis	Phase II
Sorafenib	Cancer therapy	Phase II
Vilaprisan (S-PRM)	Treatment of uterine fibroids	Phase II

* as of July 21, 2014
** prasterone = Vaginorm
*** sponsored by Janssen Research & Development, LLC
The nature of drug discovery and development is such that not all compounds can be expected to meet the pre-defined project goals. It is possible that any or all of the projects listed above may have to be discontinued due to scientific and/or commercial reasons and will not result in commercialized products. It is also possible that the requisite Food and Drug Administration (FDA), European Medicines Agency (EMA) or other regulatory approvals will not be granted for these compounds.

In February 2014, we launched the Phase III EINSTEIN CHOICE trial. This trial is evaluating two different doses of the oral anticoagulant **rivaroxaban** (tradename: **Xarelto™**) for the long-term, secondary prevention of deep vein thrombosis and pulmonary embolism. The Phase III MARINER trial launched in March 2014 is evaluating the efficacy and safety of rivaroxaban to reduce the risk of post-hospital-discharge symptomatic venous thromboembolism (VTE) in patients who were hospitalized for acute medical illness.

In February 2014, the U.S. Food and Drug Administration issued complete response letters regarding the supplemental New Drug Applications for the use of Xarelto™ to reduce the risk of secondary cardiovascular events and stent thrombosis in patients with acute coronary syndrome. Xarelto™ is marketed in the United States by a subsidiary of Johnson & Johnson.

In **May 2014**, we submitted rivaroxaban to the Japanese Ministry of Health, Labor and Welfare (MHLW) for marketing authorization to treat patients with deep vein thrombosis and pulmonary embolism and for the prevention of recurrent venous thromboembolism.

In March 2014, **Adempas™** (riociguat) was approved by the European Commission for the treatment of chronic thromboembolic pulmonary hypertension and pulmonary arterial hypertension (PAH). In **April 2014**, riociguat was submitted for approval to treat PAH in Japan. A Phase IIIb pilot study with riociguat began in March 2014. This study is designed to evaluate the effect of riociguat in patients with pulmonary arterial hypertension who demonstrated an insufficient response to treatment with phosphodiesterase-5 inhibitors (PDE-5i) either as a monotherapy or in combination with an endothelin receptor antagonist (ERA). In **June 2014**, we commenced the Phase IIb study RISE-IIP to investigate the safety and efficacy of riociguat in patients with symptomatic pulmonary hypertension associated with idiopathic interstitial pneumonia (IIP).

In February 2014, we initiated a further Phase III trial with **regorafenib** (tradename: **Stivarga™**) investigating the effect of regorafenib as an adjuvant treatment option for colorectal cancer patients following resection of liver metastases with curative intent and completion of all planned chemotherapy. In **June 2014**, the European Committee for Medicinal Products for Human Use (CHMP) recommended regorafenib for approval for the treatment of adult patients with unresectable or metastatic gastrointestinal stromal tumors (GIST) who progressed on or are intolerant to prior treatment with imatinib and sunitinib.

In April 2014, we began enrolling patients in a new Phase III trial with **radium-223 dichloride** (tradename: **Xofigo™**). This study is evaluating radium-223 dichloride in combination with abiraterone acetate and prednisone/prednisolone for the treatment of asymptomatic or mildly symptomatic patients with bone-predominant metastatic castration-resistant prostate cancer who have not received chemotherapy.

In March 2014, a clinical Phase III study with the active ingredient **sorafenib** (tradename: **Nexavar™**) did not meet its primary endpoint of improving recurrence-free survival. The trial investigated sorafenib as an adjuvant treatment for patients with hepatocellular carcinoma in whom all detectable tumors had been removed.

In **May 2014**, Nexavar™ was approved by the European Commission for the treatment of patients with progressive, locally advanced or metastatic, differentiated thyroid carcinoma refractory to radioactive iodine. In **June 2014**, the Japanese MHLW approved sorafenib for the treatment of patients with unresectable differentiated thyroid carcinoma.

In March 2014, we submitted an application to the Japanese MHLW for marketing authorization for **aflibercept** (tradename: **Eylea™**) for the treatment of patients with diabetic macular edema. In **June 2014**, the European CHMP recommended aflibercept for approval for the treatment of visual impairment due to diabetic macular edema. In **June 2014**, we applied to the European Medicines Agency (EMA) for marketing authorization of aflibercept in an additional indication, the treatment of patients with visual impairment due to macular edema secondary to branch retinal vein occlusion.

In February 2014, a Phase III study with **damoctocog alfa pegol (BAY94-9027)**, a long-acting recombinant Factor VIII, reached its primary objective of ensuring effective protection against bleeding caused by hemophilia A with fewer infusions. We plan to submit the first applications for marketing authorization in the second half of 2015.

In **May 2014**, the recombinant Factor VIII **Kogenate™ FS** (octocog alfa) was approved in the United States for routine prophylaxis to prevent or reduce the frequency of bleeding episodes in adults with hemophilia A.

In February 2014, we successfully concluded the registration procedure in the European Union for a new transparent low-dose **contraceptive patch (FC-Patch Low)**.

CAPITAL EXPENDITURES, ACQUISITIONS AND COOPERATIONS

In February 2014, we signed an agreement to acquire Dihon Pharmaceutical Group Co., Ltd., China. Dihon is a pharmaceutical company specializing in the manufacture and marketing of over-the-counter (OTC) and herbal traditional Chinese medicine products. The transaction is expected to close in the second half of 2014.

In March 2014, we successfully completed the acquisition of Algeta ASA, Norway. We had partnered with Algeta in the development and marketing of Xofigo™ since 2009.

In March 2014, we sold back the commercial rights to the development project ATX-101, a substance to reduce submental fat, for markets outside of the U.S. and Canada to a subsidiary of Kythera Biopharmaceuticals, Inc., United States. As part of the transaction, we received common stock in Kythera and a promissory note. We are also eligible to receive long-term milestone payments on sales outside of the U.S. and Canada.

We are investing more than €500 million to create additional production capacities in Germany for the recombinant Factor VIII (rFVIII) products currently in development.

In **May 2014**, we signed an agreement to acquire the consumer care business of Merck & Co., Inc., United States. The acquisition will give HealthCare the global number two position in non-prescription (OTC) products. The consumer care business of Merck & Co., Inc. includes leading brands such as Claritin™, Coppertone™ and Dr. Scholl's™. The transaction remains subject to approvals from relevant antitrust authorities, with closing expected in the second half of 2014.

We also agreed to enter into a strategic pharmaceutical collaboration with Merck & Co., Inc. in the area of soluble guanylate cyclase (sGC) modulation. This collaboration includes Adempas™ (riociguat), which is already approved for the treatment of certain classifications of pulmonary hypertension, and its development for additional indications. Also forming part of the collaboration is vericiguat, an investigational compound currently being developed in two Phase IIb clinical studies to treat chronic heart failure.

In **May 2014**, we signed an agreement to sell our Interventional device business to Boston Scientific. The sale comprises the AngioJet™ thrombectomy system and the Jetstream™ atherectomy system, as well as the Fetch™2 aspiration catheter used in cardiology, radiology and peripheral vascular procedures. Closing of the transaction is subject to customary conditions, including relevant antitrust clearance, and is expected to occur in the second half of 2014.

In **June 2014**, we signed an agreement with Orion Corporation, Espoo, Finland, for the global development and commercialization of ODM-201, an investigational novel oral androgen receptor inhibitor in clinical development for the treatment of patients with prostate cancer. A joint clinical Phase III study to further evaluate the efficacy and safety of ODM-201 in patients with non-metastatic castration-resistant prostate cancer is already to be initiated in 2014.

In **June 2014**, we entered into a collaboration with Dimension Therapeutics for the development and commercialization of a novel gene therapy for the treatment of hemophilia A.

In **July 2014**, we entered into a strategic research alliance with the University of Oxford, U.K., in the area of novel gynecological therapies. The collaboration focuses on innovative treatment options for women with endometriosis and uterine fibroids.

EMERGING MARKETS

HealthCare raised sales in the Emerging Markets to €3,065 million in the first half of 2014 (Fx adj. +12.2%; H1 2013: €3,057 million), including €1,586 million in the second quarter (Fx adj. +12.2%; Q2 2013: €1,579 million). Our business in Latin America developed particularly well, with significant currency-adjusted gains especially in Brazil and Argentina. The largest increase in absolute terms was recorded in China, thanks mainly to our pharmaceutical products. We significantly lifted sales in Russia as well. The Emerging Markets' share of total HealthCare sales was 32.5% in the first half of 2014 (H1 2013: 33.1%) and 32.7% in the second quarter (Q2 2013: 32.9%).

9.2 CropScience

RESEARCH AND DEVELOPMENT

CropScience raised spending on research and development, before special items, by 20.5% (Fx adj.) in the first half of 2014 to €452 million (H1 2013: €386 million), including €238 million (Fx adj. +20.7%) in the second quarter (Q2 2013: €203 million).

In January 2014, we signed two new agreements with Cellectis Plant Sciences, United States, with the aim of expanding the companies' existing partnership for the targeted modification of selected plant genes and genomes. The extended partnership aims to develop plant traits specifically for canola seed using new breeding methods. The collaboration also gives Bayer access to technologies that enable the direct engineering of plant genomes in order to develop improved crop varieties.

In **May 2014**, CropScience's rice herbicide Council™ Complete was granted its first regulatory approval worldwide in South Korea. The market launch in South Korea is scheduled for 2015, with other major rice-growing countries in Asia to follow. Council™ Complete is based on two innovative active ingredients, triafamone and tefuryltrione, which considerably improve integrated weed control.

CAPITAL EXPENDITURES, ACQUISITIONS AND COOPERATIONS

In March 2014, we signed an agreement to acquire Biagro Group, a producer and distributor of biological seed treatment solutions based in Argentina. The company operates production facilities in Argentina and Brazil. Its portfolio of established brands includes biological seed treatment products, plant-growth-promoting microorganisms and other products for integrated pest management based on bacterial and fungal strains.

Also in March 2014, we announced plans to expand the site in Wismar, Germany, in order to meet the growing global demand for biological crop protection solutions. The planned investment includes the construction of a new manufacturing facility for biological crop protection products along with the necessary infrastructure. The production capacities will be expanded in stages, and work should be completed by 2016 at the latest. The planned total investment amounts to approximately €18 million.

In **May 2014**, CropScience announced a collaboration with Kaiima Bio-Agritech Ltd., Israel, to develop advanced hybrid rice varieties. The goal of the multi-year collaboration is to breed new high-yielding hybrid rice varieties.

EMERGING MARKETS

CropScience raised sales in the Emerging Markets to €1,871 million in the first half of 2014 (Fx adj. 15.9%; H1 2013: €1,795 million), including €973 million in the second quarter (Fx adj. +12.5%; Q2 2013: €962 million). The largest increase was achieved in Latin America, with double-digit sales growth. Our business was particularly successful in Brazil and Argentina. Sales in Asia posted encouraging gains, while business in Africa, the Middle East and Eastern Europe also expanded. The Emerging Markets' share of total CropScience sales was 34.8% in the first half of 2014 (H1 2013: 34.8%) and 39.4% in the second quarter (Q2 2013: 40.2%).

9.3 MaterialScience

RESEARCH AND DEVELOPMENT

MaterialScience increased spending on research and development, before special items, by 7.6% (Fx adj.) in the first half of 2014 to €111 million (H1 2013: €105 million), including €51 million (Fx adj. +10.6%) in the second quarter (Q2 2013: €47 million). This investment went mainly to explore new areas of application and improve process technologies and products. In addition, MaterialScience invested €37 million in the first half of 2014 in joint development projects with customers, including €19 million in the second quarter.

CAPITAL EXPENDITURES, ACQUISITIONS AND COOPERATIONS

In March 2014, MaterialScience began the construction of a new plant at the site in Shanghai, China, for the production of the coating raw material hexamethylene diisocyanate (HDI). With an annual capacity of 50,000 metric tons, it will be one of the largest facilities of its kind in the world. The new plant will utilize gas-phase technology, which requires substantially less energy and solvent than conventional processes. Completion is scheduled for 2016.

Following a successful test phase and promising market analysis, we decided in **May 2014** to invest in the construction of a production line at the Dormagen site in which carbon dioxide will be used as a new building block for plastics on a commercial scale. The €15 million facility is being designed for a production capacity of 5,000 metric tons per year. The goal of the project is to bring the first CO_2-based polyols to market starting in 2016.

EMERGING MARKETS

In the Emerging Markets, MaterialScience had sales of €2,309 million in the first half of 2014 (Fx adj. +2.1%; H1 2013: €2,377 million), including €1,163 million in the second quarter (Fx adj. +0.6%; Q2 2013: €1,218 million). The strongest currency-adjusted growth was recorded in Eastern Europe. Business also expanded in Asia and Latin America, while sales in Africa and the Middle East receded. The Emerging Markets' share of total MaterialScience sales was 40.7% in the first half of 2014 (H1 2013: 42.1%) and 40.6% in the second quarter (Q2 2013: 42.4%).

10. Employees

On June 30, 2014, the Bayer Group employed 115,487 people worldwide (December 31, 2013: 113,187). The workforce thus grew by 2,300 (+2.0%), including 250 through acquisitions.

HealthCare employed 57,403 people (December 31, 2013: 55,971). The number of employees at CropScience increased to 22,739 (December 31, 2013: 22,357). There was a slight decline at MaterialScience to 14,261 employees (December 31, 2013: 14,306). The remaining 21,084 employees (December 31, 2013: 20,553) mainly worked for the service companies.

Personnel expenses rose by 2.4% in the first half of 2014 to €4,826 million (H1 2013: €4,712 million), of which the second quarter accounted for €2,403 million.

11. 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 non-financial objectives.

Bayer regards risk management as an integral part of corporate governance. Our risk management process and the opportunities/risks outlined in detail in the Annual Report 2013 (Combined Management Report, Chapter 20.3) are materially unchanged. No risks have currently been identified that could endanger the Bayer Group's continued existence. There are also no risks with mutually reinforcing dependencies that could combine to endanger the Group's continued existence.

Significant developments that have occurred in respect of the legal risks since publication of the Bayer Annual Report 2013 (Note [32] to the Consolidated Financial Statements) are described in the Notes to the Condensed Consolidated Interim Financial Statements under "Legal Risks." The Bayer Annual Report 2013 can be downloaded free of charge at WWW.BAYER.COM.

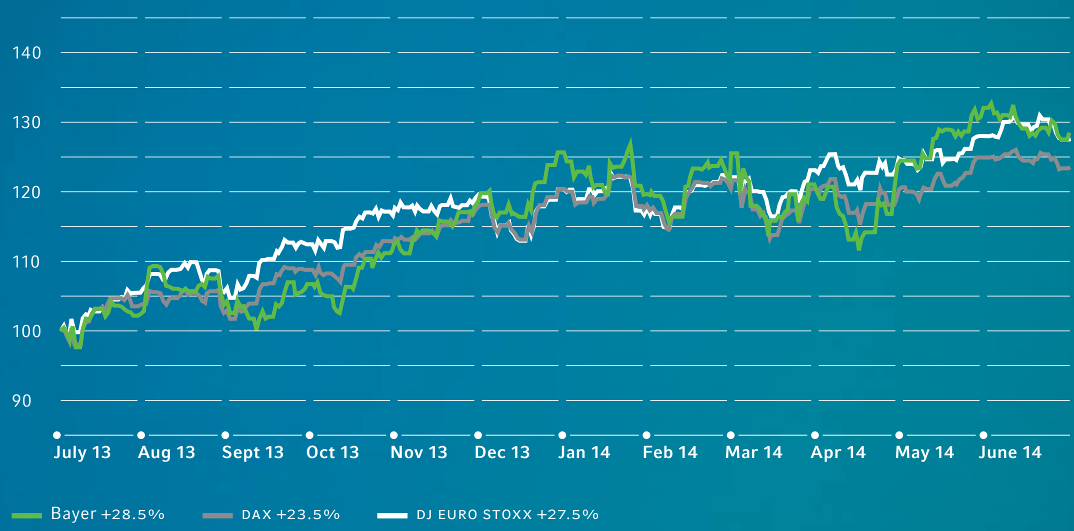
12. Events After the End of the Reporting Period

After the end of the reporting period – on July 1, 2014 – Bayer issued two hybrid bonds with a total volume of €3.25 billion.

Investor Information

Performance of Bayer Stock over the Past Twelve Months [Graphic 19]

indexed; 100 = Xetra closing price on June 30, 2013 (source: Bloomberg)



The yield on Bayer stock for the second quarter of 2014, including the dividend of €2.10 per share paid on April 30, 2014, was 7.3%. The stock closed the period at a price of €103.15. Thus Bayer stock outperformed both the DAX and the EURO STOXX 50 (performance index) in the second quarter.

The yield on Bayer stock for the first half of 2014, including the above dividend, was 3.3%. The DAX ended the first half of 2014 at 9,833 points, up 2.9%. The EURO STOXX 50 (performance index) rose by 6.0% during this period, closing at 5,965 points.

Bayer Stock Data [Table 21]

		2nd Quarter 2013	2nd Quarter 2014	1st Half 2013	1st Half 2014
High for the period	€	86.60	106.60	86.60	106.60
Low for the period	€	77.58	91.51	69.01	91.51
Average daily trading volume	million shares	2.3	1.8	2.3	2.0
		June 30, 2013	**June 30, 2014**	**Dec. 31, 2013**	**Change June 30, 2014/ Dec. 31, 2013 %**
Share price	€	81.93	103.15	101.95	+1.2
Market capitalization	€ million	67,752	85,300	84,308	+1.2
Equity as per statements of financial position	€ million	19,496	19,541	20,804	−6.1
Shares entitled to the dividend	million shares	826.95	826.95	826.95	0.0
DAX		7,959	9,833	9,552	+2.9

Xetra closing prices (source: Bloomberg)

Condensed Consolidated Interim Financial Statements of the Bayer Group as of June 30, 2014

Bayer Group Consolidated Income Statements

[Table 22]

	2nd Quarter 2013	2nd Quarter 2014	1st Half 2013	1st Half 2014
	€ million	€ million	€ million	€ million
Net sales	**10,360**	**10,458**	**20,626**	**21,013**
Cost of goods sold	(4,958)	(5,080)	(9,781)	(9,895)
Gross profit	**5,402**	**5,378**	**10,845**	**11,118**
Selling expenses	(2,723)	(2,640)	(5,210)	(5,083)
Research and development expenses	(908)	(850)	(1,633)	(1,670)
General administration expenses	(406)	(436)	(815)	(853)
Other operating income	282	79	444	208
Other operating expenses	(360)	(58)	(573)	(151)
EBIT*	**1,287**	**1,473**	**3,058**	**3,569**
Equity-method loss	(2)	(3)	(8)	(8)
Financial income	97	98	166	190
Financial expenses	(320)	(268)	(573)	(514)
Financial result	**(225)**	**(173)**	**(415)**	**(332)**
Income before income taxes	**1,062**	**1,300**	**2,643**	**3,237**
Income taxes	(218)	(345)	(637)	(857)
Income after income taxes	**844**	**955**	**2,006**	**2,380**
of which attributable to non-controlling interest	3	2	5	4
of which attributable to Bayer AG stockholders (net income)	**841**	**953**	**2,001**	**2,376**
	€	€	€	€
Earnings per share				
Basic	1.02	1.15	2.42	2.87
Diluted	1.02	1.15	2.42	2.87

* EBIT = earnings before financial result and taxes
2013 figures restated

Bayer Group Consolidated Statements of Comprehensive Income

[Table 23]

	2nd Quarter 2013	2nd Quarter 2014	1st Half 2013	1st Half 2014
	€ million	€ million	€ million	€ million
Income after income taxes	**844**	**955**	**2,006**	**2,380**
of which attributable to non-controlling interest	*3*	*2*	*5*	*4*
of which attributable to Bayer AG stockholders	*841*	*953*	*2,001*	*2,376*
Remeasurements of the net defined benefit liability for post-employment benefit plans	1,123	(1,195)	980	(2,560)
Income taxes	(381)	375	(343)	806
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**742**	**(820)**	**637**	**(1,754)**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**742**	**(820)**	**637**	**(1,754)**
Changes in fair values of derivatives designated as cash flow hedges	114	(67)	82	(53)
Reclassified to profit or loss	(29)	(30)	(46)	(76)
Income taxes	(22)	27	(8)	36
Other comprehensive income from cash flow hedges	**63**	**(70)**	**28**	**(93)**
Changes in fair values of available-for-sale financial assets	(5)	(1)	6	1
Reclassified to profit or loss	–	–	–	–
Income taxes	**1**	**(1)**	**(3)**	**(1)**
Other comprehensive income from available-for-sale financial assets	**(4)**	**(2)**	**3**	**–**
Changes in exchange differences recognized on translation of operations outside the eurozone	(357)	121	(156)	(58)
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	**(357)**	**121**	**(156)**	**(58)**
Other comprehensive income that may be reclassified subsequently to profit or loss	**(298)**	**49**	**(125)**	**(151)**
Effects of changes in scope of consolidation	**–**	**–**	**–**	**–**
Total other comprehensive income*	**444**	**(771)**	**512**	**(1,905)**
of which attributable to non-controlling interest	*(8)*	*2*	*(4)*	*4*
of which attributable to Bayer AG stockholders	*452*	*(773)*	*516*	*(1,909)*
Total comprehensive income	**1,288**	**184**	**2,518**	**475**
of which attributable to non-controlling interest	*(5)*	*4*	*1*	*8*
of which attributable to Bayer AG stockholders	*1,293*	*180*	*2,517*	*467*

* total changes recognized outside profit or loss

Bayer Group Consolidated Statements of Financial Position

[Table 24]

	June 30, 2013	June 30, 2014	Dec. 31, 2013
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	10,063	10,322	9,862
Other intangible assets	9,353	10,056	8,914
Property, plant and equipment	9,954	10,061	10,015
Investments accounted for using the equity method	221	198	203
Other financial assets	1,272	1,267	1,203
Other receivables	475	441	496
Deferred taxes	1,342	1,604	1,596
	32,680	**33,949**	**32,289**
Current assets			
Inventories	7,113	7,416	7,129
Trade accounts receivable	8,887	9,423	7,569
Other financial assets	740	617	779
Other receivables	1,414	1,480	1,476
Claims for income tax refunds	600	463	413
Cash and cash equivalents	1,732	1,228	1,662
Assets held for sale	–	363	–
	20,486	**20,990**	**19,028**
Total assets	**53,166**	**54,939**	**51,317**
Equity			
Capital stock of Bayer AG	2,117	2,117	2,117
Capital reserves of Bayer AG	6,167	6,167	6,167
Other reserves	11,113	11,165	12,434
Equity attributable to Bayer AG stockholders	**19,397**	**19,449**	**20,718**
Equity attributable to non-controlling interest	99	92	86
	19,496	**19,541**	**20,804**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	8,257	9,824	7,368
Other provisions	1,835	1,877	1,977
Financial liabilities	7,306	8,008	5,590
Other liabilities	333	305	362
Deferred taxes	1,069	714	1,193
	18,800	**20,728**	**16,490**
Current liabilities			
Other provisions	5,237	5,368	4,727
Financial liabilities	3,994	3,589	3,441
Trade accounts payable	4,034	4,136	4,473
Income tax liabilities	178	85	101
Other liabilities	1,427	1,492	1,281
	14,870	**14,670**	**14,023**
Total equity and liabilities	**53,166**	**54,939**	**51,317**

Bayer Group Consolidated Statements of Cash Flows

[Table 25]

	2nd Quarter 2013	2nd Quarter 2014	1st Half 2013	1st Half 2014
	€ million	€ million	€ million	€ million
Income after income taxes	844	955	2,006	2,380
Income taxes	218	345	637	857
Financial result	225	173	415	332
Income taxes paid or accrued	(289)	(397)	(762)	(941)
Depreciation, amortization and impairments	799	703	1,444	1,352
Change in pension provisions	(63)	(68)	(187)	(185)
(Gains) losses on retirements of noncurrent assets	(54)	(6)	(66)	(42)
Gross cash flow	**1,680**	**1,705**	**3,487**	**3,753**
Decrease (increase) in inventories	45	26	(254)	(308)
Decrease (increase) in trade accounts receivable	2	182	(1,676)	(1,704)
(Decrease) increase in trade accounts payable	236	(65)	(188)	(375)
Changes in other working capital, other non-cash items	(427)	(247)	494	398
Net cash provided by (used in) operating activities (net cash flow)	**1,536**	**1,601**	**1,863**	**1,764**
Cash outflows for additions to property, plant, equipment and intangible assets	(502)	(529)	(867)	(886)
Cash inflows from the sale of property, plant, equipment and other assets	34	35	61	51
Cash inflows from divestitures	62	6	79	6
Cash inflows from (outflows for) noncurrent financial assets	7	(62)	63	(66)
Cash outflows for acquisitions less acquired cash	(724)	–	(846)	(1,857)
Interest and dividends received	7	33	19	49
Cash inflows from (outflows for) current financial assets	9	–	7	6
Net cash provided by (used in) investing activities	**(1,107)**	**(517)**	**(1,484)**	**(2,697)**
Dividend payments and withholding tax on dividends	(1,572)	(1,737)	(1,573)	(1,737)
Issuances of debt	2,742	2,378	3,009	6,833
Retirements of debt	(1,212)	(3,083)	(1,588)	(4,460)
Interest paid including interest-rate swaps	(154)	(105)	(227)	(166)
Interest received from interest-rate swaps	57	40	77	43
Cash outflows for the purchase of additional interests in subsidiaries	–	–	(2)	(1)
Net cash provided by (used in) financing activities	**(139)**	**(2,507)**	**(304)**	**512**
Change in cash and cash equivalents due to business activities	**290**	**(1,423)**	**75**	**(421)**
Cash and cash equivalents at beginning of period	**1,479**	**2,631**	**1,698**	**1,662**
Change in cash and cash equivalents due to changes in scope of consolidation	–	–	–	–
Change in cash and cash equivalents due to exchange rate movements	(37)	20	(41)	(13)
Cash and cash equivalents at end of period	**1,732**	**1,228**	**1,732**	**1,228**

Bayer Group Consolidated Statements of Changes in Equity

[Table 26]

	Capital stock of Bayer AG	Capital reserves of Bayer AG	Other reserves	Equity attributable to Bayer AG stockholders	Equity attributable to non-controlling interest	Equity
	€ million	€ million	€ million	€ million	€ million	€ million
Dec. 31, 2012	**2,117**	**6,167**	**10,167**	**18,451**	**100**	**18,551**
Equity transactions with owners						
Capital increase/decrease						
Dividend payments			(1,571)	(1,571)	(2)	(1,573)
Other changes						
Total comprehensive income			2,517	2,517	1	2,518
June 30, 2013	**2,117**	**6,167**	**11,113**	**19,397**	**99**	**19,496**
Dec. 31, 2013	**2,117**	**6,167**	**12,434**	**20,718**	**86**	**20,804**
Equity transactions with owners						
Capital increase/decrease						
Dividend payments			(1,737)	(1,737)	(1)	(1,738)
Other changes			1	1	(1)	
Total comprehensive income			467	467	8	475
June 30, 2014	**2,117**	**6,167**	**11,165**	**19,449**	**92**	**19,541**

Notes to the Condensed Consolidated Interim Financial Statements of the Bayer Group as of June 30, 2014

Key Data by Segment

[Table 27]

	HealthCare				CropScience		MaterialScience		Reconciliation					
	Pharmaceuticals		Consumer Health		CropScience		MaterialScience		All Other Segments		Corporate Center and Consolidation		Group	
	2nd Quarter 2013	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter 2014
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Net sales (external)	2,831	2,960	1,969	1,885	2,392	2,470	2,875	2,864	292	275	1	4	10,360	10,458
Change	+5.5%	+4.6%	+1.4%	−4.3%	+5.1%	+3.3%	−2.7%	−0.4%	−5.8%	−5.8%	–	–	+1.9%	+0.9%
Currency-adjusted change	+10.4%	+10.6%	+4.4%	+1.8%	+8.0%	+10.5%	−1.6%	+3.2%	−5.2%	−4.8%	–	–	+4.8%	+6.4%
Intersegment sales	14	36	2	4	10	16	13	15	555	553	(594)	(624)	–	–
Net sales (total)	2,845	2,996	1,971	1,889	2,402	2,486	2,888	2,879	847	828	(593)	(620)	10,360	10,458
EBIT	472	656	257	310	496	470	143	109	17	34	(98)	(106)	1,287	1,473
EBIT before special items	685	668	302	323	514	470	112	126	28	40	(98)	(106)	1,543	1,521
EBITDA before special items	921	927	407	428	624	615	274	270	66	82	(97)	(105)	2,195	2,217
Gross cash flow*	595	662	320	298	447	469	223	214	170	139	(75)	(77)	1,680	1,705
Net cash flow*	261	292	304	205	856	971	167	133	25	52	(77)	(52)	1,536	1,601
Depreciation, amortization and impairments	329	263	150	105	111	145	170	147	38	42	1	1	799	703

	1st Half 2013	1st Half 2014	1st Half 2013	1st Half 2014	1st Half 2013	1st Half 2014	1st Half 2013	1st Half 2014	1st Half 2013	1st Half 2014	1st Half 2013	1st Half 2014	1st Half 2013	1st Half 2014
Net sales (external)	5,395	5,742	3,848	3,675	5,156	5,370	5,650	5,667	575	554	2	5	20,626	21,013
Change	+3.8%	+6.4%	+2.2%	−4.5%	+5.5%	+4.2%	−1.6%	+0.3%	−8.0%	−3.7%	–	–	+2.0%	+1.9%
Currency-adjusted change	+7.8%	+13.1%	+4.6%	+1.8%	+7.7%	+11.3%	−0.6%	+3.7%	−7.5%	−2.8%	–	–	+4.3%	+7.5%
Intersegment sales	30	43	3	4	17	31	27	28	1,070	1,072	(1,147)	(1,178)	–	–
Net sales (total)	5,425	5,785	3,851	3,679	5,173	5,401	5,677	5,695	1,645	1,626	(1,145)	(1,173)	20,626	21,013
EBIT	1,073	1,297	578	631	1,460	1,458	185	328	(8)	58	(230)	(203)	3,058	3,569
EBIT before special items	1,295	1,293	645	644	1,483	1,458	155	347	11	71	(230)	(203)	3,359	3,610
EBITDA before special items	1,753	1,800	852	856	1,705	1,713	478	636	88	151	(228)	(201)	4,648	4,955
Gross cash flow*	1,177	1,236	625	605	1,190	1,239	400	499	259	321	(164)	(147)	3,487	3,753
Net cash flow*	814	739	556	417	39	249	67	89	347	200	40	70	1,863	1,764
Depreciation, amortization and impairments	558	511	252	212	224	255	331	292	77	80	2	2	1,444	1,352
Number of employees (as of June 30)**	38,057	39,135	18,246	18,268	21,781	22,739	14,413	14,261	19,785	20,326	751	758	113,033	115,487

* For definition see chapter 8 "Financial Position of the Bayer Group."
** Number of employees in full-time equivalents

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Condensed Consolidated Interim Financial Statements as of June 30, 2014
Notes
Key Data by Region

Key Data by Region

[Table 28]

	Europe		North America		Asia/Pacific		Latin America/ Africa/Middle East		Reconciliation		Total	
	2nd Quarter 2013	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter 2014
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Net sales (external) – by market	3,960	4,108	2,623	2,656	2,236	2,205	1,541	1,489	–	–	10,360	10,458
Change	+3.3%	+3.7%	−0.1%	+1.3%	+0.3%	−1.4%	+4.3%	−3.4%	–	–	+1.9%	+0.9%
Currency-adjusted change	+3.9%	+5.1%	+1.7%	+7.3%	+6.1%	+5.9%	+10.5%	+9.3%	–	–	+4.8%	+6.4%
Net sales (external) – by point of origin	4,362	4,522	2,591	2,616	2,190	2,147	1,217	1,173	–	–	10,360	10,458
Change	+2.3%	+3.7%	+0.1%	+1.0%	+1.4%	−2.0%	+5.5%	−3.6%	–	–	+1.9%	+0.9%
Currency-adjusted change	+2.8%	+4.9%	+1.9%	+7.1%	+7.4%	+5.5%	+13.2%	+12.4%	–	–	+4.8%	+6.4%
Interregional sales	2,320	2,337	824	833	167	142	154	142	(3,465)	(3,454)	–	–
EBIT	975	1,120	129	249	213	123	68	87	(98)	(106)	1,287	1,473
	1st Half 2013	1st Half 2014	1st Half 2013	1st Half 2014	1st Half 2013	1st Half 2014	1st Half 2013	1st Half 2014	1st Half 2013	1st Half 2014	1st Half 2013	1st Half 2014
Net sales (external) – by market	8,003	8,508	5,381	5,340	4,306	4,345	2,936	2,820	–	–	20,626	21,013
Change	+1.3%	+6.3%	+3.5%	−0.8%	+1.9%	+0.9%	+1.3%	−4.0%	–	–	+2.0%	+1.9%
Currency-adjusted change	+1.7%	+7.6%	+4.8%	+4.9%	+6.9%	+8.9%	+6.9%	+10.1%	–	–	+4.3%	+7.5%
Net sales (external) – by point of origin	8,782	9,323	5,319	5,241	4,208	4,239	2,317	2,210	–	–	20,626	21,013
Change	+0.4%	+6.2%	+3.5%	−1.5%	+3.1%	+0.7%	+2.8%	−4.6%	–	–	+2.0%	+1.9%
Currency-adjusted change	+0.8%	+7.3%	+4.8%	+4.3%	+8.3%	+8.9%	+9.9%	+13.0%	–	–	+4.3%	+7.5%
Interregional sales	4,527	4,626	1,631	1,645	322	293	271	255	(6,751)	(6,819)	–	–
EBIT	2,106	2,563	636	687	395	331	151	191	(230)	(203)	3,058	3,569
Number of employees (as of June 30)*	53,117	54,951	16,116	15,890	27,407	27,931	16,393	16,715	–	–	113,033	115,487

* Number of employees in full-time equivalents

Explanatory Notes

ACCOUNTING POLICIES

Pursuant to Section 37w Paragraph 3 of the German Securities Trading Act, the consolidated interim financial statements as of June 30, 2014 have been prepared in condensed form according to the International Financial Reporting Standards (IFRS) – including IAS 34 – of the International Accounting Standards Board (IASB), London, which are endorsed by the European Union, and the Interpretations of the IFRS Interpretations Committee in effect at the closing date.

Reference should be made as appropriate to the Notes to the Consolidated Financial Statements for the 2013 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 2014 or accounting policies have changed.

FINANCIAL REPORTING STANDARDS APPLIED FOR THE FIRST TIME IN 2014

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

In December 2011, the IASB issued the amendment "Offsetting Financial Assets and Financial Liabilities" to IAS 32 (Financial Instruments: Presentation), clarifying what is meant by "right of set-off in all circumstances" and "simultaneous settlement." The amendment has been applied since January 1, 2014. The changes had no material impact on the presentation of the Group's financial position or results of operations.

In October 2012, under the title "Investment Entities," the IASB issued amendments to IFRS 10 (Consolidated Financial Statements), IFRS 12 (Disclosure of Interests in Other Entities) and IAS 27 (Separate Financial Statements) for investment entities. Such entities are exempted from the requirement to consolidate certain subsidiaries according to IFRS 10. Instead, they must recognize them at fair value through profit or loss. IFRS 12 introduces additional disclosure requirements for investment entities. The amendments have been applied since January 1, 2014. The changes had no impact on the presentation of the Group's financial position or results of operations.

In May 2013, the IFRS IC issued the interpretation IFRIC 21 (Levies). The interpretation covers the accounting for government-imposed levies with the exception of income taxes covered by IAS 12 (Income Taxes). It also provides guidance on when to recognize a liability for a levy. The interpretation is to be applied for annual periods beginning on or after January 1, 2014. The changes had no material impact on the presentation of the Group's financial position or results of operations.

CHANGES IN THE REPORTING OF FUNCTIONAL COSTS AND SPECIAL ITEMS

To enhance the comparability and transparency of functional cost reporting, the organizational view has been replaced in 2014 by a more function-based approach. This has the effect of reducing general administration expenses while increasing selling expenses and the cost of goods sold. In addition, certain special items are reflected in the respective functional costs rather than in other operating income or expenses so that their relationship to the functional costs is immediately apparent.

The prior-year figures are restated accordingly.

Accounting Changes: Consolidated Income Statements (Previous Year) [Table 29]

	2nd Quarter 2013				1st Half 2013			
		Accounting changes				Accounting changes		
	Before accounting changes	Functional costs	Special items	After accounting changes	Before accounting changes	Functional costs	Special items	After accounting changes
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Cost of goods sold	(4,938)	(17)	(3)	(4,958)	(9,741)	(34)	(6)	(9,781)
Gross profit	**5,422**	**(17)**	**(3)**	**5,402**	**10,885**	**(34)**	**(6)**	**10,845**
Selling expenses	(2,672)	(39)	(12)	(2,723)	(5,109)	(79)	(22)	(5,210)
Research and development expenses	(775)	(1)	(132)	(908)	(1,498)	(2)	(133)	(1,633)
General administration expenses	(456)	57	(7)	(406)	(921)	114	(8)	(815)
Other operating income	294	1	(13)	282	455	2	(13)	444
Other operating expenses	(526)	(1)	167	(360)	(754)	(1)	182	(573)

CHANGES IN UNDERLYING PARAMETERS

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

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

Exchange Rates for Major Currencies [Table 30]

		Closing Rate			Average Rate	
€1		Dec. 31, 2013	June 30, 2013	June 30, 2014	1st Half 2013	1st Half 2014
BRL	Brazil	3.26	2.86	3.00	2.66	3.15
CAD	Canada	1.47	1.37	1.46	1.33	1.50
CHF	Switzerland	1.23	1.23	1.22	1.23	1.22
CNY	China	8.35	8.03	8.47	8.12	8.45
GBP	United Kingdom	0.83	0.86	0.80	0.85	0.82
JPY	Japan	144.72	129.39	138.44	124.99	140.50
MXN	Mexico	18.07	17.04	17.71	16.47	17.98
RUB	Russia	45.32	42.85	46.38	40.70	47.95
USD	United States	1.38	1.31	1.37	1.31	1.37

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

Discount Rate for Pension Obligations [Table 31]

	Dec. 31, 2013	March 31, 2014	June 30, 2014
	%	%	%
Germany	3.80	3.20	2.70
United Kingdom	4.60	4.40	4.30
United States	4.50	4.10	3.90

SEGMENT REPORTING

The following table shows the reconciliation of EBITDA before special items of the segments to income before income taxes of the Group.

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

	2nd Quarter 2013	2nd Quarter 2014	1st Half 2013	1st Half 2014
	€ million	€ million	€ million	€ million
EBITDA before special items of segments	2,292	2,322	4,876	5,156
EBITDA before special items of Corporate Center	(97)	(105)	(228)	(201)
EBITDA before special items	**2,195**	**2,217**	**4,648**	**4,955**
Depreciation, amortization and impairment losses before special items of segments	(651)	(695)	(1,287)	(1,343)
Depreciation, amortization and impairment losses before special items of Corporate Center	(1)	(1)	(2)	(2)
Depreciation, amortization and impairment losses before special items	**(652)**	**(696)**	**(1,289)**	**(1,345)**
EBIT before special items of segments	1,641	1,627	3,589	3,813
EBIT before special items of Corporate Center	(98)	(106)	(230)	(203)
EBIT before special items	**1,543**	**1,521**	**3,359**	**3,610**
Special items of segments	(256)	(48)	(301)	(41)
Special items of Corporate Center	–	–	–	–
Special items	**(256)**	**(48)**	**(301)**	**(41)**
EBIT of segments	1,385	1,579	3,288	3,772
EBIT of Corporate Center	(98)	(106)	(230)	(203)
EBIT	**1,287**	**1,473**	**3,058**	**3,569**
Financial result	(225)	(173)	(415)	(332)
Income before income taxes	**1,062**	**1,300**	**2,643**	**3,237**

COMPANIES CONSOLIDATED

Changes in the scope of consolidation

The consolidated financial statements as of June 30, 2014, included 286 companies (December 31, 2013: 289 companies). Of these, one company (December 31, 2013: two companies) was accounted for as a joint operation in line with Bayer's interest in its assets, liabilities, revenues and expenses in accordance with IFRS 11 (Joint Arrangements). The numbers of joint ventures (three) and associated companies (two) accounted for in the consolidated financial statements using the equity method according to IAS 28 (Investments in Associates and Joint Ventures) were unchanged from December 31, 2013.

Acquisitions and divestitures

Acquisitions

On March 6, 2014, CropScience completed the acquisition of all the shares of Biagro Group, a producer and distributor of biological seed treatment solutions headquartered in Gral. Las Heras in the province of Buenos Aires, Argentina. The company operates production facilities in Argentina and Brazil. Its portfolio of established brands includes seed-applied inoculants, plant-growth-promoting microorganisms and other products for integrated pest management based on bacterial and fungal strains. The acquisition will help CropScience to build on the success of its soybean seed business in Latin America. The acquisition remains subject to the approval of the Argentinian antitrust authorities. A one-time payment of €9 million was agreed upon, plus potential milestone payments which are reflected at €6 million in the purchase price allocation. The milestone payments are mainly dependent on the achievement of certain sales targets and product approvals. The purchase price mainly pertained to the technology platform and goodwill.

In March 2014, HealthCare successfully completed the takeover offer for the shares of Algeta ASA, Oslo, Norway, and acquired 100% of the outstanding shares. Bayer issued a takeover offer for all the shares of Algeta at a price of NOK 362 per share in cash on January 20, 2014. On expiration of the offer deadline, Bayer had received acceptances from Algeta shareholders representing about 98% of the share capital. On March 14, 2014, a compulsory acquisition process was carried out to obtain the remaining 2% of the shares, also at a price of NOK 362 per share.

Algeta develops novel cancer therapies based on its world-leading, patented technologies. The company develops alpha-pharmaceuticals designed to target cancers using the unique properties of alpha particle radiation. HealthCare and Algeta have collaborated since 2009 to develop and commercialize radium-223 dichloride, which was approved in the United States in May 2013 under the tradename Xofigo™. The acquisition strengthens HealthCare's oncology business. The purchase price was €1,974 million, including €35 million for the settlement of the pre-existing relationship between Algeta and Bayer. The latter amount represents the value of the advantage enjoyed by the acquirer from the contractual relationship that existed prior to the acquisition compared to current market conditions for similar collaborations. The settlement amount is reflected in other operating income and at the same time increases the consideration transferred.

The purchase price mainly pertained to an intangible asset for the product-specific radium-223 technology along with goodwill. The goodwill is mainly attributable to synergies in administration processes and infrastructure, including cost savings in the selling, research and development, and general administration functions.

The acquisition generated an operating result (EBIT) of minus €10 million since the acquisition date. An after-tax result of minus €15 million was recorded since the date of first-time consolidation. This includes the financing costs incurred since the acquisition date. If the acquisition had already been made as of January 1, 2014, income after income taxes of the Bayer Group for the first half of 2014 would have amounted to €2,358 million after the financing costs that would have been attributable to the period.

The purchase price allocations for Biagro Group and Algeta ASA currently remain 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 effects of these transactions made in the first half of 2014 – and of purchase price adjustments made in the first half of 2014 relating to previous years'/quarters' transactions – on the Group's assets and liabilities as of the respective acquisition or adjustment dates are shown in the table. Net of acquired cash and cash equivalents, the transactions resulted in the following cash outflow:

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

	1st Half 2014	Of which Algeta ASA
	€ million	€ million
Goodwill	684	677
Patents and technologies	1,758	1,758
Other intangible assets	29	23
Property, plant and equipment	24	23
Inventories	15	15
Other current assets	42	39
Cash and cash equivalents	91	90
Deferred tax assets	39	39
Financial liabilities	(128)	(128)
Other liabilities	(82)	(79)
Deferred tax liabilities	(485)	(483)
Net assets	**1,987**	**1,974**
Changes in non-controlling interest	–	–
Purchase price	**1,987**	**1,974**
Acquired cash and cash equivalents	(91)	(90)
Settlement gain from pre-existing relationship	(35)	(35)
Liabilities for future payments	(4)	–
Payments for previous years'/quarters' acquisitions	1	–
Net cash outflow for acquisitions	**1,858**	**1,849**

In February 2014, HealthCare signed an agreement to acquire all the shares of Dihon Pharmaceutical Group Co. Ltd., Kunming, Yunnan, China. Dihon is a pharmaceutical company specializing in the manufacture and marketing of over-the-counter (OTC) and herbal traditional Chinese medicine products. A provisional purchase price of 3.6 billion yuan was agreed. Closing of the transaction is subject to several conditions, some of which have not yet materialized, and is planned to occur in the second half of 2014.

In May 2014, HealthCare signed an agreement to acquire the consumer care business of Merck & Co., Inc., Whitehouse Station, New Jersey, United States. In 2013, this business generated about 70% of its sales in the U.S., where it holds leading brand positions. The business is primarily comprised of products in the cold, allergy, sinus & flu, dermatology (including sun care), foot health and gastrointestinal categories. The most important brands are Claritin™ (allergy), Coppertone™ (sun care), Dr. Scholl's™ (foot health), MiraLAX™ (gastrointestinal) and Afrin™ (cold).

The acquisition makes HealthCare the market leader for non-prescription products in North and Latin America and the second-leading supplier worldwide. Pro forma sales of the combined consumer care business of Bayer and Merck & Co., Inc. in 2013 were approximately €5.5 billion.

A purchase price of US$14.2 billion was agreed. In a related transaction, HealthCare entered into a global development and commercialization collaboration with Merck & Co., Inc. in the area of soluble guanylate cyclase (sGC) modulation. For this collaboration HealthCare will receive US$1.0 billion plus substantial revenue-based milestone payments. The transaction remains subject to approvals from antitrust authorities. Closing is planned to occur in the second half of 2014.

Divestitures

The effects of divestitures in the first half of 2014 were as follows:

Divestitures [Table 34]

	1st Half 2014
	€ million
Patents and technologies	2
Property, plant and equipment	2
Other noncurrent assets	2
Divested net assets	**6**
Net cash inflow from divestitures	6
Changes in future cash payments receivable	–
Net gain from divestitures (before taxes)	**0**

Noncurrent assets and disposal groups held for sale

In May 2014, HealthCare entered into a global development and commercialization collaboration with Merck & Co., Inc. in the area of soluble guanylate cyclase (sGC) modulation. The collaboration includes HealthCare's drug Adempas™ (riociguat), which is already approved for the treatment of certain classifications of pulmonary hypertension, and its development for additional indications. Also included is vericiguat, an investigational compound currently being developed in two Phase IIb clinical studies to treat chronic heart failure. HealthCare and Merck & Co., Inc. will assume joint control of the sGC modulators business. Merck & Co., Inc. will in future receive one half of the net cash flow expected to be realized under the collaboration. A pro rata amount of the goodwill allocated to the Pharmaceuticals segment will be derecognized as of the date the collaboration comes into effect. Goodwill of €143 million was recognized as held for sale.

In May 2014, HealthCare signed an agreement to sell the Interventional device business to Boston Scientific Corporation, Natick, Massachusetts, United States. The sale comprises the AngioJet™ thrombectomy system and the Jetstream™ atherectomy system, as well as the Fetch™2 aspiration catheter used in cardiology, radiology and peripheral vascular procedures. A sale price of US$415 million was agreed, including fees for transitional services to Boston Scientific. Closing of the transaction is subject to customary conditions, including relevant antitrust clearance, and is planned to occur in the second half of 2014.

The assets held for sale were initially measured at the lower of their carrying amount and fair value less costs of disposal in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations).

The assets and disposal groups held for sale were comprised as follows:

Assets and Disposal Groups Held for Sale [Table 35]

	June 30, 2014
	€ million
Goodwill	254
Other intangible assets	75
Property, plant and equipment	17
Other assets	17
Assets held for sale	**363**

FINANCIAL INSTRUMENTS

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

Carrying Amounts and Fair Values of Financial Instruments [Table 36]

	June 30, 2014						
	Carried at amortized cost		Carried at fair value			Non-financial assets/liabilities	
			Based on quoted prices in active markets (Level 1)	Based on observable market data (Level 2)	Based on unobservable inputs (Level 3)		
	Carrying amount June 30, 2014	Fair value (for information)	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount in the statement of financial position
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Trade accounts receivable	9,423						9,423
Loans and receivables	9,423	9,423					9,423
Other financial assets	1,122		319	409	34		1,884
Loans and receivables	1,002	1,002					1,002
Available-for-sale financial assets	24		319				343
Held-to-maturity financial assets	96	97					96
Derivatives that qualify for hedge accounting				235			235
Derivatives that do not qualify for hedge accounting				174	34		208
Other receivables	573					1,348	1,921
Loans and receivables	573	573					573
Non-financial assets						1,348	1,348
Cash and cash equivalents	1,228						1,228
Loans and receivables	1,228	1,228					1,228
Total financial assets	**12,346**		**319**	**409**	**34**		**13,108**
of which loans and receivables	12,226						12,226
Financial liabilities	11,214			383			11,597
Carried at amortized cost	11,214	11,601					11,214
Derivatives that qualify for hedge accounting				192			192
Derivatives that do not qualify for hedge accounting				191			191
Trade accounts payable	4,080					56	4,136
Carried at amortized cost	4,080	4,080					4,080
Non-financial liabilities						56	56
Other liabilities	713			76	20	988	1,797
Carried at amortized cost	713	713					713
Derivatives that qualify for hedge accounting				44			44
Derivatives that do not qualify for hedge accounting				32	20		52
Non-financial liabilities						988	988
Total financial liabilities	**16,007**			**459**	**20**		**16,486**
of which carried at amortized cost	16,007						16,007
of which derivatives that qualify for hedge accounting				236			236
of which derivatives that do not qualify for hedge accounting				223	20		243

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

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

The fair value stated for noncurrent receivables, loans, held-to-maturity financial investments and non-derivative financial liabilities is the present value of the respective future cash flows. This was determined by discounting the cash flows at a closing-date interest rate that takes into account the term of the assets or liabilities and the creditworthiness of the counterparty. Where a market price was available, however, this was deemed to be the fair value.

The fair values of available-for-sale financial assets correspond to quoted prices in active markets for identical assets (Level 1).

The fair values of derivatives for which no publicly quoted market prices existed were determined using valuation techniques based on market data as of the end of the reporting period (Level 2). In applying valuation techniques, credit value adjustments were determined to allow for the contracting party's credit risk. The respective currency and commodity forward contracts were measured individually at their forward rates or forward prices on the closing date. These depend on spot rates or prices including time spreads. The fair values of interest-rate hedging instruments and cross-currency interest-rate swaps were determined by discounting future cash flows over the remaining terms of the instruments at market rates of interest, taking into account any foreign currency translation as of the closing date.

Embedded derivatives were separated from their respective host contracts. Such host contracts are generally sales or purchase agreements relating to the operational business. The embedded derivatives cause the cash flows from the contracts to vary with fluctuations in exchange rates, commodity prices or other prices, for example. The internal measurement of embedded derivatives is mainly performed using the discounted cash flow method, which is based on unobservable inputs (Level 3). These included planned sales and purchase volumes, and prices derived from market data. Regular monitoring is carried out based on these fair values as part of quarterly reporting.

The changes in the net amount of financial assets and liabilities recognized at fair value based on unobservable inputs were as follows:

Changes in the Net Amount of Financial Assets and Liabilities Recognized at Fair Value Based on Unobservable Inputs [Table 37]

	2014
	€ million
Net carrying amounts, Jan. 1	**(7)**
Gains (losses) recognized in profit or loss	11
of which related to assets/liabilities recognized in the statements of financial position	11
Gains (losses) recognized outside profit or loss	–
Additions of assets/(liabilities)	–
Settlements of (assets)/liabilities	10
Reclassifications	–
Net carrying amounts, June 30	**14**

No gains or losses from divestments were recorded in the second quarter of 2014. The changes recognized in profit or loss were included in other operating income or expenses.

Uncertainty persisted in the second quarter of 2014 regarding the economic situation in Venezuela. Future currency developments are difficult to predict, especially in view of new currency conversion rules and the government's ability to intervene in the setting of exchange rates.

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 2013, which can be downloaded free of charge at WWW.BAYER.COM. Since the Bayer Annual Report 2013, the following significant changes have occurred in respect of the legal risks:

HEALTHCARE

Product-related litigations

Yasmin™/YAZ™: As of July 9, 2014, the number of claimants in the pending lawsuits and claims in the United States totaled about 5,000 (excluding claims already settled). Claimants allege that they have suffered personal injuries, some of them fatal, from the use of Bayer's drospirenone-containing oral contraceptive products such as Yasmin™ and/or YAZ™ or from the use of Ocella™ and/or Gianvi™, generic versions of Yasmin™ and YAZ™, respectively, marketed by Barr Laboratories, Inc. in the United States.

As of July 9, 2014, Bayer had reached agreements, without admission of liability, to settle the claims of approximately 8,900 claimants in the U.S. for a total amount of about US$1.8 billion. Bayer has only been settling claims in the U.S. for venous clot injuries (deep vein thrombosis or pulmonary embolism) after a case-specific analysis of medical records on a rolling basis. Such injuries are alleged by about 2,400 of the pending unsettled claimants. Bayer will continue to consider the option of settling such individual lawsuits in the U.S. on a case-by-case basis.

In March 2014, one of the insurers involved contested its coverage. Bayer has agreed to settle the matter on terms that will not have a material impact on Bayer's financial position.

Mirena™: As of July 9, 2014, lawsuits from approximately 2,120 users of Mirena™, an intrauterine system providing long-term contraception, had been served upon Bayer in the U.S. Additional lawsuits are anticipated. 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.

MATERIALSCIENCE

Partial exemption from the surcharge under the Renewable Energy Act: In 2014, Bayer has continued to benefit from its partial exemption from the surcharge payable under the German Renewable Energy Act (Erneuerbare-Energien-Gesetz) of 2012. The amount of any claims that Bayer might face should the exemption provisions be declared invalid retroactively therefore continues to increase during the course of 2014.

RELATED PARTIES

Related parties as defined in IAS 24 (Related Party Disclosures) are those entities and persons that are able to exert influence on Bayer AG and its subsidiaries or over which Bayer AG or its subsidiaries exercise control or have a significant influence. They include, in particular, non-consolidated subsidiaries, joint ventures, associates, post-employment benefit plans and the corporate officers of Bayer AG. Sales to related parties were not material from the viewpoint of the Bayer Group. Goods and services to the value of €0.4 billion were procured from the associated company PO JV, LP, Wilmington, Delaware, United States, mainly in the course of normal business operations. There was no significant change in receivables or payables vis-à-vis related parties compared with December 31, 2013.

OTHER INFORMATION

The Annual Stockholders' Meeting on April 29, 2014, approved the proposal by the Board of Management and the Supervisory Board that a dividend of €2.10 per share be paid for the 2013 fiscal year.

The actions of the members of the Board of Management and the Supervisory Board were ratified.

Two stockholder representatives were elected to the Supervisory Board in accordance with the nominations submitted by the Supervisory Board.

The Annual Stockholders' Meeting approved the cancellation of existing authorized and conditional capital, the creation of new authorized and conditional capital, the authorization to issue bonds with warrants or convertible bonds, and the necessary amendments to the Articles of Incorporation. The Annual Stockholders' Meeting also reauthorized the Board of Management to acquire and use own shares with the potential disapplication of subscription and other tender rights.

In accordance with the proposal by the Supervisory Board and the Board of Management, the Annual Stockholders' Meeting approved the control and profit-and-loss transfer agreements between Bayer AG and eight Group companies.

PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Essen, was elected as auditor of the financial statements of Bayer AG and the consolidated financial statements of the Bayer Group for the fiscal year 2014 and to perform the audit review of the 2014 half-year financial report.

At its meeting on June 3, 2014, the Supervisory Board of Bayer AG extended the contract of Dr. Marijn Dekkers as Chairman of the company's Board of Management until December 31, 2016. At the same meeting, the Supervisory Board appointed current Chief Financial Officer Werner Baumann as Chief Strategy and Portfolio Officer (CSPO) effective October 1, 2014. Also effective October 1, 2014, Johannes Dietsch will take over as Chief Financial Officer. The Supervisory Board appointed him to the Board of Management of Bayer AG effective September 1, 2014.

Leverkusen, July 28, 2014
Bayer Aktiengesellschaft

The Board of Management

Dr. Marijn Dekkers | Werner Baumann | Michael König | Kemal Malik

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Leverkusen, July 28, 2014
Bayer Aktiengesellschaft

The Board of Management

Dr. Marijn Dekkers   Werner Baumann   Michael König   Kemal Malik

Review Report

To Bayer AG, Leverkusen

We have reviewed the condensed consolidated interim financial statements – comprising the income statement, statement of comprehensive income, statement of financial position, statement of cash flows, condensed statement of changes in equity and selected explanatory notes – and the interim group management report of Bayer AG for the period from January 1, 2014 to June 30, 2014 which are part of the half-year financial report pursuant to § (Article) 37w Abs. (paragraph) 3 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the E.U. and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Management. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed 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 so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the E.U. and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the E.U. nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Essen, July 29, 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Peter Bartels	Eckhard Sprinkmeier
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial Calendar

Q3 2014 Interim Report	**October 30, 2014**
2014 Annual Report	**February 26, 2015**
Q1 2015 Interim Report	**April 30, 2015**
Annual Stockholders' Meeting 2015	**May 27, 2015**
Q2 2015 Interim Report	**July 29, 2015**
Q3 2015 Interim Report	**October 29, 2015**

MASTHEAD

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

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