

# 1. Fundamental Information About the Group

## 1.1 Corporate Profile and Structure

The foundation for our success: innovation strength

Bayer actively supports efforts to achieve U.N. Sustainable Development Goals

Covestro no longer a part of operating business

### 1.1.1 Corporate Profile

Bayer is a life science company with a more than 150-year history and core competencies in the areas of health care and agriculture. With our innovative products, we are helping find solutions to some of the major challenges of our time. With life expectancy continuing to rise, we improve quality of life for a growing population by focusing our research and development activities on preventing, alleviating and treating diseases. We are also making an important contribution to providing a reliable supply of high-quality food, feed and plant-based raw materials.

Our goal is to create value for our customers, stockholders and employees, while also strengthening the company's earning power. We are committed to operating sustainably and addressing our social and ethical responsibilities. Employees with a passion for innovation enjoy excellent development opportunities at Bayer. All this goes to make up our corporate purpose: "Science for a better life."

Our corporate values guide us in our daily activities. Represented by the acronym **LIFE** (Leadership, Integrity, Flexibility and Efficiency), these values apply to everyone at Bayer and are firmly integrated into our global performance management system. Our value culture ensures a common identity throughout the enterprise across national boundaries, management hierarchies and cultural differences.

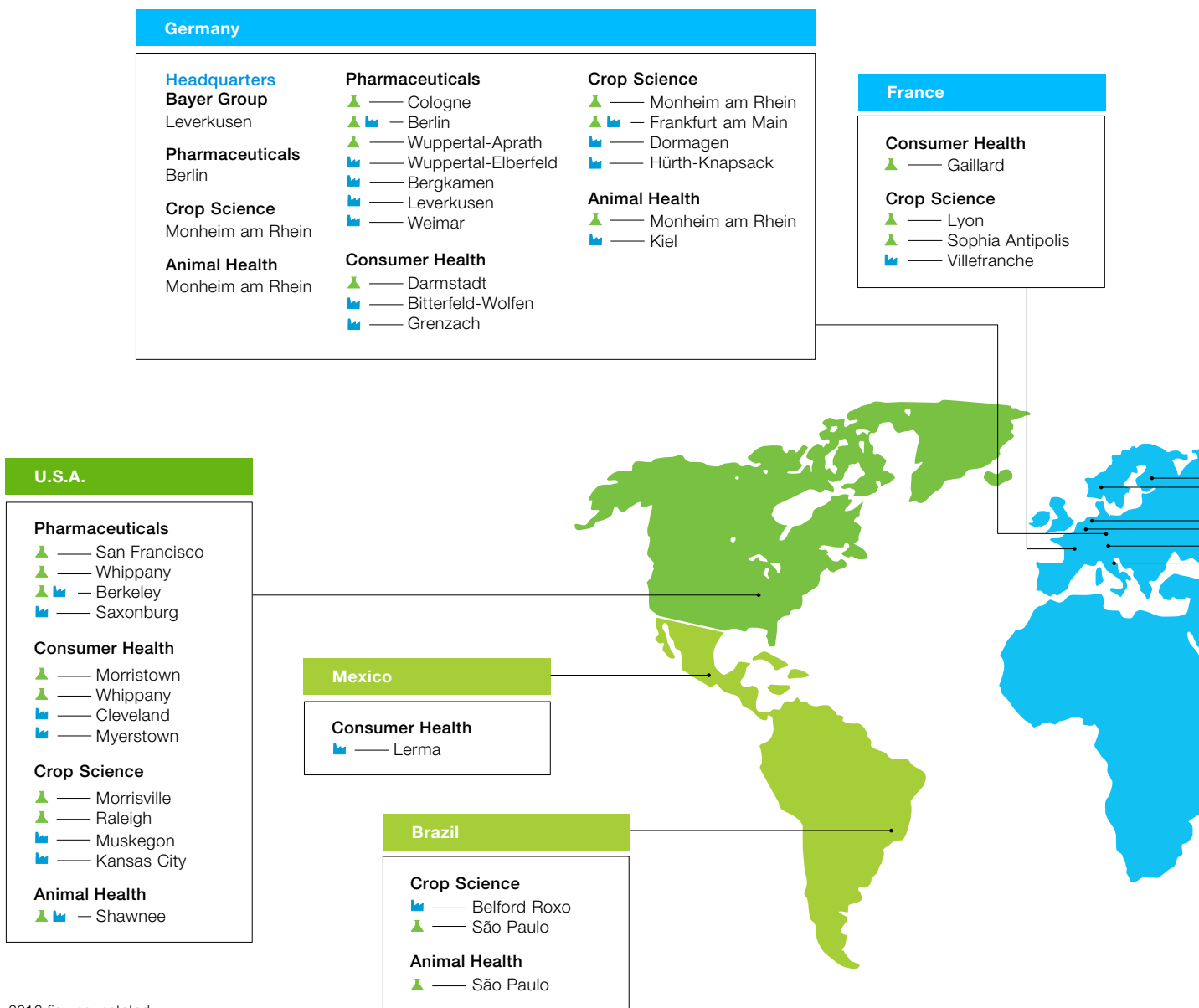
**Bayer Worldwide 2017**

## North America

**Sales** €10,143 (2016: 10,066) million  
**Employees** 13,001 (2016: 13,212)  
**R&D**<sup>1</sup> €1,015 (2016: 1,009) million

## Latin America

**Sales** €3,847 (2016: 4,402) million  
**Employees** 11,587 (2016: 12,120)  
**R&D**<sup>1</sup> €63 (2016: 70) million



2016 figures restated

<sup>1</sup> Research and development expenses

<sup>2</sup> Transition to Kunming in 2018

▲ Significant research and development location (selection)

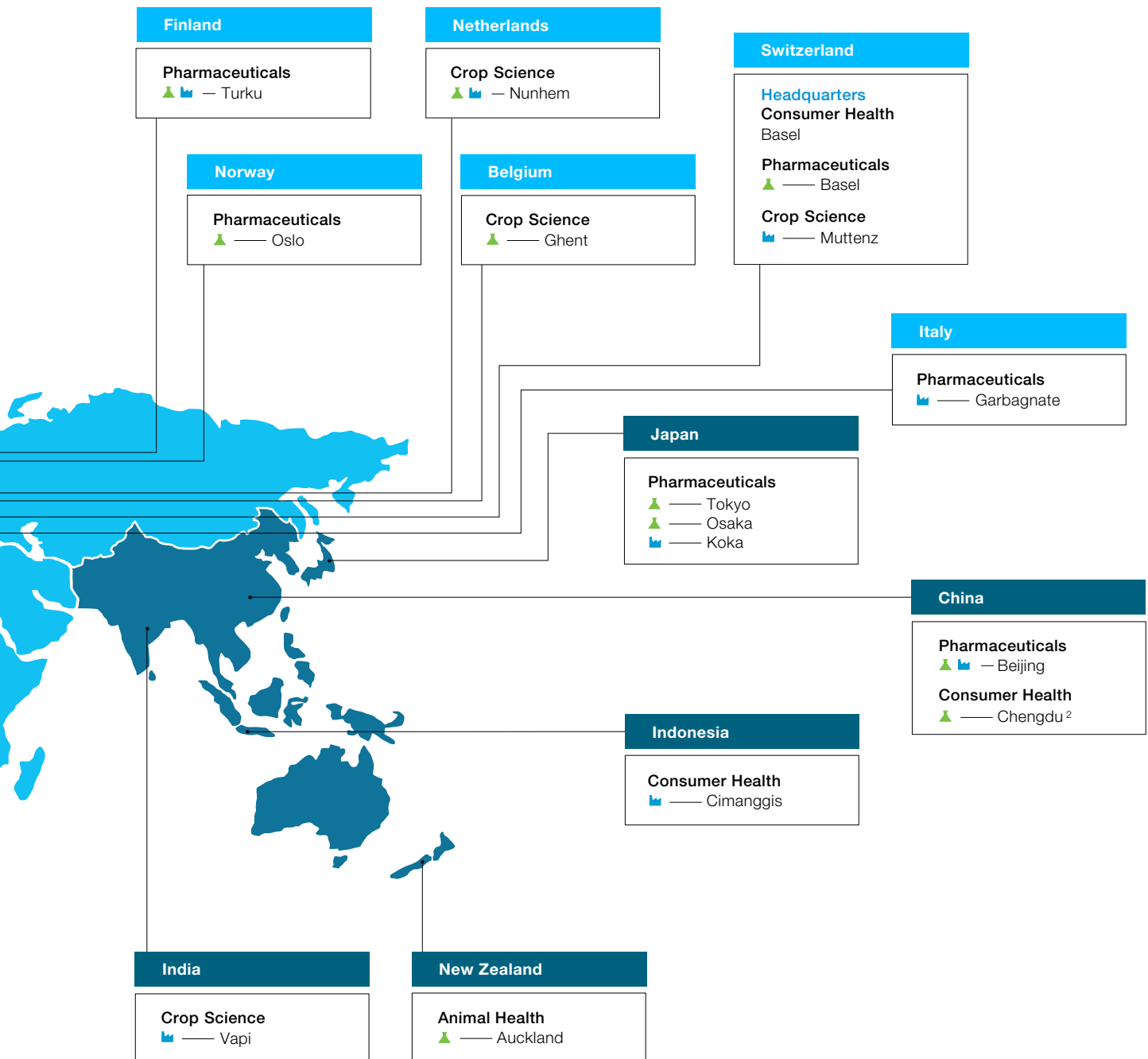
— Significant production location (selection)

## Europe / Middle East / Africa

**Sales** €13,388 (2016: 13,062) million  
**Employees** 52,380 (2016: 50,970)  
**R&D**<sup>1</sup> €3,295 (2016: 3,182) million

## Asia / Pacific

**Sales** €7,637 (2016: 7,413) million  
**Employees** 22,852 (2016: 23,290)  
**R&D**<sup>1</sup> €131 (2016: 144) million



## 1.1.2 Corporate Structure

### Corporate structure as of December 31, 2017

The Bayer Group is managed as a life science company with three divisions – Pharmaceuticals, Consumer Health and Crop Science – and the Animal Health business unit, which are also our reporting segments. The corporate functions, Business Services and the service company Currenta support the operational business. In 2017, the Bayer Group comprised 237 consolidated companies in 79 countries throughout the world. As described in further detail below, Bayer’s interest in Covestro AG stood at 24.6% as at the end of the reporting period. Covestro is no longer a reportable segment and has been accounted for using the equity method as of the beginning of the fourth quarter of 2017.

A 1.1.2/1

#### Bayer Group Structure in 2017



The **Pharmaceuticals** segment focuses on prescription products, especially for cardiology and women’s health care, and on specialty therapeutics in the areas of oncology, hematology and ophthalmology. The division also comprises the radiology business, which markets diagnostic imaging equipment together with the necessary contrast agents.

The **Consumer Health** segment markets nonprescription (OTC = over-the-counter) medicines, medical products and cosmetics in the dermatology, nutritional supplement, analgesic, digestive health, allergy, cold, foot care and sun protection categories.

**Crop Science** is a world-leading agriculture enterprise with businesses in crop protection, seeds and nonagricultural pest control. The Crop Protection / Seeds unit markets a broad portfolio of high-value seeds and innovative pest management solutions, while at the same time providing extensive customer service for sustainable agriculture. The Environmental Science unit provides products and services for professional nonagricultural applications, such as vector and pest control and forestry.

**Animal Health** ranks among the leading international innovators in its field. It develops and markets products and solutions for the prevention and treatment of diseases in companion and farm animals.

The **corporate functions** and **Business Services** operate as Group-wide competence centers in which business support services are bundled. **Currenta** is the service company responsible for managing and operating the Chempark sites in Leverkusen, Dormagen and Krefeld-Uerdingen.



Vector control:  
see Glossary

▼ Online Annex: A 1.1.2-1

A 1.1.2-1/1

**Products and Activities of the Segments**

Indication / Application / Business	Core activities and markets	Main products and brands <sup>1</sup>
<b>Pharmaceuticals</b>		
Cardiology	Hypertension, pulmonary hypertension, heart attack and stroke, thrombosis	Xarelto™, Adalat™, Aspirin™ Cardio, Adempas™
Oncology	Liver cancer, renal cell carcinoma, thyroid carcinoma, prostate cancer, colorectal cancer, gastrointestinal stromal tumors (GIST), follicular lymphoma	Nexavar™, Xofigo™, Stivarga™, Aliqopa™
Ophthalmology	Age-related macular degeneration (AMD), diabetic macular edema (DME)	Eylea™
Hematology	Hemophilia A	Kogenate™ / Kovaltry™
Women's health	Contraception, gynecological therapy	Mirena™ product family, Yaz™ / Yasmin™ / Yasminelle™
Infectious diseases	Bacterial infections	Avalox™ / Avelox™, Cipro™, Ciprobay™
Radiology	Contrast agents; diagnostic imaging equipment for use with contrast agents	Gadovist™, Ultravist™, Medrad Spectris Solaris™, Medrad Stellant™
Other indications	Multiple sclerosis	Betaferon™ / Betaseron™
<b>Consumer Health</b>		
Dermatology	Wound care, skin care, skin and intimate health	Bepanthen™, Canesten™
Nutrition	Multivitamin products, dietary supplements	One A Day™, Elevit™, Berocca™, Supradyn™, Redoxon™
Analgesics	General pain relief	Aspirin™, Aleve™
Digestive health	Gastric complaints	MiraLax™, Rennie™, Iberogast™
Allergy	Allergies	Claritin™
Cough and cold	Cough and cold	Aspirin™, Alka-Seltzer™, Afrin™
Foot care	Foot care	Dr. Scholl's™
Sun care	Sun protection	Coppertone™
<b>Crop Science</b>		
Fungicides	Biological and chemical products to protect crop plants from fungal diseases	Flint™, Fox™, Luna™, Nativo™, Prostaro™, Serenade™, Xpro™
Insecticides	Biological and chemical products to protect crop plants from harmful insects and their larvae	BioAct™, Confidor™, Movento™, Sivanto™
Herbicides	Chemical crop protection products to control weeds	Adengo™, Alion™, Basta™, Corvus™, Liberty™, Atlantis™
SeedGrowth	Biological and chemical seed treatments to protect against fungal infection and pests	CropStar™, Gaucho™, Poncho™, Sonido™
Seeds	Seeds and traits for cotton, canola, rice, soybeans, wheat and vegetables	Arize™, Credenz™, FiberMax™, InVigor™, Nunhems™, Stoneville™
Environmental Science	Products for professional pest control, vector control, forestry, golf courses and parks, railway tracks	Ficam™, Maxforce™, Esplanade™, K-Othrine™
<b>Animal Health</b>		
Companion animals business	Veterinary medicines and solutions to protect and maintain the health and wellbeing of companion animals, focusing on antiparasitics and anti-infectives	Advantage™ product family, Seresto™, Drontal™ product family, Baytril™
Farm animals business	Veterinary medicines and solutions to treat and prevent parasitic diseases, anti-infectives, immunostimulants, pharmacological treatments and farm hygiene products	Baytril™, Cydectin™

<sup>1</sup> The order of the products listed is no indication of their significance.

## Management functions of Bayer AG

As the parent company of the Bayer Group, Bayer AG – represented by its Board of Management – performs the principal management functions for the entire company. This mainly comprises the Group's strategic alignment, resource allocation, and the management of financial affairs and managerial staff, along with the management of the Group-wide operational business of the segments. Business lease agreements between Bayer AG on the one hand, and Bayer Pharma AG and Bayer CropScience AG – the former parent companies of the respective divisions – on the other, have been in place since the start of 2017 and govern the transfer of their operational business to Bayer AG. This means that, alongside the holding company function it has performed to date, Bayer AG also performs the corresponding parent company functions in relation to Pharmaceuticals and Crop Science.

## Changes to the corporate structure in connection with Covestro

In fiscal 2017 we reduced our interest in Covestro AG from 64.2% to 24.6%. Over the course of the year, we sold 35.6% of the shares in this company in four tranches, raising approximately €4.7 billion in total. In addition, we deposited a further 4% of the shares in Bayer Pension Trust e.V., which now holds an interest of 8.9%.

Furthermore, we sold an additional 10.4% of Covestro shares in January 2018, in a move that reduced our direct interest to 14.2%. This transaction generated overall proceeds of €1.8 billion.

As a result of the reduction undertaken through September 30, 2017, and the conclusion of a control termination agreement, Bayer ceded de facto control over Covestro AG at the end of the third quarter. Accordingly, Covestro was deconsolidated and presented as an associate for the first time. Covestro is no longer a reportable segment and is presented as a discontinued operation until the date of its deconsolidation. The financial information for the periods preceding the deconsolidation, including the comparative prior-year figures, has been restated accordingly.

## Changes to the corporate structure in connection with the planned acquisition of Monsanto

On September 14, 2016, we signed a binding agreement to acquire the Monsanto Company. Monsanto's shareholders approved the merger on December 13, 2016, during an extraordinary stockholders' meeting. In 2017, Bayer received half of the regulatory approvals that it applied for, obtaining clearance in Colombia, Ecuador, Israel, Paraguay, the Philippines and South Africa, for instance. We are collaborating with the authorities and continue to work toward closing the transaction in the second quarter of 2018.

In October 2017, Bayer signed an agreement to sell selected Crop Science businesses to BASF for €5.9 billion in light of the planned acquisition of Monsanto. The assets to be sold include Bayer's global glufosinate-ammonium business and the related LibertyLink™ technology for herbicide tolerance, a substantial part of the field crop seed businesses, as well as respective research and development capabilities. The transaction is subject to regulatory approval as well as the successful closing of Bayer's acquisition of Monsanto. Bayer will continue to own, operate and maintain these businesses until the closing of this divestiture. The assets and liabilities are classified as held for sale. Aside from this, the company's situation is presented in this report with the respective Crop Science businesses included. The potential impact of the divestments will not be outlined in further detail.

---

GRI G4-22

 Field crops:  
see Glossary

In connection with the planned acquisition of Monsanto and in preparation for the future combined business, the structure of the Crop Science segment was adjusted as of January 1, 2018. In the new structure, all the strategic business entities – including the Herbicides, Fungicides, Insecticides and SeedGrowth businesses – are organizationally located directly below the Crop Science segment. Crop Protection / Seeds will cease to exist, as will the intermediate Crop Protection level below it. Moreover, the business entities within Seeds (including Traits) will from now on be regarded individually and not jointly. In line with this, Vegetable Seeds will be reported separately. Given their current size, the other Seeds businesses – comprising Corn Seed & Traits, Soybean Seed & Traits, Cotton Seed & Traits, Oilseeds & Traits and Other Seeds & Traits – will be grouped together under Other (Seeds & Traits). Environmental Science will be presented separately on the same level as the other strategic business entities. The new reporting structure will be reviewed again upon conclusion of the acquisition of Monsanto and will be modified in line with the framework conditions prevailing at that point in time.

A comparison of the previous and new reporting structures of Crop Science is shown in graphic A 1.1.2/2.

A 1.1.2/2

#### Comparison of Previous and New Crop Science Structure

Structure until Dec. 31, 2017	Structure from Jan. 1, 2018
<b>Crop Protection / Seeds</b>	–
<b>Crop Protection</b>	–
Herbicides	Herbicides
Fungicides	Fungicides
Insecticides	Insecticides
SeedGrowth	SeedGrowth
Seeds	–
–	Vegetable Seeds
Environmental Science	Environmental Science
–	Other (Seeds & Traits)
<b>Crop Science total</b>	<b>Crop Science total</b>

Reporting for fiscal 2017 applies the structure in place until December 31, 2017.

## 1.1.3 Value Creation



See also A 1.4.2

By delivering innovative products and solutions, Bayer creates value for its stakeholders at all stages of the value chain. We operate production sites worldwide, invest in research and development, work with international and local suppliers and contribute to the economic development of our target markets. As an employer, we provide jobs in industrialized, emerging and developing economies and create purchasing power through the salaries we pay. We contribute to public finances and thus support public infrastructure through the payment of taxes and other levies.

A 1.1.3/1

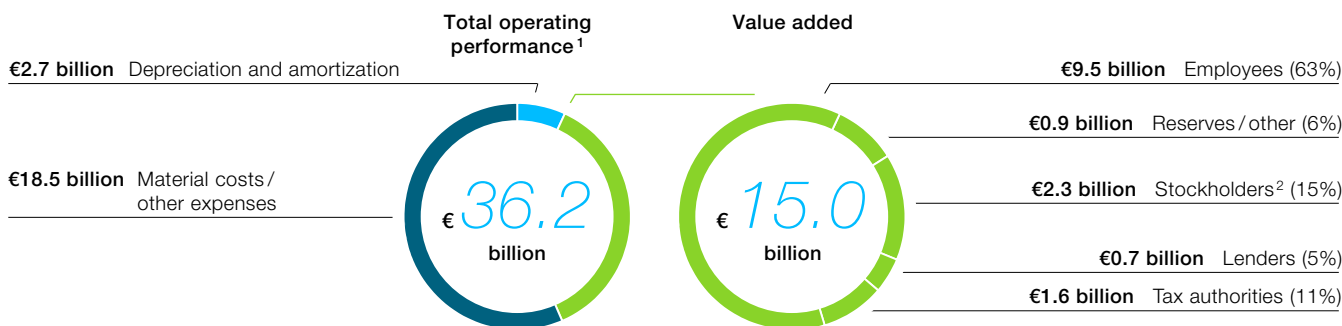
### Value Chain Stages



The value added statement shows the direct financial value our business activities create for our stakeholders. We define value added as the company's total operating performance in the previous fiscal year less the costs of procured and consumed goods and services, depreciation, amortization, impairment losses and impairment loss reversals.

A 1.1.3/2

### Bayer Group Value Added 2017



<sup>1</sup> Total operating performance = sales + other operating income + financial income / equity-method income (loss)

<sup>2</sup> Bayer AG dividend proposal for 2017