Bayer AG
Financial Statements 2017

The management report of Bayer AG is combined with the management report of the Bayer Group. The Combined Management Report is published in Bayer's Annual Report for 2017. The financial statements and the Combined Management Report of the Bayer Group and Bayer AG for fiscal 2017 have been submitted to the operator of the Federal Gazette and are accessible via the Company Register website.

Contents

Income Statements

€ million	Note	2016	2017
Net sales	[1]	390	14,730
Cost of goods sold		(353)	(7,914)
Gross profit		**37**	**6,816**
Selling expenses		(39)	(3,898)
Research and development expenses		(46)	(2,186)
General administration expenses		(666)	(908)
Other operating income	[2]	48	85
Other operating expenses	[3]	(227)	(102)
Operating income		**(893)**	**(193)**
Income from investments in affiliated companies – net	[4]	4,647	5,794
Interest income / expense – net	[5]	54	(369)
Other financial income / expense – net	[6]	163	(354)
Nonoperating income		**4,864**	**5,071**
Income taxes	[7]	(371)	(335)
Income after taxes / net income		**3,600**	**4,543**
Allocation to other retained earnings		(1,367)	(1,643)
Distributable profit		**2,233**	**2,900**

Statements of Financial Position

€ million	Note	Dec. 31, 2016	Dec. 31, 2017
ASSETS			
Noncurrent assets			
Intangible assets	[13]	29	123
Property, plant and equipment	[14]	29	29
Investments	[15]	49,112	47,071
		49,170	**47,223**
Current assets			
Inventories	[16]	3	2,109
Receivables and other assets			
Trade accounts receivable	[17]	77	2,002
Receivables from subsidiaries	[18]	4,092	2,585
Other assets	[19]	410	571
	[20]	**4,579**	**5,158**
Marketable securities	[21]	305	25
Cash and cash equivalents	[22]	2,423	4,247
		7,310	**11,539**
Deferred charges	**[23]**	**226**	**178**
Surplus from offsetting	**[24]**	**140**	**152**
		56,846	**59,092**
EQUITY AND LIABILITIES			
Equity	**[25]**		
Capital stock		2,117	2,117
Capital reserves		6,176	6,176
Other retained earnings		6,039	7,682
Distributable profit		2,233	2,900
		16,565	**18,875**
Provisions			
Provisions for pensions	[26]	897	735
Other provisions	[27]	1,008	1,466
		1,905	**2,201**
Other liabilities			
Bonds and promissory notes	[28]	6,612	6,862
Liabilities to banks		61	756
Down payments received on orders		2	2
Trade accounts payable	[29]	86	1,750
Payables to subsidiaries	[30]	31,197	28,078
Miscellaneous liabilities	[31]	418	458
	[32]	**38,376**	**37,906**
Deferred charges	**[33]**	**–**	**110**
		56,846	**59,092**

Notes

Change in Corporate Structure

As part of Bayer's reorganization effective January 1, 2016, the previous organizational structure comprising a strategic management holding company and operating subgroups was replaced by an integrated structure. Organizationally, Bayer has been managed through three divisions and one business unit since then. The management of two of these divisions – Pharmaceuticals and Crop Science – lies with Bayer AG.

Also in 2016, Bayer HealthCare AG, Germany, and Bayer Technology Services GmbH, Germany, previously wholly owned subsidiaries of Bayer AG, were merged into Bayer AG. Bayer HealthCare AG, Germany, had primarily performed holding company functions for the health care business. These functions were pooled with those of Bayer AG. The functions of Bayer Technology Services GmbH, Germany, became the "Engineering and Technology" unit of Bayer AG.

Effective January 1, 2017, the operational business of the Pharmaceuticals and Crop Science divisions was transferred to Bayer AG. For this purpose, business lease agreements were concluded with Bayer Pharma AG, Germany, and Bayer CropScience AG, Germany, which had previously managed the divisions' business. Under these agreements, these companies leased their entire business operations to Bayer AG and also transferred operational management to Bayer AG. The agreements were initially concluded for a term of one calendar year, and will each be extended by successive periods of one year unless written notice of termination effective as of the end of the preceding year is given six months in advance by either party. In connection with the business lease agreements, inventories totaling €2.3 billion were sold to Bayer AG and around 14,500 employment contracts were transferred to Bayer AG pursuant to Section 613a of the German Civil Code (BGB). Investments in subsidiaries and affiliates remained with the two lessor companies and do not form part of the business lease agreements. This measure completed the reorganization of the company.

The following tables illustrate the impact of the business lease agreements on Bayer AG's annual financial statements:

Income Statements

	2016	2017		
	Bayer AG	Bayer AG		
€ million	**Corporate**	**Corporate**	**Pharmaceuticals and Crop Science Divisions**	**Total**
Net sales	390	140	14,590	14,730
Cost of goods sold	(353)	(360)	(7,554)	(7,914)
Gross profit	**37**	**(220)**	**7,036**	**6,816**
Other operating income and expenses	(930)	(1,284)	(5,725)	(7,009)
Operating income	**(893)**	**(1,504)**	**1,311**	**(193)**
Nonoperating income	**4,864**	**5,280**	**(209)**	**5,071**
Income taxes	(371)	(334)	(1)	(335)
Income after taxes / net income	**3,600**	**3,442**	**1,101**	**4,543**

Statements of Financial Position

	Dec. 31, 2016	Dec. 31, 2017		
	Bayer AG	Bayer AG		
€ million	Corporate	Corporate	Pharmaceuticals and Crop Science Divisions	Total
Noncurrent assets	49,170	47,127	96	47,223
Current assets/other assets	7,676	7,962	3,907	11,869
Equity	16,565	18,491	384	18,875
Provisions	1,905	402	1,799	2,201
Other liabilities/deferred income	38,376	36,196	1,820	38,016
Total assets	**56,846**	**55,089**	**4,003**	**59,092**

Accounting Policies

The financial statements of Bayer AG, Leverkusen, Germany (which is entered in the commercial register of the Local Court of Cologne, Germany, HRB 48248), are prepared in accordance with the German Commercial Code (HGB), the Stock Corporation Act (AktG) and the German Energy Industry Act (EnWG).

At its site in Berlin, Germany, which is leased from Bayer Pharma AG, Germany, Bayer AG supplies electricity and gas to companies outside the Bayer Group. Under Section 3, No. 18 of the EnWG, it is therefore classified as an energy utility as defined therein. Further, as an energy utility Bayer AG is connected to the vertically integrated energy utility Currenta GmbH & Co. OHG, Germany. Consequently, Bayer AG is also classified as a vertically integrated energy utility pursuant to Section 3 No. 38 EnWG.

The “of which” information on accrued interest relating to subsidiaries previously presented in other assets and miscellaneous liabilities is now recognized in receivables from subsidiaries and payables to subsidiaries. To enhance comparability, the previous year’s figures have been restated accordingly.

Certain items in the income statement and statement of financial position are combined for the sake of clarity; they are explained in the Notes. Likewise for reasons of clarity, “of which” information required for certain items in the financial statements is presented in the Notes only. Research and development expenses are shown separately in view of their special importance in the chemical and pharmaceutical industry. Financial income and expenses whose disclosure is not covered by a mandatory item are reported under other financial income or expenses.

The income statement has been drawn up using the cost-of-sales method.

A declaration of compliance with the German Corporate Governance Code has been issued pursuant to Section 161 of the German Stock Corporation Act (AktG) and made permanently available to stockholders on the internet as part of the Declaration on Corporate Governance pursuant to Section 289f of the German Commercial Code (HGB). It can be downloaded from http://www.bayer.com/en/corporate-governance.aspx.

As the parent company, Bayer AG prepares the consolidated financial statements for both the largest and the smallest scope of consolidation. As in the previous year, the management report of Bayer AG has been combined with the management report of the Bayer Group pursuant to Section 315, Paragraph 3 of the German Commercial Code (HGB) in conjunction with Section 298, Paragraph 2 HGB.

Recognition and Valuation Principles

Intangible assets that have been acquired are recognized at cost and amortized on a straight-line basis (pro rata temporis) over their estimated useful lives on an individual basis. Self-generated intangible assets are not capitalized.

Property, plant and equipment is carried at the cost of acquisition or construction less depreciation of assets that are subject to wear and tear in line with their individual useful lives. The straight-line method of depreciation is normally used. Movable assets that were already recognized as of December 31, 2007, are depreciated by the declining balance method at the maximum depreciation rates permitted for tax purposes, switching to the straight-line method as soon as this leads to higher annual depreciation.

Depreciation of the individual categories of property, plant and equipment, and amortization of the individual categories of intangible assets are based on the following useful lives:

Useful Life of Intangible Assets and Property, Plant and Equipment

Software	3 to 4 years
Product registrations	max. 10 years
Other concessions, industrial property rights, similar rights and assets, and licenses thereunder	max. 20 years
Commercial buildings	25 to 40 years
Infrastructure facilities	12 to 20 years
Plant facilities	12 to 20 years
Plant and equipment	8 to 20 years
Laboratory and research equipment	3 to 5 years
Factory and office equipment	6 to 12 years
Communication technology	3 to 10 years
Vehicles (purchased until June 30, 2014)	5 years
Vehicles (purchased from July 1, 2014)	6 years
Computer equipment	3 to 4 years

Assets that can be utilized separately and are subject to depletion are depreciated in full in the year of acquisition if their cost of acquisition or construction does not exceed €410.

Write-downs are made for any declines in value that go beyond the depletion reflected in depreciation or amortization and are expected to be permanent. If the reasons for a write-down no longer apply, a write-up is made, provided that this does not cause the carrying amount to exceed the cost of acquisition or construction less depreciation or amortization.

The cost of construction of self-constructed property, plant and equipment comprises the direct cost of materials, direct manufacturing expenses, appropriate allocations of material and manufacturing overheads, and an appropriate share of the depreciation of assets used in construction.

Investments in subsidiaries and affiliated companies are carried at cost, less write-downs for any decline in value that is expected to be permanent. Where the reasons for write-downs made in previous years no longer apply or only partially apply, the respective items are written back accordingly, provided that the write-back does not cause the carrying amount to exceed the cost of acquisition. Interests in subsidiaries and affiliated companies that were acquired through exchange deals are measured at the carrying amount of the shares submitted. The predecessor accounting approach is applied for mergers of interests in subsidiaries or affiliates.

Loans receivable that are interest-free or bear low rates of interest are carried at present value; other loans receivable are carried at nominal value. The loans also include jouissance right capital (Genussrechtskapital) granted to Bayer Pensionskasse VVaG, Germany, and the latter's drawings on a retroactive contribution to its effective initial fund made available by Bayer AG.

Inventories are valued as follows: raw materials, supplies and goods purchased for resale at the average cost of acquisition less write-downs, and finished goods at the average cost of production. This comprises the direct cost of materials, direct manufacturing expenses, and appropriate allocations of material and manufacturing overheads, including manufacturing-related depletion of noncurrent assets. Write-downs are recognized if the fair value is below the carrying amount.

Receivables and other assets are stated at nominal value, less any necessary write-downs. The amounts of such write-downs reflect the probability of default. Non-interest-bearing or low-interest receivables that are due in more than one year are recognized at their discounted value.

Marketable securities are shown at the lower of cost or market rates as of the closing date.

Cash, bank deposits and checks held in euros are recognized at their nominal value; such assets held in foreign currencies are translated at the spot rate on the closing date of the financial statements.

The deferred charges on the statement of financial position contain expenditures prior to the closing date that will give rise to expense in a defined subsequent period. Also included are the differences between the issue and settlement amount for bonds issued by Bayer AG that will be amortized over the maturity of the bonds.

The amounts required to meet credit balances on employees' long-term worktime accounts and certain pension obligations are invested indirectly via intermediate investment vehicles through a Belgian investment company operating as a SICAV (Société d'investissement à capital variable). They are invested in basically liquid international fixed-income bonds, shares, real estate and alternative investments. The assets are administered on behalf of Bayer AG by Bayer Pension Trust e. V. (BPT), Germany. In order to fulfill post-employment benefit obligations, BPT also directly holds shares in Covestro AG, Germany. All investments are protected from other creditors in the event that the employer files for insolvency. They are measured at fair value, which is derived from stock market prices and market interest rates. The trust assets held by BPT are offset against the underlying obligations. If the obligations exceed the assets, a provision is recorded. If the value of the securities exceeds the obligations, it is recorded in the statement of financial position as a surplus from offsetting. Accordingly, in the income statements, income from the trust assets is offset against the interest portion of the corresponding obligations and changes in the discount rate.

Deferred taxes are assessed for temporary differences between the amounts of assets, liabilities, deferred income and deferred charges in the accounting statements and those in the tax statements. As well as items reflected in its own statement of financial position, Bayer AG also includes those relating to subsidiaries with which it forms a fiscal entity for tax purposes and in which it holds an equity interest. In addition to temporary differences, tax loss carryforwards are taken into account. Deferred taxes are calculated on the basis of the combined income tax rate for the fiscal entity headed by Bayer AG, which is currently 30.78%. The combined income tax rate comprises corporate income tax, trade tax and the solidarity surcharge. In the case of partnerships, however, deferred taxes relating to temporary differences in the statement of financial position are calculated using a combined income tax rate that includes only corporate income tax and the solidarity surcharge; this combined rate is currently 15.83%. Any resulting tax liability would be recognized as a deferred tax liability in the statement of financial position. In the event of a tax receivable, the corresponding option to recognize the deferred tax asset would not be used. In 2017 there was a deferred tax asset, which was accordingly not recognized in the statement of financial position.

The capital stock of Bayer AG is divided into 826,947,808 no-par registered shares, each of which has a theoretical proportionate interest in the total capital stock of €2,116,986,388.48.

Provisions for pensions are computed using the projected unit credit method on the basis of biometric probability using the Heubeck 2005 G reference tables. Expected future salary and pension increases are taken into account. We assume annual salary increases of 2.75% (2016: 2.75%) and annual pension increases of 1.70% (2016: 1.50%). Through 2016, when stating the pension trend, we rounded figures up or down to the nearest quarter of a percent. However, to improve accuracy, rounding is now to the nearest tenth of a percent. For pension entitlements granted since January 1, 2000, an annual pension increase of 1.00% is generally accounted for as this has been promised to the employees. The discount rate used for pension provisions as at December 31, 2017, was 3.68% (December 31, 2016: 4.01%), which is the average market interest rate for the past ten years for instruments with an assumed remaining maturity of 15 years, as published by the Deutsche Bundesbank for December 2017.

Other provisions are established to cover all foreseeable risks and uncertain liabilities based on reasonable estimates of the future settlement amounts of such commitments. Future price and cost increases are taken into account where there are sufficient objective indications that such increases will most probably occur. Provisions maturing in more than one year are discounted to present value using the average market interest rate for the past seven years, based on their remaining maturities. For longer-term personnel-related provisions, such as provisions for long-service anniversaries, a discount rate of 2.80% (2016: 3.24%) is used for an assumed period of 15 years until utilization. Shorter-term personnel-related provisions, such as those for obligations under early retirement arrangements, are discounted using a rate that corresponds to their maturity, which in 2017 was three years. The discount rate was 1.43% (2016: 1.81%). These are the rates published by the Deutsche Bundesbank for December 2017.

Liabilities are recognized at the settlement amount as of the closing date. Noncurrent liabilities containing an interest component are discounted using the average market interest rate in the past seven years applicable to their maturity.

Foreign currency receivables and liabilities, forward exchange contracts and other currency derivatives are recognized using the mark-to-market method. For this purpose, foreign currency receivables and payables are measured at spot rates, while the corresponding currency derivatives entered into for hedging purposes are valued at the market forward rates on the closing date. Unrealized gains and losses are then offset in each currency using the net hedge presentation method. Provisions are set up for any net unrealizable losses; net unrealizable gains are only recognized if they relate to receivables and liabilities with a remaining maturity of up to one year.

The deferred income on the statement of financial position contains payments received prior to the closing date that will give rise to income in a specific future period. This includes license payments, the majority of which will be amortized over the estimated useful life of the asset, starting when marketing approval is obtained for the respective product.

Contingent liabilities arising from sureties and debt guarantees are shown at the amounts equivalent to the loans or commitments actually outstanding on the closing date.

Notes to the Income Statements

1. Sales

Sales increased by €14,340 million compared with 2016. This reflects the fact that Bayer Pharma AG, Germany, and Bayer CropScience AG, Germany, leased their business operations in their entirety to Bayer AG under business lease agreements effective January 1, 2017, and also transferred operational management to this company as of the same date.

Sales by business unit

€ million	2016	2017
Pharma	–	8,478
Crop Science	–	6,111
Corporate Center	390	141
	390	**14,730**

Sales by region

€ million	2016	2017
Germany	348	1,146
Other Europe	14	5,067
North America	16	3,425
Asia / Pacific	9	2,929
Latin America / Middle East / Africa	3	2,163
	390	**14,730**

2. Other operating income

Other operating income comprised:

Other Operating Income

€ million	2016	2017
Gains from the disposal of fixed assets	36	18
Reversals of unutilized provisions	8	16
Government grants for research and development services	1	11
Amortization of deferred income due to early termination of a supply contract	–	7
Valuation gains from the hedging of the stock-based compensation program Aspire 2.0	–	13
Miscellaneous operating income	3	20
	48	**85**

Gains from the disposal of fixed assets included €10 million relating to a patent swap with FMC Corporation, U.S.A., €5 million relating to a patent swap with Sumitomo Chemicals Co. Ltd., Japan, and €3 million from the disposal of other assets. The gains reported in the previous year included €28 million relating to the intra-Group sale of information technology to Bayer Business Services GmbH, Germany, and €8 million from the sale of a patent to Chemetics Inc., Canada.

The miscellaneous operating income included €9 million from the reimbursement of maternity benefits, €2 million from the repayment of lapsed dividend claims, and compensation of €1 million from insurers.

3. Other operating expenses

Other operating expenses comprised:

Other Operating Expenses

€ million	2016	2017
Project costs related to the carve-out and stock market flotation of Covestro	12	–
Additions to provisions for impending losses	198	–
Write-downs of receivables	2	37
Donations	2	11
Miscellaneous operating expenses	13	54
	227	**102**

The miscellaneous operating expenses included property taxes, compensation payments, prepayment penalties and accrued expenses.

The expense recognized in the previous year for the addition to provisions for impending losses resulted from the first-time recognition of impending losses relating to out-licensing and supply agreements that were transferred to Bayer AG under the business lease agreements with Bayer Pharma AG, Germany, and Bayer CropScience AG, Germany, in effect since January 1, 2017. Due to the one-time nature of this expense, it was recognized in other operating expenses. In line with the general rules, any future additions to provisions will be recognized in the functional cost items.

4. Income from investments in affiliated companies – net

Income from Investments in Affiiated Companies – Net

€ million	2016	2017
Dividends and similar income from subsidiaries	329	819
Income from profit and loss transfer agreements with subsidiaries	4,264	2,485
Expenses from profit and loss transfer agreements with subsidiaries	(76)	(240)
Gains from the sale of investments in affiliated companies	130	2,730
	4,647	**5,794**

Details of the income and expenses from investments in affiliated companies are given in the Combined Management Report of Bayer AG and the Bayer Group.

The gains of €2,730 million from the sale of investments in affiliated companies comprised €2,720 million from the sale of 61.7 million shares in Covestro AG and the transfer of a further 8 million shares to Bayer Pension Trust e. V., Germany, €6 million from the repurchase of shares in Bayer CropScience Ltd., India, and €4 million from the sale of the shares in Ehrfeld Mikrotechnik BTS GmbH, Germany. The gains reported in the previous year comprised €50 million from the intra-Group sale of shares in Bayer Technology Services (Shanghai) Co. Ltd., China, €79 million from the transfer of 10 million shares in Covestro AG to Bayer Pension Trust e. V., Germany, and €1 million from the merger of Bayer HealthCare AG, Germany.

5. Interest income / expense – net

Interest Income / Expense – Net

€ million	2016	2017
Income from other securities and loans included in investments	21	17
Other interest and similar income	145	172
• of which from subsidiaries	81	90
Interest and similar expenses	(415)	(728)
• of which to subsidiaries	(134)	(336)
Interest income portion of pension and other noncurrent personnel-related provisions (net)	303	170
	54	**(369)**

Details of the net interest position are given in the Combined Management Report of Bayer AG and the Bayer Group.

Income relating to the interest portion of pension and other noncurrent personnel-related provisions comprised the net amount from the unwinding of discount on the present value of the defined benefit obligation after offsetting income from the assets held by Bayer Pension Trust e. V. (BPT), Germany, and the impact of the change in the discount rate. The assets held by BPT serve the sole purpose of meeting pension obligations and the obligations arising from credit balances on employees' long-term worktime accounts. The Trust's assets are protected from other creditors.

Income from investment of these assets was offset against the interest portion of the corresponding provisions as follows:

Netting of the Interest Portion of Pension and Personnel-Related Provisions with Income from Plan Assets

€ million	2016	2017
Interest portion of pension and other noncurrent personnel-related provisions and from changes in the discount rate (gross)	(84)	(342)
Income from assets held by Bayer Pension Trust e. V.	387	512
	303	**170**

6. Other financial income / expense – net

Other Financial Income / Expense – Net

€ million	2016	2017
Changes in provisions for pensions and other noncurrent personnel-related provisions (excluding interest portion)	56	(41)
Allocation to pension provisions assigned to subsidiaries	4	115
Expenses from currency translation		
– Realized exchange losses	(2,233)	(2,001)
– Unrealized expenses from valuation	(278)	(430)
Income from currency translation		
– Realized exchange gains	2,689	2,182
– Unrealized income from valuation	1	37
Commitment fees for credit facilities	(56)	(215)
Miscellaneous financial expenses	(33)	(13)
Miscellaneous financial income	13	12
	163	**(354)**

The interest portion of allocations to pension and other noncurrent personnel-related provisions is included in interest expense. Other financial income and expense contains further changes in pension provisions, not related to the interest portion, pertaining to former employees of Bayer AG who retired before the hive-down of the business areas and service areas (effective date: July 1, 2002) or who left the company before then and have vested pension rights. Changes of this kind occur in the event of changes in actuarial valuation parameters.

The expenses for allocations to the above provisions for employees who retired or left the company before July 1, 2002, are generally reimbursed by the subsidiaries on a prorated basis under the respective carve-out agreements.

The miscellaneous financial expenses included bank charges of €2 million (2016: €1 million), fees of €5 million for the placement of a bond, a €5 million compensation payment to Monsanto, and the derecognition of a receivable of €1 million relating to guarantee fees for Bayer (China) Ltd., China. In 2016, a pre-payment penalty of €31 million was incurred for early repayment of an intra-Group loan. Miscellaneous financial income included €10 million (2016: €11 million) from guarantee fees.

7. Income taxes

The tax expense reflected here comprises amounts paid or owed for corporate income tax, trade tax and the solidarity surcharge, and income taxes paid outside Germany.

As permitted by the option in Section 274, Paragraph 1, Sentence 2 of the German Commercial Code (HGB), the €877 million excess of deferred tax assets over deferred tax liabilities at year end was not recognized.

Deferred tax assets mainly resulted from the valuation of pension obligations being higher in the accounting statements than in the tax statements. Other deferred tax assets resulted from provisions that are not tax-deductible, such as those for impending losses and pre-retirement leave, and from differences in the measurement of, for example, provisions for early retirement and service anniversaries, as well as interests in partnerships. There was also a deferred tax asset relating to an as yet unused tax loss carryforward.

Deferred tax liabilities principally arose from differences between the valuations of noncurrent assets and assets invested with Bayer Pension Trust e. V., Germany, which cover pension commitments, in the accounting statements and the valuations in the tax statements.

8. Other taxes

Where other taxes can be allocated to the cost of goods sold, selling expenses, research and development expenses or general administration expenses, they are assigned to the respective expense items. In other cases they are assigned to other operating expenses. Other taxes totaled €12 million (2016: €2 million).

9. Cost of materials

Cost of Materials

€ million	2016	2017
Expenses for raw materials, supplies and purchased goods	9	4,677
Expenses for purchased services	2	558
	11	**5,235**

10. Personnel expenses / employees

Personnel Expenses

€ million	2016	2017
Wages and salaries	366	1,708
Social expenses	33	215
Pension expenses	11	122
	410	**2,045**

The personnel expenses shown here do not contain the interest portion of personnel-related provisions, especially pension provisions, which is included in net interest expense.

The average number of employees at Bayer AG was 16,695 in 2017, subdivided as follows:

Employees

		2017
	Female	**Male**
Senior executives and senior managers	1,024	2,515
Junior managers and non-managerial employees	4,890	8,266
	5,914	**10,781**

Part-time employees are included in this figure on a prorated basis.

11. Stock-based compensation

Bayer AG offers its employees long-term stock-based compensation programs as an additional compensation component. Different collective programs are offered to different groups of employees.

The Aspire program for members of the Board of Management, other senior executives and middle managers, which until 2015 comprised two variants (Aspire I and Aspire II) for different management levels, was redesigned effective 2016. All eligible employees are now offered a uniform version called Aspire 2.0. All Aspire programs lead to performance-related payments to employees. Each program runs for four years.

In addition, all employees of Bayer AG, regardless of position and level, are offered the BayShare program, which is set annually by the Board of Management and enables them to purchase Bayer stock at a discount.

Provisions are recorded for all obligations existing under the stock-based compensation programs at the closing date. The amount of such provisions is based on the fair value of the obligations and the proportion of the total duration of the respective program that has elapsed since its introduction. Allocations to provisions are expensed.

Aspire I

Until 2015, members of the Board of Management and other senior executives were able to participate in Aspire I. They were required to purchase a certain number of Bayer shares that was predetermined according to specific guidelines and to retain them for the full term of the program. A percentage of the executive's annual base salary – based on his or her position – was defined as a target for variable payments (Aspire target opportunity). At the end of each tranche of this program, participants receive a certain percentage of their target opportunity as a cash payment. The amount depends on the development of the Bayer share price in absolute terms and the performance of the stock relative to the Dow Jones EURO STOXX 50. This payment is capped at 300%.

The fair value of obligations under the stock-based compensation programs that are still active was calculated by the Monte Carlo simulation method using the following key parameters:

Parameters Used to Determine Fair Value

	2016	2017
Dividend yield	2.90%	2.46%
Risk-free interest rate (duration 4 years)	(0.67)%	(0.35)%
Volatility of Bayer shares	22.78%	15.49%
Volatility of the Dow Jones EURO STOXX 50	11.66%	9.27%
Correlation between the Bayer share price and the Dow Jones EURO STOXX 50	0.67	0.71

The fair value of the Aspire tranche issued in 2014, which expired at the end of 2017, was determined from the payment amount of 20% of the target opportunity, which was already known on the closing date. The payment was made at the start of fiscal 2018. The Aspire tranche issued in 2013 expired at the start of 2017 and a payout of 270% of the target opportunity was made at the start of 2017.

Aspire II

Until 2015, other senior managers were offered Aspire II, a variant of Aspire I that did not require a personal investment in Bayer shares. The amount of the award is based entirely on the absolute performance of Bayer stock. The maximum payout is 250% of each manager's Aspire target opportunity.

The fair value of the Aspire tranche issued in 2014, which expired at the end of 2017, was determined from the payment amount of 40% of the target opportunity, which was already known on the closing date. The tranche issued in 2013 achieved a payout of 220%, which was made at the start of 2017.

Aspire 2.0

Since 2016, Aspire has been offered to all eligible employees in a new, standardized format named Aspire 2.0. For the members of the Board of Management there is the additional hurdle of the performance of Bayer shares against the EURO STOXX. Aspire 2.0 is also based on a percentage of each employee's annual base salary, the percentage varying according to his or her position. This is now multiplied by the employee's STI payout factor from the global short-term incentive (STI) program to give the Aspire grant value. The STI payout factor reflects the employee's individual performance and the business performance used for the STI program. The Aspire grant value is converted into virtual Bayer shares by dividing it by the share price at the start of the program. The program's performance is based on these virtual shares. The fair value of the obligations is determined from the price of Bayer stock at year end and the dividends paid up to that time. The payment made at the end of each tranche is determined by multiplying the number of virtual shares by the relevant Bayer share price at that time and adding an amount equivalent to the dividends paid during the period of the tranche. The maximum payout for Aspire 2.0 is 250% of the target amount.

BayShare

Under the BayShare program, Bayer subsidizes eligible employees' personal investments in Bayer stock. The discount under this program is set separately each year. In both 2017 and 2016, it was 20% of the subscription amount. As in 2016, the maximum subscription amount was set at €2,500 or €5,000, depending on the employee's position. The maximum subscription amount for apprentices was €1,800. The shares acquired under this program are held in a special share deposit account and have to be retained under December 31 of the year following the year of purchase.

Bayer AG's expenses for stock-based compensation programs in 2017 totaled €36 million (2016: €14 million). This amount is reflected in personnel expenses. Provisions for these programs amounted to €63 million as of December 31, 2017 (2016: €41 million).

12. Valuation write-downs

There were no write-downs in 2017. In the previous year, write-downs of €1 million were made to reflect declines in the value of intangible assets that were expected to be permanent.

Notes to the Statements of Financial Position

13. Intangible assets

Intangible Assets

€ million	Acquired concessions, industrial property rights, similar rights and assets, and licenses thereunder	Advance payments	Total
Gross carrying amounts, Dec. 31, 2016	66	7	73
Additions	111	1	112
Retirements	4	–	4
Transfers	4	(4)	–
Gross carrying amounts, Dec. 31, 2017	**177**	**4**	**181**
Accumulated amortization and write-downs, Dec. 31, 2016	44	–	44
Amortization and write-downs 2017	14	–	14
Accumulated amortization and write-downs, Dec. 31, 2017	**58**	**–**	**58**
Net carrying amounts, Dec. 31, 2017	**119**	**4**	**123**
Net carrying amounts, Dec. 31, 2016	22	7	29

14. Property, plant and equipment

Property, Plant and Equipment

€ million	Land and buildings	Plant and equipment	Furniture, fixtures and other equipment	Advance payments and assets under con-struction	Total
Gross carrying amounts, Dec. 31, 2016	60	14	20	5	99
Additions	–	4	3	2	9
Retirements	–	2	–	–	2
Transfers	2	2	–	(4)	–
Gross carrying amounts, Dec. 31, 2017	**62**	**18**	**23**	**3**	**106**
Accumulated depreciation and write-downs, Dec. 31, 2016	59	3	8	–	70
Depreciation and write-downs 2017	–	4	3	–	7
Accumulated depreciation and write-downs, Dec. 31, 2017	**59**	**7**	**11**	**–**	**77**
Net carrying amounts, Dec. 31, 2017	**3**	**11**	**12**	**3**	**29**
Net carrying amounts, Dec. 31, 2016	1	11	12	5	29

15. Investments

Investments

€ million	Investments in subsidiaries	Loans to subsidiaries	Investments in other affiliated companies	Loans to other affiliated companies	Securities included in investments	Other loans	Total
Gross carrying amounts, Dec. 31, 2016	48,290	108	28	2	51	753	49,232
Additions	5,922	–	–	1	1	2	5,926
Retirements	7,962	4	27	–	–	2	7,995
Transfers	(1,288)	–	1,288	–	–	–	–
Gross carrying amounts, Dec. 31, 2017	**44,962**	**104**	**1,289**	**3**	**52**	**753**	**47,163**
Accumulated write-downs, Dec. 31, 2016	82	10	27	–	–	1	120
Write-downs 2017	12	–	–	–	–	–	12
Write-ups	–	(1)	–	–	–	–	(1)
Retirements	12	–	27	–	–	–	39
Accumulated write-downs, Dec. 31, 2017	**82**	**9**	**–**	**–**	**–**	**1**	**92**
Net carrying amounts, Dec. 31, 2017	**44,880**	**95**	**1,289**	**3**	**52**	**752**	**47,071**
Net carrying amounts, Dec. 31, 2016	48,208	98	1	2	51	752	49,112

The additions to, and retirements of, investments in subsidiaries each included €5,786 million in connection with the transfer of our 100% interest in Bayer US B. V., Netherlands, to Bayer World Investments B. V., Netherlands, and €33 million in relation to the merger of Bayer Innovation GmbH, Germany, into Siebte Bayer VV GmbH, Germany. The additions and retirements in connection with this merger also included write-downs of €12 million. Further additions comprised €100 million from capital contributions to subsidiaries, €95 million at Erste K-W-A Beteiligungsgesellschaft mbH, Germany, and €5 million at Bayer 04 Leverkusen Fußball GmbH, Germany. The remaining additions totaling €3 million resulted from the intra-Group acquisition of shares in Bayer Philippines, Inc., Philippines. The retirements included a further €2,074 million in connection with the retirement of 80.19 million shares in Covestro AG, Germany, 72.19 million of which were sold. Of the latter number, 13.94 million were sold to banks while retaining exposure to the economic risks and opportunities (the shares are now reflected in other assets; of these, the banks had sold on 3.5 million shares as at the closing date). A further 8 million shares were transferred to Bayer Pension Trust e. V., Germany. The retirements also included a capital repayment of €69 million to Bayer (China) Ltd., China. The reclassifications related to the remaining shares in Covestro (49.81 million shares / 24.6% interest) which are now reflected in investments in affiliated companies. Since these shares are securitized, they could also have been recognized as noncurrent assets.

Details of the subsidiary and affiliated companies of Bayer AG pursuant to Section 285, Numbers 11, 11a and 11b of the German Commercial Code are included in the annual financial statements that have been certified and submitted for publication in the German Federal Gazette (Bundesanzeiger). They are also available at www.bayer.com/owner17.

In 2008, Bayer AG established a repayable “effective initial fund” of €800 million for Bayer-Pensionskasse VVaG, Germany, which was increased to €1,600 million in 2012. €595 million of this has so far been paid to the pension fund. The capital provided for the effective initial fund is interest-bearing, but interest is only payable under certain contractually agreed conditions. Interest must be deferred if it would result in the pension fund reporting a net loss. Loans granted by the effective initial fund are contained in other loans.

16. Inventories

Inventories

€ million	Dec. 31, 2016	Dec. 31, 2017
Raw materials and supplies	1	541
Work in process	2	882
Finished goods	–	574
Goods purchased for resale	–	107
Advance payments	–	5
	3	**2,109**

17. Trade accounts receivable

Trade Accounts Receivable

€ million	Dec. 31, 2016	Dec. 31, 2017
Accounts receivable from subsidiaries	65	1,646
Accounts receivable from other customers	12	356
	77	**2,002**

18. Accounts receivable from subsidiaries

Accounts receivable from subsidiaries mainly comprised financial receivables, for example, in connection with loans or overnight funds, accrued interest, and receivables relating to profit transfers from subsidiaries that form a fiscal entity with Bayer AG.

19. Other assets

The other assets comprised:

Other Assets

€ million	2016	2017
Payroll receivables	12	14
Accrued interest	36	34
Covestro AG shares transferred for sale	–	284
Claims for tax refunds	125	105
Premiums paid to conclude options transactions	222	45
Other	15	89
	410	**571**

The other assets included €34 million (2016: €36 million) for assets that do not legally come into being until after year end. With some insignificant exceptions, these consisted entirely of accrued interest.

Accrued interest relating to subsidiaries totaling €37 million, which was reflected in other assets in the previous year, was reclassified to receivables from subsidiaries to aid comparability. Similarly, the short-term investments in commercial paper and time deposits were reclassified to marketable securities (€305 million) and cash and cash equivalents (€1,620 million), respectively.

20. Receivables and other assets maturing in more than one year

Total receivables and other assets amounting to €5,158 million (2016: €4,579 million) included €81 million (2016: €33 million) due in more than one year. Of this total, €5 million (2016: €0 million) related to trade accounts receivable, €3 million (2016: €3 million) to receivables from subsidiaries, and €73 million (2016: €30 million) to other assets.

21. Securities

The securities comprised investments in commercial paper with maturities of less than one year.

22. Cash and cash equivalents

Cash and cash equivalents included €1 million (2016: €1 million) to settle civil law compensation claims relating to antitrust violations in the fields of rubber, polyester polyols and urethanes in Canada. Bayer has placed this amount in an escrow account administered in Canada pending acceptance or judicial confirmation of the settlements offered.

23. Deferred charges

The deferred charges as of December 31, 2017, included unamortized discounts totaling €9 million pertaining to bonds issued by Bayer AG. The amount of €11 million recognized at the start of the year diminished by €2 million due to amortization. Also reflected here are unamortized discounts totaling €28 million (2016: €42 million) pertaining to the mandatory convertible bond issued by Bayer Capital Corporation B.V., Netherlands, which was passed on to Bayer AG with the same conditions. Likewise reported here are accrued charges of €75 million (2016: €157 million) for U.S. dollar credit facilities that Bayer has obtained for the planned acquisition of Monsanto.

The remaining deferred charges comprised advance payments of charges for other credit facilities, prepaid premiums for business insurance and other accrued charges.

24. Surplus from offsetting

Obligations arising from credit balances on employees' long-term worktime accounts are secured, and obligations from pension commitments are partially secured, by assets invested with Bayer Pension Trust e. V. (BPT), Germany, under multiple contractual trust arrangements (CTAs). These assets may only be used for the purpose of meeting the respective obligations and are protected from other creditors in the event that the employer becomes insolvent. They are offset against the underlying obligations. Any positive difference is capitalized as a surplus from offsetting, otherwise it is reflected in provisions. As of December 31, 2017, the offset resulted in a positive difference of €152 million (2016: €140 million), of which €32 million (2016: €5 million) comprised obligations from long-term worktime accounts and €120 million (2016: €135 million) comprised pension commitments.

Surplus from Offsetting

€ million	Dec. 31, 2016	Dec. 31, 2017
Settlement value of obligations relating to credit balances on employees' long-term worktime accounts	13	102
Fair value of assets invested with Bayer Pension Trust	18	134
Differences between assets and obligations relating to long-term worktime accounts (surplus from offsetting)	**5**	**32**
Acquisition cost of assets invested with Bayer Pension Trust	16	129

€ million	Dec. 31, 2016	Dec. 31, 2017
Settlement value of pension commitments	389	451
Fair value of assets invested with Bayer Pension Trust	524	571
Differences between assets and obligations relating to pension commitments (surplus from offsetting)	**135**	**120**
Acquisition cost of assets invested with Bayer Pension Trust	468	524

In 2017, the collateral assets principally comprised liquid international fixed-income bonds, shares, real estate and alternative investments made by a Belgium investment company operating as a SICAV (Société d'investissement à capital variable) through intermediate investment vehicles. Shares in the SICAV can be sold on any stock-exchange trading day. The collateral assets also included 18 million shares in Covestro AG, Germany, 8 million of which were transferred by Bayer AG to BPT in 2017.

The collateral assets invested through the SICAV and the shares in Covestro AG are measured at fair value. As of December 31, 2017, this was €3,770 million. Offsetting these assets totaling €705 million against the underlying obligations resulted in a positive difference, which was recorded as a surplus from offsetting; offsetting of the remaining €3,065 million against obligations was reported under provisions for pensions. Dividend payments in 2017 resulted in BPT receiving an inflow of €118 million from the SICAV and an inflow of €13.5 million from Covestro AG's dividend payments.

25. Equity

Changes in equity in 2017 were as follows:

Equity

€ million	Dec. 31, 2016	Dividend for 2016	Net income	Dec. 31, 2017
Capital stock	2,117	–	–	2,117
Capital reserve	6,176	–	–	6,176
Other retained earnings	6,039	–	1,643	7,682
Distributable profit	2,233	(2,233)	2,900	2,900
	16,565	**(2,233)**	**4,543**	**18,875**

The capital stock of Bayer AG was unchanged from the previous year and amounted to €2,116,986,388.48, divided into 826,947,808 registered shares and fully paid in. Each share confers one voting right.

Authorized capital and conditional capital

The authorized capital and conditional capital comprised:

Authorized and Conditional Capital

Capital	Resolution	Amount / Shares	Expires	Purpose
Authorized capital I	April 29, 2014	€530 million	April 28, 2019	Increase the capital stock by issuing new no-par shares against cash contributions and / or contributions in kind, the latter not to exceed €423 million
Authorized capital II	April 29, 2014	€212 million	April 28, 2019	Increase the capital stock by issuing new no-par shares against cash contributions
Conditional capital	April 29, 2014	€212 million / up to 82,694,750 shares	April 28, 2019	Increase the capital stock by granting no-par shares to the holders of bonds with warrants or convertible bonds, profit participation certificates or income bonds. The authorizations to issue such instruments are limited to a total nominal amount of €6 billion

Capital increases are effected by issuing new registered no-par shares. Stockholders must normally be granted subscription rights. However, subscription rights may be excluded under certain conditions stated in the authorization resolutions. Absent a further resolution of the Annual Stockholders' Meeting on the exclusion of stockholders' subscription rights, the Board of Management will only use the existing authorizations to increase the capital stock out of the authorized or conditional capital – while excluding stockholders' subscription rights – up to a total amount of 20% of the capital stock that existed when the respective resolutions were adopted by the Annual Stockholders' Meeting on April 29, 2014. All issuances or sales of no-par shares or of bonds with warrants or conversion rights or obligations that are effected while excluding stockholders' subscription rights also count toward this 20% limit. Details of the authorized and conditional capital are provided in the Notice of the Annual Stockholders' Meeting of April 29, 2014, and on the Bayer website.

On November 16, 2016, Bayer placed €4.0 billion in mandatory convertible notes without granting subscription rights to existing stockholders of the company. The notes, denominated in units of €100,000, were issued by Bayer Capital Corporation B.V., Netherlands, under the subordinated guarantee of Bayer AG. At maturity, the outstanding amount of the notes will be mandatorily converted into registered no-par shares of Bayer AG. The proceeds were the subject of an intra-Group transfer to Bayer AG. The mandatory convertible notes will be reported under payables to subsidiaries until they mature. The issuance of the mandatory convertible notes constitutes a utilization of conditional capital.

The authorized capital has not been utilized so far.

Information on amounts barred from distribution pursuant to Section 253, Paragraph 6 and Section 268, Paragraph 8 of the German Commercial Code (HGB)

The provisions for pensions recognized in the statement of financial position (before deduction of the corresponding assets) were calculated on the basis of the relevant average market interest rate for the past ten years. If the average for the past seven years had been used, the obligations would have been €551 million higher.

To secure pension obligations and credit balances on employees' long-term worktime accounts, funds have been transferred to Bayer Pension Trust e. V. (BPT), Germany, under several contractual trust arrangements. They may only be used for the specified purpose and are protected from other creditors in the event that the employer becomes insolvent. They are measured at fair value. Their fair value on the closing date was €3,770 million, which was €1,164 million above the acquisition costs of €2,606 million.

The difference between the pension obligations based on the average interest rate for ten and seven years and the difference between the fair value and acquisition cost of the assets held by BPT totaled €1,715 million. Since Bayer has freely available retained earnings of €7,682 million, there is no restriction on the use of the distributable profit of €2,900 million.

Notifications of direct and indirect stockholdings pursuant to Section 33, Paragraph 1 of the Securities Trading Act (WpHG)

Between the start of the fiscal year and the closing date, we received the following notifications of stockholdings in Bayer AG pursuant to Section 33, Paragraph 1 of the German Securities Trading Act (WpHG). In cases where stockholdings reached, exceeded or fell below the thresholds set out in this legislation on several occasions, only the most recent notification is mentioned:

- BlackRock, Inc., Wilmington, U.S.A., notified us that its voting rights amounted to 7.09% on November 9, 2017. 7.07% of these voting rights (58,492,306 voting rights) were attributable to this company pursuant to Section 22 WpHG (now Section 34 WpHG). 0.01% of these voting rights (69,836 voting rights) were attributable to this company as an instrument within the meaning of Section 25, Paragraph 1, No. 1 WpHG (now Section 38, Paragraph 1, No.1 WpHG) (securities loan). 0.01% of these voting rights (45,132 voting rights) were attributable to this company as an instrument within the meaning of Section 25, Paragraph 1, No. 2 WpHG (now Section 38, Paragraph 1, No. 2 WpHG) (call option or contract of difference).
- Sun Life Financial Inc., Toronto, Canada, notified us that its voting rights dropped below the 3% threshold on March 24, 2017, and amounted on that date to 0.001% (11,589 voting rights). All of these voting rights were attributable to this company pursuant to Section 22 WpHG (now Section 34 WpHG).

For further details, please see the individual voting rights notifications, which are published on our website at www.bayer.com.

26. Provisions for pensions

This item includes provisions for current and future pension entitlements.

It also includes commitments to former employees of the business areas and service areas hived down into separate legal entities in 2002 and 2003 who retired before July 1, 2002, or who left the company before this date and have vested pension rights. The respective companies reimburse Bayer AG for these expenses as a matter of course.

Obligations arising from pension commitments are partially secured by assets invested with Bayer Pension Trust e. V., Germany, under multiple contractual trust arrangements (CTAs). These assets may only be used for the purpose of meeting the respective obligations and are protected from other creditors in the event that the employer becomes insolvent. They are offset against the underlying obligations. Any positive difference is capitalized as a surplus from offsetting, otherwise it is reflected in provisions.

Further information on the CTA is given in Note 24. The investments are measured at fair value.

Provisions for Pensions

€ million	Dec. 31, 2016	Dec. 31, 2017
Settlement value of pension commitments	2,578	3,800
Fair value of assets invested with Bayer Pension Trust	1,681	3,065
Net value of pension commitments (provisions)	**(897)**	**(735)**
Acquisition cost of assets invested with Bayer Pension Trust	1,312	1,948

27. Other provisions

Other Provisions

€ million	Dec. 31, 2016	Dec. 31, 2017
Provisions for taxes	541	391
Miscellaneous provisions	467	1,075
	1,008	**1,466**

Miscellaneous provisions include amounts for incentive payments, long-service awards to employees, early retirement arrangements, vacations, compensation of the Supervisory Board, environmental protection measures, the costs of preparing and auditing the annual financial statements, and other uncertain liabilities. They also included provisions for impending losses, for example on, foreign exchange derivatives, out-licensing and sales agreements.

As of December 31, 2017, provisions of €1 million (2016: €1 million) existed for commitments arising from compensation claims relating to antitrust violations in the fields of rubber, polyester polyols and urethanes.

28. Bonds and promissory notes

In addition to promissory notes totaling €45 million (2016: €45 million), bonds with a nominal value of €6,817 million had been issued as of December 31, 2017 (2016: €6,567 million). They comprised:

Bonds

	Nominal value	Stated rate	Effective rate	Dec. 31, 2016	Dec. 31, 2017
		%	%	€ million	**€ million**
DIP bond 2006 / 2018	GBP 250 million	5.625	5.774	369	369
DIP bond 2006 / 2018 (increase)	GBP 100 million	5.625	5.541	148	148
DIP bond 2014 / 2018[1]	EUR 750 million	1.125	1.253	750	–
DIP bond 2014 / 2021	EUR 750 million	1.875	2.086	750	750
Hybrid bond 2014 / 2074[2]	EUR 1,500 million	3.750[5]	3.811	1,500	1,500
Hybrid bond 2014 / 2075[3]	EUR 1,750 million	3.000[6]	3.093	1,750	1,750
Hybrid bond 2015 / 2075[4]	EUR 1,300 million	2.375[7]	2.517	1,300	1,300
Exchangeable bond 2017 / 2020 (convertible)	EUR 1,000 million	0.050	(1.640)	–	1,000
				6,567	**6,817**

[1] Early termination option used in 2017
[2] Redeemable at 12 months notice from 2024
[3] Redeemable at 12 months notice from 2020
[4] Redeemable at 12 months notice from 2022
[5] Fixed interest rate until 2024, thereafter floating rate based on 5-year swap rate
[6] Fixed interest rate until 2020, thereafter floating rate based on 5-year swap rate
[7] Fixed interest rate until 2022, thereafter floating rate based on 5-year swap rate plus 200.7 basis points

29. Trade accounts payable

Trade Accounts Payable

€ million	Dec. 31, 2016	Dec. 31, 2017
Payables to subsidiaries	30	648
Payables to other suppliers	56	1,102
	86	**1,750**

30. Payables to subsidiaries

The payables to subsidiaries mainly comprised financial liabilities such as loans and overnight funds made available to Bayer AG by subsidiaries, plus the respective accrued interest. They include €4 billion from the mandatory convertible notes issued by Bayer Capital Corporation B. V., Netherlands, which was the subject of an intra-Group transfer to Bayer AG.

31. Miscellaneous liabilities

The miscellaneous liabilities comprised:

Miscellaneous Liabilities

€ million	2016	2017
Accrued interest	153	134
Short-term investments with Bayer AG	57	141
Premiums received on options	163	4
Social insurance liabilities	12	2
Employees' income and church taxes	15	76
Tax liabilities to municipalities and tax offices	–	31
Other	18	70
	418	**458**

The other miscellaneous liabilities included payroll liabilities, fees for the provision of credit facilities, commitment fees for credit facilities and premiums received from the issuance of a convertible bond.

The accrued interest of €51 million relating to subsidiaries, which was included in miscellaneous liabilities in 2016, has been reclassified to payables to subsidiaries to aid comparability.

32. Further information on liabilities

The residual maturities of liabilities were as follows:

Maturity Structure of Other Liabilities

	Dec. 31, 2016		Dec. 31, 2017	
€ million	Maturing in 2017	Maturing after 2017	Maturing in 2018	Maturing after 2018
Bonds and promissory notes	–	6,612	517	6,345
Liabilities to banks	61	–	756	–
Down payments received on orders	2	–	2	–
Trade accounts payable	86	–	1,750	–
Payables to subsidiaries	26,697	4,500	23,333	4,745
Miscellaneous liabilities	412	6	404	54
	27,258	**11,118**	**26,762**	**11,144**

€5,050 million (2016: €5,050 million) of the total liabilities had a residual maturity of more than five years. Of this amount, €4,550 million (2016: €4,550 million) comprised bonds and €500 million (2016: €500 million) comprised payables to subsidiaries.

The total liabilities as of December 31, 2017, included €134 million (2016: €153 million) in liabilities that did not legally come into being until after year end. These consisted almost entirely of accrued interest amounting to €134 million (2016: €153 million).

33. Deferred income

The deferred income comprised advance payments under licenses and settlement agreements as well as payments for services to be delivered in the future.

Other Information

34. Contingent liabilities

Liabilities arising from debt guarantees and sureties totaled €9,874 million (2016: €14,125 million). They were issued in favor of subsidiaries. Based on our knowledge of their respective economic situation, all of these companies are able to meet the underlying liabilities, so the contingent liabilities are not expected to materialize.

Debt Guarantees and Sureties

	Dec. 31, 2016 Nominal amount	Dec. 31, 2016 € million	Dec. 31, 2017 Nominal amount	Dec. 31, 2017 € million
Guarantees for Group companies				
Bayer Capital Corporation B. V., Netherlands				
– 1.250% DIP notes, maturing in 2023	EUR 500 million	500	EUR 500 million	500
– 5.625% mandatory convertible bond, maturing in 2019 at the latest	EUR 4,000 million	4,000	EUR 4,000 million	4,000
– Liabilities to banks	EUR 74 million	74	EUR 47 million	47
Bayer World Investments B. V., Netherlands				
– Floating-rate term loan, maturing in 2018	USD 1,700 million	1,613	-	-
Bayer Corporation, U. S. A.				
– 6.650% notes, maturing in 2028	USD 350 million	332	USD 350 million	292
– Commercial paper	USD 20 million	19	USD 50 million	42
– Liabilities to banks	USD 33 million	31	USD 60 million	50
Bayer US Finance LLC, U.S.A				
– Floating-rate notes, maturing in 2017	USD 400 million	379	–	–
– 1.500% notes, maturing in 2017	USD 850 million	807	–	–
– 2.375% notes, maturing in 2019	USD 2,000 million	1,898	USD 2,000 million	1,667
– 3.000% notes, maturing in 2021	USD 1,500 million	1,423	USD 1,500 million	1,251
– 3.375% notes, maturing in 2024	USD 1,750 million	1,661	USD 1,750 million	1,459
Bayer Holding Ltd., Japan				
– 1.459% DIP bond, maturing in 2017	JPY 10 billion	81	–	–
– 0.816% DIP bond, maturing in 2017	JPY 30 billion	244	–	–
– 3.575% DIP bond, maturing in 2018	JPY 15 billion	121	JPY 15 billion	111
– 0.594% DIP bond, maturing in 2019	JPY 10 billion	81	JPY 10 billion	74
– 0.230% DIP bond, maturing in 2021	–	–	JPY 10 billion	74
– 0.260% DIP bond, maturing in 2022	–	–	JPY 10 billion	74
Bayer Nordic SE, Finland				
– Floating-rate DIP bond, maturing in 2017	EUR 500 million	500	–	–
Silver Birch Trustees Ltd., U. K.				
– Pension obligations	GBP 190 million	222	GBP 89 million	100
Bayer Real Estate GmbH, Germany				
– Contractual obligations to Bayer-Pensionskasse VVaG	EUR 78 million	78	EUR 75 million	75
Currenta GmbH & Co. OHG, Germany				
– Liabilities to the Federal State of North Rhine-Westphalia	EUR 53 million	53	EUR 53 million	53
Guarantees for other Group companies		4		5
Sureties for Group companies		4		–
		14,125		**9,874**

In connection with the Contribution, Indemnification and Post-Formation Agreement between Bayer AG and Covestro AG, Germany, arrangements were made to settle possible claims for taxes. These may result in corresponding liabilities.

35. Other financial commitments

In addition to provisions, other liabilities and contingent liabilities, there were also other financial commitments.

A total commitment of €3,460 million (2016: €2,326 million) related to future leasing and rental payments. €3,391 million (2016: €2,265 million) of this amount related to rental and lease agreements with subsidiaries. The total rental and lease commitments are due as follows:

Leasing and Rental Commitments

	€ million
2018	1,509
2019	183
2020	183
2021	182
2022	183
after 2022	1,220
	3,460

In 2008, the establishment of an “effective initial fund” totaling €800 million was agreed with Bayer-Pensionskasse in view of the increase in the present and future life expectancy of those insured with this pension fund. The effective initial fund entails the granting of a repayable, interest-bearing loan to Bayer-Pensionskasse as required. In 2012, it was increased by €800 million to €1,600 million. Following payment of a total of €595 million, a loan commitment of €1,005 million remained.

Financial commitments resulting from orders already placed under purchase agreements related to planned or ongoing capital expenditure projects totaled €360 million (2016: €0 million). The respective payments are to be made through 2021, with €244 million due in 2018. Additional commitments to subsidiaries amounted to €7 million. Almost all of the corresponding payments are due in 2018.

Furthermore, based on current estimates, payments of €2,630 million (2016: €2,962 million) will have to be made for license agreements and research collaborations in the coming years. The maturity spread of the total commitments comprised:

Cooperation Agreements

	€ million
2018	1,090
2019	100
2020	63
2021	42
2022	33
after 2022	1,302
	2,630

The company remains liable for pension obligations of €358 milion that were transferred to a subsidiary through a liability assumption agreement or via carve-outs. They are not expected to materialize. To our knowledge, the subsidiary in question is able to meet the underlying liabilities.

On September 14, 2016, Bayer and Monsanto signed a definitive merger agreement under which Bayer will acquire the Monsanto Company, St. Louis, Missouri, United States, for USD 128 per share. Financing of the acquisition is secured through corresponding capital measures.

36. Derivatives / micro-hedges

In the course of their business, Bayer AG and companies in the Bayer Group are exposed to foreign exchange, interest-rate and price risks, which are hedged principally by means of derivatives. Most of these are over-the-counter (OTC) instruments. Derivative financial instruments are employed on the basis of uniform guidelines and are subject to strict internal controls. Apart from a few low-value exceptions, their use is confined to the hedging of the Bayer Group's operating business and of the related investments and financing transactions. The instruments used for currency hedging are mainly forward exchange contracts, currency options and cross-currency interest-rate swaps. Interest-rate swaps and interest-rate futures are used to hedge interest rates. Share options are used to hedge fluctuations in the value of commitments to employees under stock-based compensation programs.

The main objective of using derivatives is to reduce fluctuations in earnings and cash flows associated with changes in foreign exchange rates, interest rates, share prices and market prices.

There is a risk that the value of derivatives could change as a result of fluctuations in underlying parameters such as exchange rates, interest rates, share prices or market prices. Where derivatives are designated as hedges, possible declines in their value are offset by corresponding increases in the value of the hedged contracts.

In the case of derivatives with a positive fair value, a credit or default risk arises if the counterparties cannot meet their obligations. To minimize this risk, we assign contract limits to the individual banks according to their creditworthiness.

The notional amount of financial derivatives contracts concluded with external counterparties was €27.6 billion as of December 31, 2017 (2016: €33.5 billion). Back-to-back derivatives contracts in a notional amount of €8.4 billion (2016: €13.8 billion) were concluded with Group companies. Thus the total notional amount of derivatives was €36.0 billion (2016: €47.3 billion), including those forming hedging relationships. The derivatives comprised the following:

Derivatives

	Notional amounts		Fair values		Carrying amounts	
€ million	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017
Currency contracts						
– positive fair values	15,185	7,893	543	212		
– negative fair values	12,392	13,990	(355)	(337)		
	27,577	21,883	188	(125)	(20)	(190)
Currency options						
– positive fair values	9,456	106	276	11		
– negative fair values	5,250	77	(75)	–		
	14,706	183	201	11	–	–
Cross-currency interest-rate swaps						
– positive fair values	1,588	1,465	193	148		
– negative fair values	2,298	2,125	(311)	(276)		
	3,886	3,590	(118)	(128)	–	–
Interest-rate swaps						
– positive fair values	200	3,118	14	75		
– negative fair values	–	6,168	–	(81)		
	200	9,286	14	(6)	–	(81)
Share options						
– positive fair values	512	548	63	29		
– negative fair values	462	548	(56)	(28)		
	974	1,096	7	1	(2)	(6)
	47,343	**36,038**	**292**	**(247)**	**(22)**	**(277)**

Derivatives used to hedge currency risks

To hedge currency risks, Bayer AG used currency contracts (forward exchange agreements and currency options) and cross-currency interest-rate swaps.

Hedging was focused on financial exposure. To hedge the currency risk arising from receivables and liabilities at Bayer AG and Group companies, Bayer AG concluded currency contracts with a notional amount of €6.4 billion (2016: €12.8 billion) with external counterparties. They had a positive fair value of €30 million (2016: €101 million). Some of these contracts were passed on to Group companies. The notional amount of these reciprocal intra-Group transactions was €5.4 billion (2016: €6.8 billion) and they had a negative fair value of €43 million (2016: positive fair value of €87 million). Exposure in the statement of financial position related to the following:

> Currency contracts concluded to hedge underlying transactions (foreign currency receivables and liabilities) of Group companies are generally passed on to the respective Group companies through appropriate internal transactions. The effects of these internal and external transactions cancel each other out when they are closed out. Currency-based portfolio hedges were formed. The corresponding contracts are due in 2018 and were not recognized in the statement of financial position.
> Currency-based portfolio hedges were also formed with the corresponding underlying transactions for the hedging transactions that remained with Bayer AG. The contracts had a negative fair value of €8 million in total. Included in this amount were currency contracts with a negative fair value of €13 million. These were recognized in miscellaneous provisions as impending losses. Currency contracts with positive fair values of €5 million were recognized in trade accounts receivable in conjunction with Section 256a of the German Commercial Code (HGB).

- The negative fair value of contracts not included in portfolio hedges amounted to €3 million (2016: positive fair value of €178 million). Included in this amount were currency contracts with a negative fair value of €3 million (2016: €19 million). This amount was recognized in miscellaneous provisions as impending losses. The currency contracts with positive fair values of €197 million in the previous year were not recognized in the statement of financial position.
- Currency contracts were also used to hedge foreign currency loans made by Group companies to Bayer AG. The loans and currency contracts were combined to form micro-hedges. The – negative – carrying amount of the hedged loans was €1,222 million on the closing date (2016: €3,317 million). Their fair value was €14 million lower (2016: €76 million higher) at €1,208 million (2016: €3,393 million). The corresponding external currency contracts had a net negative fair value of €11 million (2016: positive fair value of €80 million). They are due in 2018 and were not recognized in the statement of financial position.

To hedge forecast foreign currency transactions at Bayer AG and Group companies that are considered highly probable, external currency contracts were concluded with a notional amount of €9.3 billion (2016: €17.5 billion) and a negative fair value of €78 million (2016: positive fair value of €103 million). They were offset by reciprocal transactions with Group companies with a notional amount of €0.9 billion (2016: €5.0 billion) and a negative fair value of €23 million (2016: positive fair value of €98 million).

- Changes in the value of the corresponding internal and external contracts included in portfolio hedges will cancel each other out when they are closed out in 2018. With the exception of option premiums paid or received of €4 million in each case (2016: €178 million), they were not reflected in the statement of financial position.
- Provisions for impending losses were established for currency contracts not included in portfolio hedges that had a negative fair value of €179 million.

Only a small amount of other currency contracts were concluded (under €0.1 billion; 2016: €0.1 billion). The negative fair value of €1 million was offset by transactions with a positive fair value of €1 million. They were not recognized in the statement of financial position.

Cross-currency interest-rate swaps with a notional amount of €0.5 billion (2016: €0.5 billion) were used to hedge foreign exchange risks from the GBP bonds issued in 2006. Including the corresponding interest accruals, they had a net negative fair value of €128 million (2016: negative fair value of €120 million). The cross-currency interest-rate swaps and bonds form a micro-hedge. The effectiveness of the cross-currency interest-rate swaps is tested prospectively using the critical term match method and retrospectively using the regression method to ensure that the values and cash flows of the transactions offset one another. As a consequence, the bonds were recognized as previously at their original acquisition cost of €517 million and the cross-currency interest-rate swaps, which are due in 2018, were not reflected in the financial statements prepared in accordance with German commercial law.

Other cross-currency interest-rate swaps with a notional amount of €1.5 billion (2016: €1.7 billion) were concluded to hedge Group loans granted by Bayer NV, Belgium. As a result of back-to-back agreements with Bayer NV with a notional value of €1.5 billion (2016: €1.5 billion), the positive and negative fair values of the various hedge relationships formed according to the maturities of the agreements canceled each other out. The other external and internal cross-currency interest-rate swaps with a total notional value of less than €0.1 billion in the previous year also canceled each other out; they were not recognized in the statement of financial position.

Derivatives used to hedge interest rate risks

Receiver swaps were used, among other things, to hedge the interest-rate risk relating to DIP bonds issued by Bayer AG. The swaps mature in the period up to 2021 in line with the maturities of the bonds. They had a notional amount of €0.2 billion (2016: €0.2 billion) and a net positive fair value of €11 million (2016: €14 million). They constituted a hedging relationship (micro-hedge) with the bonds, which were reflected in the financial statements. The effectiveness of the hedging relationship is examined prospectively and retrospectively using regression analysis. Since the cash flows relating to the hedged contract and receiver swaps cancel each other out, the receiver swaps were not reflected in the statement of financial position.

Additional interest-rate swaps with a notional amount of €9.1 billion were concluded in the form of forward-starting swaps. They had a negative fair value of €17 million. This included a negative fair value of €81 million from interest-rate swaps with negative fair values. This amount was recognized in miscellaneous provisions as impending losses. Interest-rate swaps with positive fair values of €64 million in 2017 were not recognized in the statement of financial position. The contracts have different maturities up to the year 2038.

Derivatives used to hedge price risks

Bayer AG has concluded share option contracts and customized forward trade contracts with external counterparties to hedge a portion of the obligations arising from the Aspire stock-based compensation program. These expire between 2018 and 2021. Their net fair value was €5 million on December 31, 2017. The contracts with a negative net fair value of €4 million that were passed on to Group companies form micro-hedges with the contracts concluded with external counterparties. These contracts therefore cancel each other out. The contracts remaining with Bayer AG had a fair value of €9 million and formed a micro-hedge with the primary obligations arising from the stock-based compensation program. This hedging relationship is tested prospectively using the critical term match method and retrospectively using regression analysis. The option premiums paid amounting to €41 million (2016: €59 million) and the option premiums received amounting to €31 million (2016: €55 million) were recognized in the statement of financial position. Of the contracts not reflected in the statement of financial position, €6 million (2016: €2 million) related to transactions with negative fair values. This amount was recognized in miscellaneous provisions as impending losses.

External commodity contracts were passed on to Group companies on reciprocal terms as micro-hedges. The results of the contracts that had matured by year end canceled each other out. Only a small amount of commodity contracts was purchased in 2017. No commodity contracts remained on the closing date.

Valuation methods

The fair values of financial derivatives are measured by the usual methods and based on the market data available at the measurement date. The following principles are applied:

> Forward exchange contracts are measured individually at their forward rates on the closing date. These depend on spot rates, including time spreads.
> The fair values of currency options are determined using a Black-Scholes model.
> The fair value of interest-rate swaps is determined by discounting expected future cash flows. Discounting applies market interest rates for the remaining term of these instruments. The fair values of interest-rate options are determined using a Black-Scholes model.
> The fair value of share options is determined by a Monte Carlo simulation.
> The fair value of forward commodity contracts is calculated from future price data obtained from the markets or from external data providers. Certain long-term commodity contracts for which market data are unavailable are measured with the aid of valuation models based on internal fundamental data.

37. Legal risks

As the parent of a global group of companies with a heterogeneous business portfolio, Bayer AG is exposed to numerous legal risks, particularly in the areas of product liability, competition and antitrust law, patent disputes, tax law and environmental protection. The outcome of any current or future proceedings cannot normally be predicted. It is therefore possible that legal or regulatory judgments or future settlements could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could significantly affect our revenues and earnings.

Legal proceedings currently considered to involve material risks are outlined below. The legal proceedings referred to do not represent an exhaustive list. The risks described are those to which Bayer AG is exposed either directly, or indirectly through subsidiaries with which it has profit and loss transfer and / or control agreements. Further legal risks existing in the Bayer Group are described in the notes to the consolidated financial statements of the Bayer Group.

Product-Related Litigation

Mirena™: As of January 30, 2018, lawsuits from approximately 2,900 users of Mirena™, a levonorgestrel-releasing intrauterine system providing long-term contraception, had been served upon Bayer in the United States (excluding lawsuits no longer pending). 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. Plaintiffs claim, inter alia, that Mirena™ is defective and that Bayer knew or should have known of the risks associated with it and failed to adequately warn its users. Additional lawsuits are anticipated. In April 2017, most of the cases pending in U.S. federal courts in which plaintiffs allege idiopathic intracranial hypertension were consolidated in a multidistrict litigation ("MDL") proceeding for common pre-trial management. As of January 30, 2018, lawsuits from approximately 400 users of Mirena™ alleging idiopathic intracranial hypertension had been served upon Bayer in the United States. Another MDL proceeding concerning perforation cases has, in the meantime, been dismissed. The Second Circuit Court of Appeals affirmed the perforation MDL district court's summary judgment order of 2016 dismissing approximately 1,230 cases pending before that court. In August 2017, Bayer reached an agreement in principle with plaintiffs' counsel leadership for global settlement of the perforation litigation, for a total amount of US$12.2 million. As of January 30, 2018, a total of approximately 4,000 cases would be included in the settlement. The idiopathic intracranial hypertension MDL proceeding is not included in the settlement.

As of January 30, 2018, five Canadian lawsuits relating to Mirena™ seeking class action certification had been served upon Bayer. Bayer believes it has meritorious defenses and intends to defend itself vigorously.

Xarelto™: As of January 30, 2018, U.S. lawsuits from approximately 22,000 recipients of Xarelto™, an oral anticoagulant for the treatment and prevention of blood clots, had been served upon Bayer. Plaintiffs allege personal injuries from the use of Xarelto™, including cerebral, gastrointestinal or other bleeding and death, and seek compensatory and punitive damages. They claim, amongst other things, that Xarelto™ is defective and that Bayer knew or should have known of these risks associated with the use of Xarelto™ and failed to adequately warn its users. Additional lawsuits are anticipated. Cases pending in U.S. federal courts have been consolidated in an MDL for common pre-trial management. In May, June and August 2017, the first three MDL trials resulted in complete defense verdicts; plaintiffs have appealed all three verdicts. In January 2018, after the first trial to proceed in Pennsylvania state court had initially resulted in a judgment in favor of the plaintiff, the trial judge vacated the jury's verdict and granted judgment in favor of Bayer. Further Pennsylvania state court trials are currently scheduled for the first and second quarters of 2018. Bayer anticipates that additional trials will be scheduled.

As of January 30, 2018, ten Canadian lawsuits relating to Xarelto™ seeking class action certification had been served upon Bayer. Bayer believes it has meritorious defenses and intends to defend itself vigorously.

Essure™: As of January 30, 2018, U.S. lawsuits from approximately 16,100 users of Essure™, a medical device offering permanent birth control with a nonsurgical procedure, had been served upon Bayer. Plaintiffs allege personal injuries from the use of Essure™, including hysterectomy, perforation, pain, bleeding, weight gain, nickel sensitivity, depression and unwanted pregnancy, and seek compensatory and punitive damages. Additional lawsuits are anticipated.

As of January 30, 2018, two Canadian lawsuits relating to Essure™ seeking class action certification had been served upon Bayer. Bayer believes it has meritorious defenses and intends to defend itself vigorously.

Class actions over neonicotinoids in Canada: Proposed class actions against Bayer were filed in Quebec and Ontario (Canada) concerning crop protection products containing the active substances imidacloprid and clothianidin (neonicotinoids). Plaintiffs are honey producers, who have filed a proposed nationwide class action in Ontario and a Quebec-only class action in Quebec. Plaintiffs claim for damages and punitive damages and allege Bayer and another crop protection company were negligent in the design, development, marketing and sale of neonicotinoid pesticides. The proposed Ontario class action is in a very early procedural phase. In Quebec, the plaintiff sought authorization (certification) of a class for which a motion was heard in November 2017. Bayer believes it has meritorious defenses and intends to defend itself vigorously.

In connection with the above-mentioned proceedings, Bayer is insured against statutory product liability claims against Bayer to the extent customary in the respective industries and has, based on the information currently available, taken appropriate accounting measures in the Bayer Group for anticipated defense costs. However, the accounting measures relating to Essure™ claims exceed the available insurance coverage.

Patent Disputes

Adempas™: In January 2018, Bayer filed patent infringement lawsuits in a U.S. federal court against Alembic Pharmaceuticals Limited, Alembic Global Holding SA, Alembic Pharmaceuticals, Inc. and INC Research, LLC (together “Alembic”), against MSN Laboratories Private Limited and MSN Pharmaceuticals Inc. (together “MSN”) and against Teva Pharmaceuticals U.S.A, Inc. and Teva Pharmaceutical Industries Ltd. (together “Teva”). In December 2017, Bayer had received notices of an Abbreviated New Drug Application with a paragraph IV certification (“ANDA IV”) pursuant to which Alembic, MSN and Teva each seek approval of a generic version of Bayer’s pulmonary hypertension drug Adempas™ in the United States.

Xarelto™: In 2015, Bayer and Janssen Pharmaceuticals filed a patent infringement lawsuit in a U.S. federal court against Aurobindo Pharma Limited, Aurobindo Pharma USA, Inc. (together “Aurobindo”), Breckenridge Pharmaceutical Inc. (“Breckenridge”), Micro Labs Ltd., Micro Labs USA Inc. (together “Micro Labs”), Mylan, Prinston Pharmaceutical Inc. (“Prinston”), Sigmapharm Laboratories, LLC (“Sigmapharm”), Torrent Pharmaceuticals, Limited and Torrent Pharma Inc. (together “Torrent”). Bayer had received notices of an ANDA IV application by Aurobindo, Breckenridge, Micro Labs, Mylan, Prinston, Sigmapharm and Torrent, each seeking approval to market a generic version of Xarelto™, an oral anticoagulant for the treatment and prevention of blood clots, in the United States. In 2016, Bayer received another notice of such an ANDA IV application by InvaGen Pharmaceuticals, Inc. (“InvaGen”). Bayer and Janssen Pharmaceuticals filed a patent infringement lawsuit against InvaGen in the same U.S. federal court.

Bayer believes it has meritorious defenses in the above ongoing patent disputes and intends to defend itself vigorously.

38. Related parties

Related parties are legal entities or natural persons that are able to exert influence on Bayer AG or over which Bayer AG exercises control or has a significant influence.

Transactions with related parties mainly comprise rental, service and financing transactions with subsidiaries, joint ventures and other affiliated companies, and with pension plans. Such transactions are conducted on market terms (arm’s length principle).

Bayer AG had undertaken to provide jouissance right capital (Genussrechtskapital) totaling €150 million for Bayer-Pensionskasse. The entire amount was drawn in both 2016 and 2017. Further, in 2008 the establishment of a repayable “effective initial fund” was agreed with Bayer-Pensionskasse. This was increased by €800 million to €1,600 million in 2012. On December 31, 2017, the amount drawn was €595 million, and thus unchanged from year end 2016.

39. Disclosures pursuant to Section 6b Paragraph 2 of the German Energy Act

There were no unusual transactions in connection with energy supply that were of material significance for the net assets and results of operations of Bayer AG and required disclosure under Section 6b Paragraph 2 of the German Energy Act (EnWG).

40. Total compensation of the Board of Management and the Supervisory Board and loans

The compensation of the Board of Management in 2017 comprised:

Total Compensation of the Board of Management

€ thousand	2016	2017
Fixed salaries	6,385	6,148
Compensation in kind and other benefits	664	266
Short-term variable cash compensation	9,063	4,890
Long-term stock-based cash compensation (Aspire)[1]	12,333	13,020
Aggregate compensation	**28,445**	**24,324**
Service cost for pension commitments[2]	2,737	2,356

[1] Fair value as of grant date
[2] Including company contribution to Bayer-Pensionskasse VVaG or Rheinische Pensionskasse

Members of the Board of Management participate in stock-based compensation programs (Aspire). These are four-year programs under which entitlements are earned in stages. The fair value of these programs at the time they are granted forms part of the overall compensation package and is shown in the above overview as “long-term stock-based cash compensation (Aspire).” The entitlements earned in 2017 under the stock-based compensation programs granted in 2017 and under those from previous years are shown separately in the table below. In addition, the changes in the value of entitlements from stock-based compensation programs earned prior to 2017 are shown separately.

Until 2015, members of the Board of Management also received 50% of their short-term variable compensation in the form of virtual Bayer shares. Payments are made after a three-year retention period and depend on the market price of Bayer shares at that time. Participants also receive an amount equal to the total dividends paid on the equivalent number of real shares during this period. Changes in the value of the virtual shares up to the payment date (including dividend claims accrued during the three-year period) are also shown in the next table.

The expense for the respective year contains the following components relating to long-term variable cash compensation based on virtual Bayer shares and long-term stock-based cash compensation (Aspire) that differ from the amounts included in aggregate compensation:

Multi-Year Variable Compensation of the Board of Management

€ thousand	2016	2017
Long-term variable cash compensation based on virtual Bayer shares		
– Change in the value of virtual shares granted in previous years	(1,275)	538
	(1,275)	**538**
Long-term stock-based cash compensation (Aspire)		
– Entitlements earned in the fiscal year	5,217	9,082
– Change in the value of entitlements earned in previous years	(923)	(641)
	4,294	**8,441**
Expense	**3,019**	**8,979**

Expenses for pension entitlements granted to the members of the Board of Management serving in 2017 amounted to €2,356 thousand (2016: €2,737 thousand). These comprised current service cost for pension commitments and company contributions to Bayer-Pensionskasse and Rheinische Pensionskasse. The interest portion of entitlements earned in prior years and actuarial gains and losses also had an impact. Including these components, the financial expense was €4,261 thousand (2016: €2,249 thousand). Provisions for pension obligations on the closing date were €22,585 thousand (2016: €18,346 thousand).

Pension payments to former members of the Board of Management and their surviving dependents in 2017 amounted to €12,758 thousand (2016: €12,800 thousand). Provisions for pensions and similar commitments to former members of the Board of Management and their surviving dependents amounting to €153,388 thousand (2016: 149,948 thousand) were reflected in the statement of financial position of Bayer AG.

The total remuneration of the Supervisory Board in 2017 was €3,703 thousand (2016: €3,479 thousand). This included attendance fees of €120 thousand (2016: €118 thousand).

There were no loans to members of the Board of Management or the Supervisory Board as of December 31, 2017, nor were any loans repaid during the year.

Details of the compensation of the Board of Management and Supervisory Board are set out in the compensation report, which forms part of the Combined Management Report of the Bayer Group and Bayer AG.

41. Proposal for the use of the distributable profit

The Board of Management and the Supervisory Board propose that, of the distributable profit of EUR 2,900 million reported in the financial statements for the fiscal year 2017, an amount of EUR 2,315 million be used to pay a dividend of EUR 2.80 per share carrying dividend rights and the remaining amount of EUR 585 million be carried forward. The stated amounts proposed for the dividend payment and for carrying forward are based on the number of shares carrying dividend rights (826,947,808) on the date on which the financial statements were prepared by the Board of Management.

As previously announced, the company plans to carry out a capital increase with subscription rights. In the event that the company has carried out the announced capital increase with subscription rights or other capital measures by the date of the Annual Stockholders' Meeting through the issue of new shares carrying dividend rights for the fiscal year 2017, and the number of shares carrying dividend rights on the date of the Annual Stockholders' Meeting is therefore higher than the number on the date on which the financial statements were prepared, the Board of Management and the Supervisory Board will make an adjusted proposal to the Annual Stockholders' Meeting for the distribution of the profit. In this case, the proposed dividend amount of EUR 2.80 per share will remain unchanged and the portion of the distributable profit proposed to be carried forward will be reduced by the amount of the dividend attributable to the newly issued shares.

In the event that the Company holds treasury shares on the date of the Annual Stockholders' Meeting and that the number of shares carrying dividend rights on the date of the Annual Stockholders' Meeting is therefore lower than the number on the date on which the financial statements were prepared, the Board of Management and the Supervisory Board will make an adjusted proposal to the Annual Stockholders' Meeting for the distribution of the profit. In this case, the proposed payment of a dividend of EUR 2.80 per share will remain unchanged, and it will be proposed that the remaining portion of the distributable profit be carried forward.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair representation of the assets, liabilities, financial position and profit or loss of the company, and the Combined Management Report includes a fair review of the development and performance of the business and the position of the Bayer Group and Bayer AG, together with a description of the principal opportunities and risks associated with the expected development of Bayer Group and Bayer AG.

Leverkusen, February 20, 2018
Bayer Aktiengesellschaft

The Board of Management

Werner Baumann

Liam Condon

Johannes Dietsch

Dr. Hartmut Klusik

Kemal Malik

Erica Mann

Dieter Weinand

Independent Auditor's Report

To Bayer Aktiengesellschaft, Leverkusen

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of Bayer Aktiengesellschaft, Leverkusen, which comprise the balance sheet as at December 31, 2017, the income statement for the business year from January 1, 2017 to December 31, 2017 as well as the notes to the annual financial statements, including the accounting and measurement methods presented therein. In addition, we have audited the combined management report of Bayer Aktiengesellschaft, Leverkusen, for the business year from January 1, 2017 to December 31, 2017. In conformity with German legal regulations we have not audited the parts of the combined management report specified in the Chapter “Other information” of our independent auditor's report with regard to their content.

In our opinion, based on our knowledge obtained during the audit

> the accompanying annual financial statements comply with the requirements of German commercial law applicable to corporations in all material respects and give a true and fair view of the net assets and financial position of the Company in accordance with German principles of proper accounting as at December 31, 2017 as well as its results of operations for the business year from January 1, 2017 to December 31, 2017 in accordance with these requirements and
> the accompanying combined management report as a whole provides a suitable view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with the German statutory requirements and suitably presents the opportunities and risks of future development. Our audit opinion on the combined management report does not extend to the content of the parts of the combined management report detailed in the Chapter “Other information” of our independent auditor's report.

Pursuant to § 322 paragraph 3 sentence 1 of the German Commercial Code, we state that our audit has not led to any reservations with respect to the propriety of the annual financial statements and the combined management report.

Basis for audit opinions

We conducted our audit of the annual financial statements and combined management report in accordance with § 317 of the German Commercial Code and the EU Audit Regulation (No. 537/2014, hereinafter "EU Audit Regulation"), and German generally accepted standards for the audit of annual financial statements promulgated by the Institute of Public Auditors in Germany [Institut der Wirtschaftsprüfer] (IDW). We have performed the audit of the annual financial statements in supplementary compliance with the International Standards on Auditing (ISA). Our responsibilities under these requirements, principles and standards are further described in the section "Auditor's responsibility for the audit of the annual financial statements and the combined management report" of our independent auditor's report. We are independent of the Company in accordance with European and German commercial law and rules of professional conduct and we have fulfilled our other ethical responsibilities

applicable in Germany in accordance with these requirements. In addition, pursuant to Article 10 paragraph 2 (f) of the EU Audit Regulation, we declare that we have not provided any prohibited non-audit services pursuant to Article 5 paragraph 1 of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and the combined management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the business year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole and in forming our audit opinion thereon but we do not provide a separate opinion on these matters.

In the following we present the key audit matters in our view:

1. New Bayer – Business lease agreements
2. New Bayer – Transfer of employees
3. Derivative financial instruments – Accounting treatment of valuation units and hedging transactions
4. Impairment of shares in affiliated companies

Our presentation of these key audit matters has been structured as follows:

a) Description (including reference to corresponding information within the financial statements)
b) Auditor's response

1. New Bayer – Business lease agreements

a) Following the public offering of Covestro AG in 2015, Bayer Aktiengesellschaft reorganized the group as at January 1, 2016 and replaced the previous organization of Bayer Aktiengesellschaft as a strategic management holding and operative sub-groups with an integral structure under management of Bayer Aktiengesellschaft's Board of Management. The operative business is managed through three divisions: Pharmaceuticals, Consumer Health and Crop Science, and the business unit Animal Health as well as Covestro, in which Bayer Aktiengesellschaft held a 64% shareholding interest as of December 31, 2016. Consequently, the internal reporting structure of the group was also amended. The new organization and final implementation of the new integrated structure was concluded as of January 1, 2017 by leasing the operations of Bayer Pharma AG (BPH AG) and Bayer CropScience AG (BCS AG) (collectively referred to as "lessor") to Bayer Aktiengesellschaft (referred to as "lessee"). Effective as of this date, BPH AG and BCS AG leased their operations to Bayer Aktiengesellschaft, transferred their respective inventories to the lessee and the lessee assumed the management of the operations. The leases include all assets, contracts and other legal agreements that are necessary to manage the operations of the lessor. Excluded from the leases are all investment holdings and related rights, other financial assets including silent participations and related receivables, other rights and liabilities.

   The lease payments for fiscal year 2017 were calculated by means of an expert opinion. The business lease agreements have each been concluded for the duration of one calendar year. The expiration dates each renew by one additional calendar year, unless one of the parties cancels the respective agreement in writing with a notice of six months before the close of the preceding calendar year. The accounting treatment is based on the leasing regulations under tax law.

This matter has been classified as a key audit matter, because the contractual arrangement and the respective accounting treatment of the business lease agreements are of a complex nature. Moreover, changes in the business model have a material impact on the net assets, financial position and results of operations of Bayer Aktiengesellschaft.

The Company's disclosures concerning the business lease agreements are presented in introductory section "Changes in Corporate Structure" of the notes to the financial statements.

b) Within the scope of our audit and with the support of our internal tax specialists, we examined if the business lease agreements between Bayer Aktiengesellschaft and BPH AG and between BCS AG, respectively, should be classified as operating leases under commercial law. In this respect, we, among others, critically analyzed and evaluated the findings of the "Expert appraisal regarding the accounting recognition of fixed assets transferred under a business lease" which was commissioned by Bayer Aktiengesellschaft. We also analyzed and assessed Bayer Aktiengesellschaft's organizational and procedural measures to determine to what extent those measures ensure the actual execution of the business lease agreements. We examined the completeness and accuracy of the necessary assets and liabilities transferred under the business lease agreements by comparing a random sample of the assets and liabilities transferred under the business lease agreements with the assets and liabilities assumed in the ERP system of Bayer Aktiengesellschaft. In addition, we evaluated the system controls and measures in the bookkeeping system of Bayer Aktiengesellschaft to ensure the appropriate accounting recognition of the business lease model in the accounting records and financial statements of Bayer Aktiengesellschaft by examining the customizing settings with the assistance of specialists from Internal Control Assurance.

2. New Bayer – Transfer of employees

a) With the effectiveness of the business lease agreements with Bayer Pharma AG (BPH AG) and Bayer CropScience AG (BCS AG) as of January 1, 2017, the employment contracts of the employees classified to the leased operations were transferred to the lessee, Bayer Aktiengesellschaft, pursuant to Sec. 613a Civil Law Code (BGB) with all rights and obligations existing on the effective date of the business lease agreements as far as the transfer of employment contracts has not been objected to. For the obligations of the transferred employees arising from the employment contracts assumed from BPH AG and BCS AG that existed until the commencement of the lease date, Bayer Aktiengesellschaft receives financial compensation in the amount of the provisions recognized for these obligations under the German Commercial Code (HGB) in the lessor's balance sheet as of December 31, 2016. In total, about 10,400 employees of BPH AG and about 4,100 employees of BCS AG transferred to Bayer Aktiengesellschaft. The pension provisions assumed amounted to EUR 0.6bn, after offsetting of plan assets also assumed by Bayer Aktiengesellschaft, and the other personnel provisions assumed totaled EUR 0.4bn. Bayer Aktiengesellschaft received settlement compensation in the amount of EUR 1.0bn from both companies.

This matter has been classified as a key audit matter, because the recognition and measurement of the respective obligations and plan assets are based on various estimates and the financial compensation entitlement of Bayer Aktiengesellschaft derived therefrom is material to the financial statements of the Company.

Details concerning the accounting and measurement of the obligations assumed are contained in the presentation of the accounting methods in the notes to the financial statements.

b) Within the scope of the audit, we evaluated the business lease agreements to determine which employees and respective pension provisions and other personnel provisions were transferred from BPH AG and BCS AG to Bayer Aktiengesellschaft as of January 1, 2017. Regarding the actuarial pension provisions and other personnel provisions, we examined the actuarial reports commissioned by Bayer Aktiengesellschaft to determine that all respective employees were included in the calculations therein. In this connection, we examined whether the contractually agreed parameters for the calculation of the obligations assumed for the employees transferred were completely and accurately addressed in the actuarial report. Within the scope of the audit, we critically assessed and used the findings of the actuarial report. In addition, we convinced ourselves of the expertise, competence and objectivity of the respective actuary. To examine the fair values of the plan assets transferred we obtained corresponding bank and funds confirmations as well as expert opinions, which we critically analyzed. Regarding all other personnel obligations, we traced whether these were transferred and measured at their settlement amounts pursuant to Sec. 253 (2) German Commercial Code (HGB). We traced the balance sheet derivations, journal entries for the provisions and disclosures in the notes to the financial statements on the basis of the actuarial calculations shown in the actuarial report. Additionally, we examined whether the tax effects from the different values reported in the trade balance sheet and tax balance sheet of the transferred personnel provisions and the transferred plan assets were appropriately depicted in the financial statements of Bayer Aktiengesellschaft.

3. Derivative financial instruments – Accounting treatment of valuation units and hedging transactions

a) Bayer Aktiengesellschaft concludes a number of different derivative financial instruments to hedge against currency, interest rate and commodity price risks associated with ordinary business activities with external contractual partners and group companies. Management's hedging policy is documented in corresponding internal guidelines and serves as the basis for these transactions. The use of derivative financial instruments aims to reduce the fluctuation in net earnings and cash flow arising from movements in exchange rates, interest rates, stock prices and market prices.

The nominal volume of derivatives concluded with external contractual partners amounted to EUR 27.6bn as of December 31, 2017. Offsetting derivatives were concluded with group companies in the nominal amount of EUR 8.4bn. The fair values of the derivative financial instruments are determined according to the prevailing market valuation methods taking into account the market data (market values) available as of the valuation closing date. These amounted to net EUR -247m and accounted for at net EUR -277m as of December 31, 2017. Management assesses the effectiveness of the hedging relationship according to the critical-term-match method and according to the regression method.

In our view, this matter was classified as a key audit matter due to the high complexity and high number of transactions as well as the comprehensive accounting and reporting requirements.

The Company's disclosures of the accounting of derivative financial instruments are contained in Section 36 of the notes to the financial statements. The risk reporting concerning the use of financial instruments is presented in the combined management report in Section 3.2.2.

b) As part of our audit and together with the support of our internal specialists from Financial Risk Solutions, we, among others, assessed the contractual and financial parameters and reviewed the accounting treatment, including the creation of valuation units for the various hedging instruments. Together with these specialists, we also assessed the Company's internal control system with regard to the derivative financial instruments, including the internal activities to monitor compliance with the hedging policy and examined the controls with regard to design, implementation and effectiveness. Furthermore, to examine the measurement of the financial instruments at fair value we traced the appropriateness of the system's implementation of the methods

and recalculated the calculation methods based on market data based on a representative sample. To examine the effectiveness of the hedging relationship we analyzed the methods used and traced the appropriateness of implementation by the system. With regard to the expected cash flows and the assessment of the effectiveness of the hedging instruments, we retrospectively assessed past hedge levels.

4. Impairment of shares in affiliated companies

a) Bayer Aktiengesellschaft's financial statements reported shares in affiliated companies in the amount of EUR 44.9bn (76% of the balance sheet total) as of December 31, 2017. Bayer Aktiengesellschaft tested the recoverability of the investment's carrying values by conducting internal business valuations. A total business value is calculated by Bayer Aktiengesellschaft for all material investment holdings, which is adjusted to the net financial position. This equity value is compared to the respective carrying value of the investment. The total business values are calculated as the present value of management's expected future cash flows using the discounted cash flow model. The results from these calculations are particularly dependent on the estimate of the future cash inflows by management, the respective discount rates and growth rates used as well as the determination of the net financial position. The measurement is therefore subject to uncertainty. Even minor changes in the discount rates applied could have a material impact. Within this context and given the material significance on the net assets and results of operations of Bayer Aktiengesellschaft, this matter was considered a key audit matter within the scope of our audit.

   The Company's disclosures regarding the financial assets and impairment are presented in Section 15 of the notes to the financial statements.

b) Within the scope of our audit, we have assessed whether the respective valuation models used to calculate the total business value appropriately depict the requirements of the relevant valuation standards and whether the calculations in the model have been correctly made. With regard to the valautions conducted by Bayer Aktiengesellschaft, we have convinced ourselves whether the fair values have been properly calculated using the discounted cash flow method and according to the relevant valuation standards. In this respect, we examined whether the underlying future cash inflows and the costs of capital present a proper basis as a whole. Our estimate is based, among others, on a comparison with the general and sector-specific market expectations as well as extensive explanations from management regarding the material value drivers and parameters of the budget. We also examined the parameters applied to determining the discount rates applied by a comparison to market data and reviewed the calculation both logically and mathematically.

Other information

The legal representatives are responsible for the other information. The other information comprises:

- the corporate governance statement specified in Chapter 4.1 of the combined management report pursuant to § 289f and § 315d of the German Commercial Code,
- the section "Compliance" of the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code as specified in Chapter 4.2 of the combined management report,
- all additional online information that is referenced to in the combined management report and contained in the extended online version of the Company Annual Report and
- the declaration by the legal representatives for the annual financial statements and the combined management report pursuant to § 264 paragraph 2 sentence 34 of the German Commercial Code and § 289 paragraph 1 sentence 5 of the German Commercial Code.

Our audit opinions on the annual financial statements and the combined management report do not extend to cover the other information, and accordingly we do not issue an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, to consider whether the other information

> is materially inconsistent with the annual financial statements, the combined management report or our knowledge obtained in the audit, or
> otherwise appears to be substantially misstated

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the legal representatives and the Supervisory Board for the annual financial statements and the combined management report

The legal representatives are responsible for the preparation of the annual financial statements, which comply with the requirements of German commercial law applicable to corporations in all material respects, so that the annual financial statements in accordance with (German) principles of proper accounting give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with these requirements. In addition, the legal representatives are responsible for the internal controls they have identified as necessary in order to enable the preparation of annual financial statements that are free from material misstatements, whether intentional or unintentional.

In preparing the annual financial statements, the legal representatives are responsible for assessing the Company's ability to continue as a going concern. Furthermore, they have the responsibility to disclose matters related to going concern, as applicable. In addition, they are responsible for using the going concern basis of accounting, unless this conflicts with legal and actual circumstances.

In addition, the legal representatives are responsible for the preparation of the combined management report, which as a whole provides a suitable view of the Company's position, is consistent with the annual financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for such arrangements and measures (systems) which they have deemed necessary in order to enable the preparation of a combined management report in accordance with the German commercial law to be applied and to furnish sufficient and appropriate evidence for the statements in the combined management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and the combined management report.

Auditor’s responsibility for the audit of the annual financial statements and the combined management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatements, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the findings of the audit, is in accordance with German legal regulations, and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our opinions on the annual financial statements and the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 of the German Commercial Code and the EU Audit Regulation and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) and in supplementary compliance with the ISA, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and combined management report.

As part of an audit, we exercise professional judgement and maintain professional skepticism. We also

- identify and assess the risks of material misstatements in the annual financial statements and in the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the annual financial statements and the arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's systems.
- evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of accounting estimates and related disclosures made by the legal representatives.
- conclude on the appropriateness of the legal representative's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements and combined management report, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures and whether the annual financial statements represent the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Company in accordance with (German) principles of proper accounting.
- evaluate the consistency of the combined management report with the annual financial statements, its legal consistency and the view provided of the Company's position.
- perform audit procedures on the forward-looking information presented by the legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence, we particularly evaluate the significant assumptions underlying the forward-looking information by the legal representatives and we evaluate the correct derivation of forward-looking information from these assumptions. We do not issue an independent opinion on the forward-looking information or on the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking information.

We communicate with those charged with governance among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in internal control, which we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report on the annual financial statements unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Comment regarding the unbundling of accounting pursuant to § 6b Act on the Supply of Electricity and Gas (EnWG)

In accordance with § 6b (5) Act on the Supply of Electricity and Gas, as part of our audit of the financial statements, we have also assessed management's compliance with the accounting obligations under to § 6b (3) Act on the Supply of Electricity and Gas, which stipulate that separate accounts are to be maintained for activities described in § 6b (3) Act on the Supply of Electricity and Gas.

Compliance with the accounting obligations under § 6b (3) Act on the Supply of Electricity and Gas lies with the legal representatives of the Company.

Our responsibility is to provide an assessment based on our audit on the compliance with the accounting obligations under § 6b (3) Act on the Supply of Electricity and Gas. We conducted our audit with respect to § 6b Act on the Supply of Electricity and Gas in accordance with the German generally accepted standards for the audit of annual financial statements promulgated by the Institute of Public Auditors in Germany. Those standards require that we plan and perform the audit of compliance with the accounting obligations under § 6b Act on the Supply of Electricity and Gas such that reasonable assurance can be given about whether the valuation and allocation of accounts pursuant to § 6b (3) Act on the Supply of Electricity and Gas were appropriately made and traceable for third parties. The principle of consistency has been observed.

The audit of compliance with the accounting obligations pursuant to § 6b (3) Act on the Supply of Electricity and Gas, which stipulates that separate accounts are to be maintained for activities described in § 6b (3) Act on the Supply of Electricity and Gas, did not reveal any objections.

Other information pursuant to Article 10 of the EU Audit Regulation

We were appointed by the annual general meeting on April 28, 2017 to audit the annual financial statements. We were engaged by the Supervisory Board on June 1/June 28, 2017. Our total uninterrupted period of engagement as auditor of the annual financial statements covers the period since the business year 2017, we have been engaged continuously as the auditor of Bayer Aktiengesellschaft, Leverkusen.

We confirm that the audit opinions contained in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (additional report to the audit committee).

We have rendered the following services, which have not been specified in the Financial Statements or in the Combined Management Report of the audited Company, in addition to the statutory audit for the audited Company or those controlled by this Company:

- Non-audit Services that in the year under review essentially accounted for the analysis of financial information of business entities, whose divestment was considered (other services)
- The audit of financial and non-financial information outside of the statutory audit (other assurance services).

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Prof. Dr. Frank Beine.

Munich, February 21, 2018

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Heiner Kompenhans	Professor Frank Beine
German Public Auditor	German Public Auditor

Governance Bodies

Supervisory Board

Members of the Supervisory Board held offices as members of the supervisory board or a comparable supervising body of the corporations listed (as at December 31, 2017, or the date on which they ceased to be members of the Supervisory Board of Bayer AG) and as shown attended the meetings of the Supervisory Board and committees to which he or she belonged:

Werner Wenning
Leverkusen, Germany
(born October 21, 1946)

Chairman of the Supervisory Board effective October 2012

Chairman of the Supervisory Board of Bayer AG

Memberships on other supervisory boards:

- Henkel Management AG
- Siemens AG (Vice Chairman)

Memberships in comparable supervising bodies of German or foreign corporations:

- Henkel AG & Co. KGaA (Shareholders' Committee)

Attendance at Supervisory Board and committee meetings: 20 of 20

Oliver Zühlke
Solingen, Germany
(born December 11, 1968)

Vice Chairman of the Supervisory Board effective July 2015

Member of the Supervisory Board effective April 2007

Chairman of the Bayer Central Works Council

Memberships on other supervisory boards:

- Bayer Pharma AG (until January 2017)

Attendance at Supervisory Board and committee meetings: 15 of 15

Dr. Paul Achleitner
Munich, Germany
(born September 28, 1956)

Member of the Supervisory Board effective April 2002

Chairman of the Supervisory Board of Deutsche Bank AG

Memberships on other supervisory boards:

- Daimler AG
- Deutsche Bank AG (Chairman)

Memberships in comparable supervising bodies of German or foreign corporations:

- Henkel AG & Co. KGaA (Shareholders' Committee)

Attendance at Supervisory Board and committee meetings: 13 of 14

Dr. rer. nat. Simone Bagel-Trah
Düsseldorf, Germany
(born January 10, 1969)

Member of the Supervisory Board effective April 2014

Chairwoman of the Supervisory Board of Henkel AG & Co. KGaA and Henkel Management AG and of the Shareholders' Committee of Henkel AG & Co. KGaA

Memberships on other supervisory boards:

- Henkel AG & Co. KGaA (Chairwoman)
- Henkel Management AG (Chairwoman)
- Heraeus Holding GmbH

Memberships in comparable supervising bodies of German or foreign corporations:

- Henkel AG & Co. KGaA (Shareholders' Committee, Chairwoman)

Attendance at Supervisory Board meetings: 8 of 9

Dr. Norbert W. Bischofberger
Hillsborough, U.S.A.
(born January 10, 1956)

Member of the Supervisory Board effective April 2017

Executive Vice President Research & Development and Chief Scientific Officer of Gilead Sciences, Inc.

Memberships in comparable supervising bodies of German or foreign corporations:

- InCarda Therapeutics, Inc. (Board of Directors)

Attendance at Supervisory Board and committee meetings: 6 of 6

Dr. Clemens Börsig
Frankfurt am Main, Germany
(born July 27, 1948)

Member of the Supervisory Board until April 2017

Member of various supervisory boards

Memberships on other supervisory boards:

- Daimler AG
- Linde AG

Memberships in comparable supervising bodies of German or foreign corporations:

- Emerson Electric Co. (Board of Directors)

Attendance at Supervisory Board meetings: 3 of 3

André van Broich
Dormagen, Germany
(born June 19, 1970)

Member of the Supervisory Board effective April 2012

Chairman of the Bayer Group Works Council (effective September 2017)

Chairman of the Works Council of the Dormagen site

Memberships on other supervisory boards:

- Bayer CropScience AG (until January 2017)

Attendance at Supervisory Board and committee meetings: 14 of 14

Thomas Ebeling
Muri bei Bern, Switzerland
(born February 9, 1959)

Member of the Supervisory Board effective April 2012

Chief Executive Officer of ProSiebenSat.1 Media SE (until February 2018)

Memberships on other supervisory boards:

- GfK SE (effective April 2017)

Memberships in comparable supervising bodies of German or foreign corporations:

- Cullinan Oncology, LLC (Board of Directors) (effective November 2017)
- Lonza Group AG (until April 2017)

Attendance at Supervisory Board meetings: 7 of 9

Dr. Thomas Elsner
Düsseldorf, Germany
(born April 24, 1958)

Member of the Supervisory Board effective April 2017

Chairman of the Bayer Group Managerial Employees' Committee

Chairman of the Managerial Employees' Committee of Bayer AG Leverkusen

Attendance at Supervisory Board and committee meetings: 8 of 8

Johanna W. (Hanneke) Faber
Amstelveen, Netherlands
(born April 19, 1969)

Member of the Supervisory Board effective April 2016

Chief E-Commerce and Innovation Officer and Member of the Executive Committee of Koninklijke Ahold Delhaize N.V. (until December 2017)

President Europe at Unilever N.V./plc (effective January 2018)

Attendance at Supervisory Board meetings: 6 of 9

Dr.-Ing. Thomas Fischer
Krefeld, Germany
(born August 27, 1955)

Member of the Supervisory Board until April 2017

Chairman of the Managerial Employees' Committee of Covestro Deutschland AG

Memberships on other supervisory boards:

- Covestro AG
- Covestro Deutschland AG

Attendance at Supervisory Board and committee meetings: 5 of 5

Colleen A. Goggins
Princeton, U.S.A.
(born September 9, 1954)

Member of the Supervisory Board effective April 2017

Independent consultant

Memberships in comparable supervising bodies of German or foreign corporations:

- The Toronto-Dominion Bank (Board of Directors)
- IQVIA Holdings Inc. (formerly QuintilesIMS Holdings, Inc.) (Board of Directors) (effective July 2017)

Attendance at Supervisory Board meetings: 6 of 6

Heike Hausfeld
Leverkusen, Germany
(born September 19, 1965)

Member of the Supervisory Board effective April 2017

Chairwoman of the Works Council of the Leverkusen site

Memberships on other supervisory boards:

- Bayer Business Services GmbH (Vice Chairwoman)

Attendance at Supervisory Board and committee meetings: 9 of 9

Reiner Hoffmann
Wuppertal, Germany
(born May 30, 1955)

Member of the Supervisory Board effective October 2006

Chairman of the German Trade Union Confederation

Attendance at Supervisory Board meetings: 8 of 9

Yüksel Karaaslan
Hohen Neuendorf, Germany
(born March 1, 1968, deceased June 4, 2017)

Member of the Supervisory Board until June 2017

Chairman of the Bayer Group Works Council

Vice Chairman of the Bayer Central Works Council

Chairman of the Works Council of the Berlin site

Memberships on other supervisory boards:

- Bayer Pharma AG (Vice Chairman) (until January 2017)

Attendance at Supervisory Board and committee meetings: 6 of 7

Petra Kronen
Krefeld, Germany
(born August 22, 1964)

Member of the Supervisory Board until September 2017

Chairwoman of the Central Works Council of Covestro

Chairwoman of the Works Council of Covestro of the Uerdingen site

Memberships on other supervisory boards:

- Covestro AG (Vice Chairwoman)
- Covestro Deutschland AG (Vice Chairwoman)

Attendance at Supervisory Board and committee meetings: 8 of 8

Frank Löllgen
Cologne, Germany
(born June 14, 1961)

Member of the Supervisory Board effective November 2015

North Rhine District Secretary of the German Mining, Chemical and Energy Industrial Union

Memberships on other supervisory boards:

- Evonik Industries AG
- IRR-Innovationsregion Rheinisches Revier GmbH

Attendance at Supervisory Board and committee meetings: 13 of 13

Prof. Dr. Wolfgang Plischke
Aschau im Chiemgau, Germany
(born September 15, 1951)

Member of the Supervisory Board effective April 2016

Independent consultant

Memberships on other supervisory boards:

- Evotec AG (Chairman)

Attendance at Supervisory Board and committee meetings: 15 of 15

Sue H. Rataj
Sebastopol, U.S.A.
(born January 8, 1957)

Member of the Supervisory Board until April 2017

Member of the Board of Directors of Cabot Corporation, Boston, U.S.A.

Member of the Board of Directors of Agilent Technologies Inc., Santa Clara, U.S.A.

Attendance at Supervisory Board meetings: 3 of 3

Petra Reinbold-Knape
Gladbeck, Germany
(born April 16, 1959)

Member of the Supervisory Board effective April 2012

Member of the Executive Committee of the German Mining, Chemical and Energy Industrial Union

Memberships on other supervisory boards:

- Lausitz Energie Bergbau AG (Vice Chairwoman)
- Lausitz Energie Kraftwerk AG (Vice Chairwoman effective March 2017)

Attendance at Supervisory Board and committee meetings: 11 of 11

Detlef Rennings
Krefeld, Germany
(born April 29, 1965)

Member of the Supervisory Board effective June 2017

Chairman of the Central Works Council of CURRENTA

Chairman of the Works Council of CURRENTA of the Uerdingen site

Memberships on other supervisory boards:

- Currenta Geschäftsführungs-GmbH

Attendance at Supervisory Board meetings: 4 of 4

Sabine Schaab
Wuppertal, Germany
(born June 25, 1966)

Member of the Supervisory Board effective October 2017

Vice Chairwoman of the Works Council of the Elberfeld site

Attendance at Supervisory Board and committee meetings: 3 of 3

Michael Schmidt-Kießling
Schwelm, Germany
(born March 24, 1959)

Member of the Supervisory Board effective April 2012

Chairman of the Works Council of the Elberfeld site

Attendance at Supervisory Board meetings: 8 of 9

Dr. Klaus Sturany*
Ascona, Switzerland
(born October 23, 1946)

Member of the Supervisory Board effective April 2007

Member of various supervisory boards

Memberships on other supervisory boards:

- Hannover Rück SE (Vice Chairman)

Attendance at Supervisory Board and committee meetings: 12 of 13

Heinz Georg Webers
Bergkamen, Germany
(born December 27, 1959)

Member of the Supervisory Board until April 2017

Chairman of the Bayer European Forum

Chairman of the Works Council of the Bergkamen site

Memberships on other supervisory boards:

- Bayer Pharma AG (until January 2017)

Attendance at Supervisory Board meetings: 3 of 3

Prof. Dr. Dr. h.c. Otmar D. Wiestler
Berlin, Germany
(born November 6, 1956)

Member of the Supervisory Board effective October 2014

President of the Helmholtz Association of German Research Centres

Attendance at Supervisory Board and committee meetings: 10 of 11

* Expert member pursuant to Section 100, Paragraph 5 of the German Stock Corporation Act (AktG)

Standing committees of the Supervisory Board of Bayer AG (as at December 31, 2017)

Presidial Committee / Mediation Committee
Wenning (Chairman), Achleitner, Reinbold-Knape, Zühlke

Audit Committee
Sturany* (Chairman), Elsner, Löllgen, Plischke, Wenning, Zühlke

Human Resources Committee
Wenning (Chairman), Achleitner, Hausfeld, van Broich

Nominations Committee
Wenning (Chairman), Achleitner

Innovation Committee
Plischke (Chairman), Bischofberger, van Broich, Reinbold-Knape, Schaab, Wenning, Wiestler, Zühlke

Board of Management

Members of the Board of Management held offices as members of the supervisory board or a comparable supervising body of the corporations listed (as at December 31, 2017):

Werner Baumann
(born October 6, 1962)

Chairman

Member of the Board of Management effective January 1, 2010, appointed until April 30, 2021

Liam Condon
(born February 27, 1968)

Member of the Board of Management effective January 1, 2016, appointed until December 31, 2018

Johannes Dietsch
(born January 2, 1962)

Member of the Board of Management effective September 1, 2014, appointed until May 31, 2018

- Bayer Business Services GmbH (Chairman)
- Bayer CropScience AG (Chairman) (until February 2017)
- Covestro AG
- Covestro Deutschland AG

Dr. Hartmut Klusik
(born July 30, 1956)

Member of the Board of Management effective January 1, 2016, appointed until December 31, 2018

Labor Director

- Bayer Pharma AG (Chairman) (until February 2017)
- Currenta Geschäftsführungs-GmbH (Chairman)

Kemal Malik
(born September 29, 1962)

Member of the Board of Management effective February 1, 2014, appointed until January 31, 2022

Erica Mann
(born October 11, 1958)

Member of the Board of Management effective January 1, 2016, appointed until March 31, 2018

Dieter Weinand
(born August 16, 1960)

Member of the Board of Management effective January 1, 2016, appointed until December 31, 2018

- HealthPrize Technologies LLC (Board of Directors)

Financial Calendar

Q1 2018 Interim Report	*May 3, 2018*
Annual Stockholders' Meeting 2018	*May 25, 2018*
Planned dividend payment day	*May 30, 2018*
Q2 2018 Interim Report	*September 5, 2018*
Q3 2018 Interim Report	*November 13, 2018*
Annual Report 2018	*February 27, 2019*
Q1 2019 Interim Report	*April 25, 2019*
Annual Stockholders' Meeting 2019	*April 26, 2019*

Masthead

Publisher
Bayer AG, 51368 Leverkusen, Germany

Date of publication
Wednesday, February 28, 2018

Editor
Meike Kneip, phone +49 214 30 20015
email: meike.kneip@bayer.com

Sustainability & Business Stewardship
Dagmar Jost, Tel. +49 214 30 75284
email: dagmar.jost@bayer.com

Investor Relations
Peter Dahlhoff, Tel. +49 214 30 33022
email: peter.dahlhoff@bayer.com

English edition
Bayer Business Services GmbH
Translation Services

ISSN 0343 / 1975

For fast and easy access to our online services, there's no need to copy down the internet addresses. Simply scan the codes below with your smartphone and an appropriate app:

Annual Report online
Available at:
bayer.com / ar17

Annual Stockholders' Meeting 2018
Information available at:
bayer.com / asm

Other publications
Overview available at:
bayer.com / publications

Bayer on the internet: www.bayer.com

Financial Statements of Bayer AG produced in-house with firesys.

Cautionary Statements Regarding Forward-Looking Information
Certain statements contained in this publication may constitute "forward-looking statements." Actual results could differ materially from those projected or forecast in the forward-looking statements. The factors that could cause actual results to differ materially include the following: uncertainties as to the timing of the transaction; the possibility that
the parties may be unable to achieve expected synergies and operating efficiencies in the merger within the expected time-frames or at all and to successfully integrate Monsanto's operations into those of Bayer; such integration may be more difficult, time-consuming or costly than expected; revenues following the transaction may be lower than expected; operating costs, customer loss and business disruption (including, without limitation, difficulties in maintaining relationships with employees, customers, clients or suppliers) may be greater than expected following the announcement of the transaction; the retention of certain key employees at Monsanto; risks associated with the disruption of management's attention from ongoing business operations due to the transaction; the conditions to the completion of the transaction may not be satisfied, or the regulatory approvals required for the transaction may not be obtained on the terms expected or on the anticipated schedule; the parties' ability to meet expectations regarding the timing, completion and accounting and tax treatments of the merger; the impact of the refinancing of the loans taken out for the transaction, the impact of indebtedness incurred by Bayer in connection with the transaction and the potential impact on the rating of indebtedness of Bayer; the effects of the business combination of Bayer and Monsanto, including the combined company's future financial condition, operating results, strategy and plans; other factors detailed in Monsanto's Annual Report on Form 10-K filed with the SEC for the fiscal year ended August 31, 2017 and Monsanto's other filings with the SEC, which are available at http://www.sec.gov and on Monsanto's website at www.monsanto.com; and other factors discussed in Bayer's public reports which are available on the Bayer website at www.bayer.com. Bayer and Monsanto assume no obligation to update the information in this communication, except as otherwise required by law. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date.