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Meet Management 2017 in London
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C: Werner Baumann; Bayer AG; CEO
C: Johannes Dietsch; Bayer AG; CFO
C: Oliver Maier; Bayer AG; Head of IR

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Oliver Maier
I'd like to welcome you to our Meet Management Meeting here in London today it's a great pleasure to be here. I think, as you can tell, not much of space with around 150 external participants, this is a record participation in the history of this event and we really appreciate you guys being here and your interest in the Company, your support.

It may be the 19th meeting for Bayer but it's the first one for me. So I'm really the new kid on the block and I'm certain I will have the steepest learning curve of anybody in this room, I'm pretty sure, for the rest of the day.

I see a lot of familiar faces in the audience, nevertheless, for the ones that don't know me, please allow a little brief introduction from my end. My name is Oliver Maier and I have the pleasure and I'm really excited to head the IR team of Bayer since March 1st, so I'm there for 2 weeks. Allow me to be on the on-boarding process, okay? Don't ask me any difficult questions today.

So I started being on the sales side for about eight years and the last 17 years, I ran the IR and corporate COM team at Fresenius Medical Care. I believe most of you guys are very familiar with the setup and the format of today's meeting. I may be the one who is new to it but let me make some very brief remarks on the layout of today, you've got your agenda slides for each group.

And, as you can see, we start today with a presentation of our CEO Werner, he will give us a 20 minute overview about the group and after that our CFO, Johannes Dietsch will do a presentation about the EPS impact in the context of rights issues.

After these two main presentations, you will have the opportunity to discuss various aspects of the Company in four different breakout sessions. One session is focused on the group headed by Werner, one on pharma headed by Dieter Weinand and then one for consumer health headed by Erica and one for crop science headed by Liam.

Each and every one of you guys have specific agenda for the group meetings and in order to facilitate such a large crowd, obviously, we have to split the audience in four groups, A to D. And this is also what's indicated on your name tag.

Group A and B will start on this level. So the group and the pharma guys, A and B, will start here on level minus 2 and the groups C and B for consumer health and crop science will actually start on the level minus one, one level above here and then we switch around.

Our host and hostesses, actually you've seen outside, will bring you to the various breakout sessions which are located on these two floors. I still have two housekeeping items to keep it quick. These little devices, we would really appreciate if you guys could either turn it off or put it on mute during the two main presentations and during the group sessions.

And then, maybe the most important housekeeping item, lunch will be served on level plus one in the restaurant which is up here. And since the elevators are really slow, I would also think about using the stairs around lunch because that's really a bottleneck.

That concludes my remarks here. I know that this is the last time you're going to see me today because there's no summary session at the end. So I'd like to take the opportunity to thank my team, this morning, who actually made this actually happen. Everybody who supported the organization, it's always a big organization behind and lots of stuff to do and to organize, which nobody sees.

So thank you very much for making this happen today. Thank you. And with that, it's my pleasure to hand it over to our CEO, to Werner. Werner, the floor is all yours.

Werner Baumann
Thank you Oliver. Good morning everybody. Warm welcome also on behalf of all of my Board colleagues and all the members of the management team and the Bayer colleagues that are here, you're going to have the chance to interact with more than 20 of us during the day and we are really looking forward to the discussion.

Before I go into my presentation, I'd like to make also two brief remarks. First of all, I'd like to thank Jürgen Beunink, who's been running IR as the Acting Head of IR in, what I would call, a very interesting phase during 2016. It was very, very challenging Jürgen and his team did a fantastic job supporting us at the board level, also with our little crop project and I'd like to extend a big thank you to Jürgen.

Also now with Oliver coming on board and with it, as well, Oliver, welcome to you and we are sure that we are going to have a blast over the next years.

It may be a little bit unusual, when we moved into the room; one of the participants passed by and said the following words to me that I'd like to share. He said, hello Werner, good luck for today, don't worry, things will be good because pharma is doing well.

The one thing I'd like to add is the Bayer is much more than pharma but we can certainly suscribe to the assessment that pharma is doing well and I think you are going to look forward to the discussion with our pharma colleagues, Dieter and his team, on operating trading but also some very exciting pipeline news and life cycle management news that you will have a few questions on.

So, with that, let me move into the presentation, prior to that, please pay close attention to the Safe Harbor statement for forward-looking information. *(See "Cautionary Statements Regarding Forward-Looking Information" chart at the end of this transcript)***.**

And with that, very briefly, we had a very good year 2016. I'm not going to dwell on each and every of the things we've done but certainly, we've seen another record year in our financials.

We did agree to acquire Monsanto in an amicable way, I have to say, after quite an extended period of negotiations and with what we think also good headline terms with the $128 per share on one side that most people didn't have us down for and, at the same time, also with a reverse break fee of $2 billion which was actually at the lower end of people's expectations.

We did further cleanse of our portfolio. We finalized the diabetes divestment and also environmental science business, small but still a distraction on the overall business in crop.

We did a first step in 2016, followed by a second one actually just a few weeks ago, in reducing our stake in Covestro as announced early on. We extended the Rivaroxaban patent in the US, I have to say as expected. We shared with you our excitement on our mid-stage pipeline when we met last in September 2016 for Meet Management.

And, of course, we did do the first steps in the take out financing, if you want, so preparing for the take out financing with the first placement of the mandatory convertible in November. And last, but not least, we also worked on future sustainability and some excitement in innovation with the establishment of two companies, one around CRISPR CAS in gene-editing with Casebia and the other one, later in 2016 with BlueRock which is all around the pluripotent stem cell therapies.

So, with that, let me move into 2017. You know what our guidance is all about. We split it so that you have some more transparency into life science as the kind of continuing operations even though we continue to consolidate or Covestro business because we are technically still in control even though we are not in control operationally anymore.

So, on group, low to mid-single digit growth while life science will grow mid-single digit, adjusted EBITDA, adjust the same. Mid-single digit increase as a group overall, including Covestro and mid to high if you just look at our growing concern life sciences businesses.

And last but not least for the group, we are looking for a mid single digit increase in core earnings per share. Other than that, the only one thing I'd like to share beyond that with you, as we are now already mid of March, we are well on track and very optimistic for the year. We got off to a good start in 2017 and we are very much looking forward to sharing our quarter one results once we are done in a few weeks towards the end of April.

So with that, let me now flip over to the midterm expectations that we presented to you in September 2016. We are here to reconfirm our aspirational targets for 2018, as you see them shown here, and you will have a chance to certainly dialog and discuss about the quality of our progress we are making towards 2018. Once you go into the breakout sessions, into the different businesses, but overall also here as a Company, we see ourselves as being well on track with our operational targets.

Pharma on the back of a very strong performance in 2016, consumer health working hard to turn around a number of big products and also certainly to gain and regain traction in the U.S., animal health very solidly on track and last but not least, crop science.

You see here the way we presented it to you in September 2016, the combined aspirational targets after the combination of Monsanto to show you a little bit more, once I get into crop about the stand alone and where we've been trading and that will also be a proxy for 2017, 2018 stand alone.

So Monsanto, where do we stand? Starting with September 14th and the signing of the merger agreement, we continue to work very diligently in preparing ourselves for the necessary regulatory filings in about 30 jurisdictions, roughly 2/3 of them are submitted by now.

We are in constant dialog with all relevant antitrust agencies and we are, as a matter of fact, making good progress but at this point in time without any tangible outcome as to be expected given the normal course of events with filings responses, as you see also in the U.S., totally expected the second request. It will still take some time until we have further visibility, but having said that, we remain as confident as we were in 2016 about our ability to close this transaction by the end of 2017.

Last but not least, what are the next steps now for Monsanto? First of all, beyond a very good cooperation and work that we are doing with the antitrust agencies, we continue to enjoy excellent – really excellent support and cooperation by our colleagues at Monsanto, so everything we are doing also in responding to requests of the agencies in terms of preparing with our organizations.

The post merger integration activities could really not be better, so this is actually a very, very pleasing experience for all of us that are involved in these activities, and that also makes us very, very confident in terms of the coming together of both organizations and really creating a top notch and best in class organization once combined.

We are planning for further take on financing steps as we gain more visibility and we've also said in February that should we identify further opportunities to optimize our financing structures, we will be looking at them and we can certainly go into some more detail and discussion later on after Johannes Dietsch's presentation and in the group sessions as you like.

So with that, let me come to the strategic perspective of the business. First of all, we see Bayer as growing into a position of becoming the world class life sciences Company with the businesses we run and develop. Pharma, a very much focused strategy in a number of indications where we believe that we have everything we need in order to win in the long term and also to create significant value.

We do want to maintain our global leadership position in over the counter medicines after having reached a core number one position in OTC with the acquisition of the Merck OTC portfolio, and of course improve our profile that we are working on.

And crop sciences, of course, the combination that has been against the strategic background of that coming together, that makes us very, very excited for the next many years to come; with the prospects of that business driven by the substantial innovation potential and capabilities that come together and a very attractive market environment that we believe we can continue to grow in above market and with a very attractive financial profile.

Animal health continues to do well, also. Last year we grew just shy of 5%, so totally in line with market, with a very, very well developing companion animals business and we also succeeded to at least add a small additional product from the antitrust divestitures of Boehringer Ingelheim by the name of Cydectin that we are very happy about. So, pharma, what are the growth drivers now for the next years to come? First of all, we continue to be on a very solid growth track in pharmaceuticals, very much driven by our key products.

And in light of the fact that we have been much more successful that we thought we were going to be, we have also by now upped the second time, the peak sales potential of our key products to now about EUR10 billion, peak sales potential, very much driven by Xarelto and Eylea as our top selling products. We are also very diligently working on executing against our life cycle management plans.

I briefly hinted the fantastic Compass data that we will be sharing with you in more detail in a congress later on this year that we are very excited about, and we are also continue to be excited about our own pipeline and we certainly look at further strengthening our growth profile with in-licensing and smaller bolt-on acquisitions going forward.

Xarelto is a fantastic success story. We ended last year just shy of EUR3 billion. We see significant potential together with J&J in the further life cycle management programs that are on the way. Compass is the opening a whole new universe of so far untreated patients in PAD and CAD. That patient group is actually significantly bigger than the patient population for SPAF and that gives you a perspective on how big the potential is that we can tap into based on the fantastic data we have.

And we will, of course, further see dynamics driven by both demographics but also the further shift from Warfarin that all NOAC's are benefiting from. Eylea just about the same, also here our initial guidance above EUR1.5 billion at peak comfortably exceeded by now, hence the upgrade to above 2.5 billion.

Also here, underlying dynamics continue to be good with the growth we also see into 2017 and beyond by further driving the product, driven by demographics, but also the fact that we will certainly further explore the market expansion among other things in DME and also the life cycle management opportunities that we have under way with our partner Regeneron.

I'm not going to go into the details of our new product and life cycle management news flow that we are going to see over the next year. I think the punch line here is that quite a bit is going on.

If you look at oncology, for example, or the actually significant news coming out of our life cycle management programs that will continue to drive growth in pharma over the next years to come.

So let me come to consumer health. With consumer health, we will continue to build our performance on category leading and global brands. We have, if you want so, a very, very good portfolio composition with large and leading brands that have also either a global footprint today or the potential to grow into a global footprint.

We have further refined our portfolio management approach that Erica and her team get into in the discussions by actually being more precise in allocating our resources based on most attractive markets and most attractive brands rather than looking a level higher at global brand development only. We think that this is the right next step to go for us to focus investment, and at the same time drive better performance of our business.

We have a number of quite difficult markets for different reasons and Erica and her team are working very hard in making progress in these markets; the US being one, also the biggest with roughly EUR2.5 billion revenue.

Secondly, some of the growth markets that we continue to do well in but not as well as we would have loved and liked to do, also driven by the significant challenges these economies are exposed to. Here in particular; China, Russia, and Brazil. But they continue to hold great potential that we will continue to invest into.

At the same time, in order to balance our growth better, we have focused or refocused some of our investment dollars also back into mature markets and with it, to get to a better balance. And, of course, we will continue to leverage the size and the scale we have in order to make further progress in improving our profile.

As in all other business, even though by slightly different means, also consumer health is an innovation driven business. Here it's very much around customer-centric innovation.

We have revamped our innovation process. Also here, we expect the first tangible results to come within the next quarters ahead of us. And that will, again, contribute to an improved profile going forward.

So with that, just a few products; if you look at them and what we have done, we have significantly expanded our product portfolio. And Bepanthen, that's what you see in the upper left, with the acquisition of Dr. Scholl's. And the customized insoles that are being sold and now further developed and improved in terms of the product profile, that's what you see the bottom left. So a very neat approach that we are leading with, even through Dr. Scholl's will take still some time in investment to fully turn around. Also here, Erica will certainly shed some light on that with her team.

Aleve, that's pain therapy here, a device for back of the pain -- pain of the back, not back of the pain, yes, treatment and last but not least, ClariSpray that was a line extension around Claritin in the U.S. It also helps to regain traction and actually market share in the US last year. So just a few highlights with many, many more that are not on the slide; that show the continuous innovation we see in consumer health, as well.

So crop, I'm not going to dwell on that. We have had many, many chances over the last; I'd say almost three quarters of a year, to talk about the great things that we see in the combination of the two companies. The tremendous complementarity particularly around our strengths in chemical crop protection and Monsanto's strengths as the best seeds and biotechnology Company of the world; coupled with a fantastic digital platform that can be further exploited in terms of developing really integrated solutions that will actually drive the next level of yields and productivity for our customers.

But of course they are also highly attractive to us, as the key player in the industry that will benefit from above market growth with a highly attractive financial profile of the combination. You know the headline data we shared with you very early on. What we expect that acquisition to deliver. We see after year three, after closing, net benefit EBITDA relevant benefits in terms of synergies of about $1.5 billion; roughly 80% of that coming out of cost synergies, the remaining 20% would come out of revenue synergies that we can reap early on.

And then, as we move forward in developing the integrated solutions I mentioned earlier, those will then later on contribute to above market growth and with, what we believe, also based on some of the relevant experience we have for example, with canola in Canada, a highly attractive margin profile for the combination.

There's one thing that a lot of people are worried about, and that is whether the current situation we see in the market is actually purely cyclical in nature or whether that is the new normal. Our perspective has been and continues to be that we are in the trough of the cycle that we should see and do expect a sequential recovery of the market that will start by the end of 2017, yet always pre-determined by the fact that we will have to see a more normal rather than another record harvest and with that improving stock to use ratios that you see depicted here on the chart with corn and soy.

That means that the better we get back into balance, the further the situation will improve on crop commodity pricing and with that also on the growth profile of the industry.

How have we been trading against that backdrop, as I mentioned earlier if you look at the crop business, we have been doing very, very well over the last years even as we moved into the downturn of the cycle, we've, of course, also experienced a significant slowdown of our growth.

Yet at the same time, we continue to perform above market and that's actually the common denominator of all the years you see depicted here that we have really been gaining market share over the entire cycle and we continue to do so also with our advanced market leadership strategy that continues to be in place for crop science as a stand-alone business.

What we've also done and worked very hard on, after the experience in 2010 is to significantly improve the management of our return profile and EBITDA margin. You see that despite significant slowdown you see in terms of growth, Liam and his team have been able to contain the return profile of our crop business within a relatively narrow band of about 23% to 25%, which in and by itself is I think a huge accomplishment.

Having said that, there's at least one little footnote I'd like to make if you look at 2015 and 2016, there's a little bit of a distortion in terms of profitability profile in these two years because we have been suffering a little bit more, negative exchange in 2015 that was then turned around some more positive in 2016 that has helped and that pick up from 2015 to 2016 so that it's not entirely organically driven if I may say.

So, last but not least, it is also very clear that the industry needs to deliver against what our customers and behind our customers, our consumers will need over the next decades to come. And the only way that the situation that is going to evolve in terms of food scarcity can be solved is that we have to continue to innovate.

This is not only our perspective based on the knowledge and understanding of the industry and just looking at demographics, and where demographics will lead to in the next 25 to 30 years. It's actually as if it had been written by ourselves, very, very strong statement also from the UN FAO.

If you look at what they said in 2016, what we need to do in order to address a more sustainable food supply and if you look at the headline arguments at number one a more efficient use of plants, water and other input that we can contribute to by, for example, developing stress tolerance, drought tolerance varieties.

Why is that important? Because your arable land is simply limited in availability and we cannot scale up the surface, we can actually do use for agriculture. It will only be possible to address the needs going forward by increasing output on the available acreage.

Secondly, again, stress relevant, stress tolerance, climate smart agriculture that we need to develop solutions that are more resilient in the face of a progressing climate change. The greater conservation of bio diversity that we can contribute to and last, but not least, also the achievement of a greater quality and also quantity of production. And it will shift from ready-to-use to custom made, quote-unquote, that's also what integration solutions are about with more intelligent solutions and more insight if you look at the power of the digitalization in modern agriculture. That's, in a nut shell, why we are also so excited about so we could not do more than fully subscribe to the statements of the FAO.

So the combination will accelerate our ability to innovate, that's what we can do by the combination and then actually a very early alignment of our programs around seeds traits, chemicals, biologicals and also digital solutions. And that is actually only possible if you have everything under one roof. Every other option you could think about is secondary in terms of what could be achieved because it will by default be much slower.

So in summary, Bayer is what we want to develop into a life sciences Company. We think we have everything we need in order to do that going forward. We are working on further evolving the Company on the back of a strong foundation with another year of record performance in 2016.

If things go well, and we have every reason to believe that they will be going well in 2017, 2017 will be yet another year of record performance. Our mid-term expirations are, let's say, fully in line with what we think we can do. Also in terms of where we stand, as of today, we continue to drive our Pharma business.

I can only reiterate our excitement about the Pharma business; we extend operations and also love to see in our pipeline coming, also in life cycle management. OTC on track in terms of further turning around and regaining traction and last, but not least, the combined Company including Monsanto would just be a fantastic Company to work for, but also one to own.

And with that, I conclude my comments and welcome Johannes Dietsch, who's going to explain the financing capital measures and some of the technicalities that are also very important as we move into the capital increase with subscription rights so that is something that we thought would be highly relevant for you to get a first hand explanation on from the best expert we have and that is Johannes. So Johannes, please.

Johannes Dietsch
Ladies and gentlemen, good morning, also a warm welcome from my side. And before I start my presentation I also would like to draw your attention to the legal disclaimer. *(See "Disclaimer" chart at the end of this transcript)*.

You heard from Werner that we are making good progress in the regulatory approval process for the Monsanto acquisition.

In parallel, we are working on the take-out financing of the transaction. And in November 2016, we successfully performed the first step of the planned $19 billion US dollar equity portion of the take-out financing through the issue of a EUR4 billion mandatory convertible bond.

Now, I would like to take the time to convenience you that a rights issue is a very neutral and favorable measure in the term-out financing plan for the Monsanto acquisition. The plans rights issue is expected to take place once the closing of the transaction become sufficiently certain.

In particular, we need to have visibility that we will obtain the necessary regulatory approvals to close the transaction. A rights issue is a shareholder-friendly and a standard approach of European issuers to raise new equity. We planned this kind of rights issue with subscription rights would be value neutral for existing shareholders.

A discount is offered to make the rights issue attractive for existing shareholders. Let me give you an overview on the modalities of a discounted rights issue to answer your questions around technicalities of such an instrument.

Let me try to entertain you. For illustrative purposes, the above table shows selected precedents of European rights issues in connection with acquisition financing during 2014 and 2016. In general, you can see from those examples that generally high take-up by investors given that unexercised subscription rights can be sold to other investors.

Over a longer period of time the European rights issue in excessive of EUR10 billion in size since 2003, the statistics shows that the take-up is an average of about 98%. Rights issues are also typically underwritten by mandated banks, therefore giving high transaction security.

There is, however, no guarantee that a similar result can be achieved with the potential upcoming rights issue of Bayer. The examples also show a range of discounts applied to the theoretical ex-rights price, the so-called TERP.

TERP is the weighted average price of the shares outstanding prior to the rights issue and new shares issues at the discounted subscription price. Finally, the applied discount highly depends upon the use of proceeds or for size relative to market cap and market conditions at its launch.

Let me illustrate why the European discounted rights issue with subscription rights is a shareholder- friendly approach to raise capital. The rights issue will not lead to an economic dilution for existing shareholders. All new shares will be offered to existing shareholders exclusively on a pro-rata basis.

They can purchase shares based on the subscription ratio at the discounted subscription price but could also pursue other options. Shareholders have the free choice to either exercise their rights or to sell it in the open market, as the right in itself has a value attached to it.

Shareholders could also follow a cash neutral strategy and partially exercise the rights. This means shareholders could sell as many rights as required to generate the cash needed to purchase new shares at the subscription price. So overall, to increase the number of shares held without additional investment.

But, please note, that for existing shareholders, they can only prevent a voting dilution of the shareholding in Bayer AG if they exercise their subscription rights in full. Thus, the rights issue is a shareholder-friendly way of increasing capital without diluting the existing shareholders' position from an economic point of view, irrespective of the discount offered which I will explain more in detail later on.

Let's first have a look on the cash neutral strategy. It shows that a discounted rights issue could be viewed as a combination of an issue at full price and the issue of bonus shares at the same time. In order to quantify the size of the bonus issue, we first need to identify the fair value element; that's the number of shares deemed to be issued at the fair value. Or, rights issues proceeds over TERP.

The bonus elements can be calculated from the number of new shares issued less the fair value element. The bonus element reflects the number of shares a shareholder receives for free following the cash neutral strategy. Using these formulas, it becomes clear that the bonus element increases with the level of discount offered to TERP. The bonus element needs to be adjusted when doing EPS calculations for different time periods, and also for comparison of business cases.

According to IAS 33, EPS of prior periods shall be restated for the bonus element. Which means the weighted average number of shares outstanding for prior years shall be increased by the amount of bonus shares as if the shares were outstanding from the first presented period onward.

Let me now walk through a numerical example that serves for illustrative purposes only. Of course none of the assumptions shown on this slide should serve as a reference for the planned discounted rights issue for the financing of the Monsanto deal.

But let's assume you're a Company under consideration that generates EUR1 billion of net income, which is expected to increase to EUR1.5 billion through external growth. The Company has EUR400 million shares outstanding, trading at a level of EUR100 per share. Now, the Company is to increase equity capital by EUR10 billion through a discounted rights issuethat has the following parameter.

Subscription price of EUR75, the TERP is then 93.76. So effectively, the rights issue is offered at a 20% discount to TERP with 133 million shares to be issued. The subscription ratio is one new share for three shares existing with guaranteed allocation.

To arrive at the bonus element of shares, we need to know the fair value element. Which is the number of shares deemed to be issued at the fair value, so rights issue proceeds of 10 billion divided by TERP gives you roughly 107 million shares. If the Company issues 133 million new shares, the bonus element is reflected in 26 million new shares. We say that for the bonus element of these 26 million shares, the EPS pre-rights issue gets adjusted to EUR2.34 instead of EUR2.50.

Please remember, the higher the discount to TERP in the right's issue, the higher the number of bonus shares, and the lower the restated EPS figure for prior periods. As the EPS figure post the discounted rights issue amounts to EUR2.81, the underlying EPS accretion equals 20% in this example.

Without the EPS restatement, the accretion would only amount to 12.5%, so it would over penalize the Company in the year of the rights issue compared to prior periods. The objective of the IAS adjustment is to compare the Company's EPS performance on the like-for-like basis.

Maybe we can spend now one minute to look on the impact of different discounts to TERP on EPS accretion. Thereby, we will illustrate that the size of the discount at which the new shares are offered does not impact the accretion of the illustrative M&A transaction on the Company's EPS development.

In our example, you have seen so far that a discount of 20% to TERP led to an EPS accretion of 20%. Now, assuming the rights issue would come at a higher discount, let's say 40%; the Company would need to issue more shares than in our recent example. Namely, 200 million new shares instead of 133 million.

All else equal in this example, the Company will have 600 million shares outstanding after the rights issue, which need to be compared to the 400 million before the transaction; restated by 80 million bonus shares. So the restated figure here, prior to the capital increase, now amounts to EUR2.08 with an EPS figure of EUR2.50 after the rights issue. Again, the EPS increases by 20%.

Now you can also take into account the number of bonus shares in all comparison periods. For example, with a like-to-like comparison and a capital increase at market price, without any discount; you can see from the example that you will, again, arrive at 20%. From this example, you have seen that the discounted rights issue will have an impact on the nominal value of the EPS, but that the offered discount is value neutral to the expected EPS accretion, which holds true in case of EPS dilution as well.

Maybe one more example, to give here for our calculation on accretion, dilution in the Monsanto acquisition; we use actually the third category here. Just take the number of shares without discount in order to run your accretion-dilution calculation.

Now, let me look at the strategic actions which we expect to have an impact on reported EPS and on core EPS overall. Number one, we come out here with the discounted rights issue and the restatement of the historic EPS value.

The second element with an impact on our core EPS is Covestro. With a potential exit of the remaining Covestro stake, we will have an impact on EPS modeling. You know that in fiscal year 2016, the Covestro stake was at 69% at the beginning of the year and 64% since May. It contributed around 71% to core EPS last year. Based on 2016 figures and the remaining stake of 53% as we hold it today, it would have an impact of 57 cents on core EPS.

This calculation needs to be adjusted for the remaining percentage stake, although Covestro is still fully consolidated in our financial statements. Which means we are including in sales and EBITDA Covestro with 100%; but in core EPS, it's only accounted for relative the stake we are holding in.

Further on, the Monsanto transaction itself will have an impact on core EPS, of course through the assumed profit contribution and synergies after the closing of the transaction.

We expect the transaction, as being stated before, to be accretive to core EPS in the first full year after closing and show a double-digit precentage accretion in core EPS in the third full year post-closing. The placement of a mandatory convertible note has been performed in November, as another element which has an impact on EPS modeling.

You have to take into account the additional shares that are relevant for the EPS calculations as of the issue date, last November, although the MCN shareholders are entitled to dividends only after conversion of the notes into shares. Although there is no dividend entitlement until conversion, the number of shares increases to adjust for dividends paid and also for planned rights issues dilution.

Now let me draw your attention on a very few details on the accounting for the mandatory convertible notes. We issued the notes in November 2016 and received cash proceeds of 4 billion EUR with a three-year term of the mandatory convertible bond. The coupon was a 5.625% premium at 20% and we had in the prospectus the full dividend pass-through and also the adjustment for other capital events. With this the high volume of the notes met strong investor demand.

We consider four coupon payments which will be at beginning of July 2017, July 2018, July 2019, and the last coupon payment will be November 22, 2019. This mandatory convertible bond was the largest transaction of its size ever placed by a European corporate outside of the financial sector. Let's have a closer look how we considered the transaction in our books.

We received the EUR4 billion in cash. After the deduction of transaction costs along with 0.2 billion of deferred tax, a portion of 3.3 billion was allocated to capital reserves as a capital increase, and EUR0.7 billion was recognized in other financial liabilities. The financial liabilities reflect the discounted annual cash payments of 225 million EUR supplying the coupon to the nominal value which is 5.625% on 4 billion.

The liability will decline over the next three years depending on our coupon payment. The interest cost which will be P&L relevant, are relatively small. The financial results will recognize only 22 million over three years which is basically the discounted value of the future coupon payments or the interest on that. But not only our balance sheet and the P&L is affected by the mandatory convertible note.

Also a number of shares are affected already as of the date of the issuance. And here I have an example for you how we use the international financial reporting standards to show that the weighted average number of shares increased already at the date of the issuance in November last year, although the new shares will not be issued until the notes are converted which will be in November 2019, the latest.

And for IFRS accounting purposes, we were always using maximum number of shares to be converted. At issue date, minimum conversion price was 90 Euros. A number of additional shares used for EPS calculation came in at 44.4 million. With the 2016 dividend payment beginning of May 2017, the conversion price will be adjusted in order to prevent the mandatory convertible notes holder from dilution.

Based on our dividends proposal for 2016 of EUR2.70 and an assumed share price of EUR105 at the time of dividend payment, the minimum conversion price will be adjusted for the dividend yield. It will be adjusted to roughly 87.69 in this example and would lead to an adjusted additional number of shares to 50 – 45.6 million. So another 1.2 million shares.

And you can see in this slide how we are calculating the weighted average number of shares for each period which will affect EPS and core EPS calculations. On this slide you will find the development of our total shares for 2017 but please keep in mind that this calculation is based on the proposed dividend of 2.70 EUR and the assumed share price of EUR105.

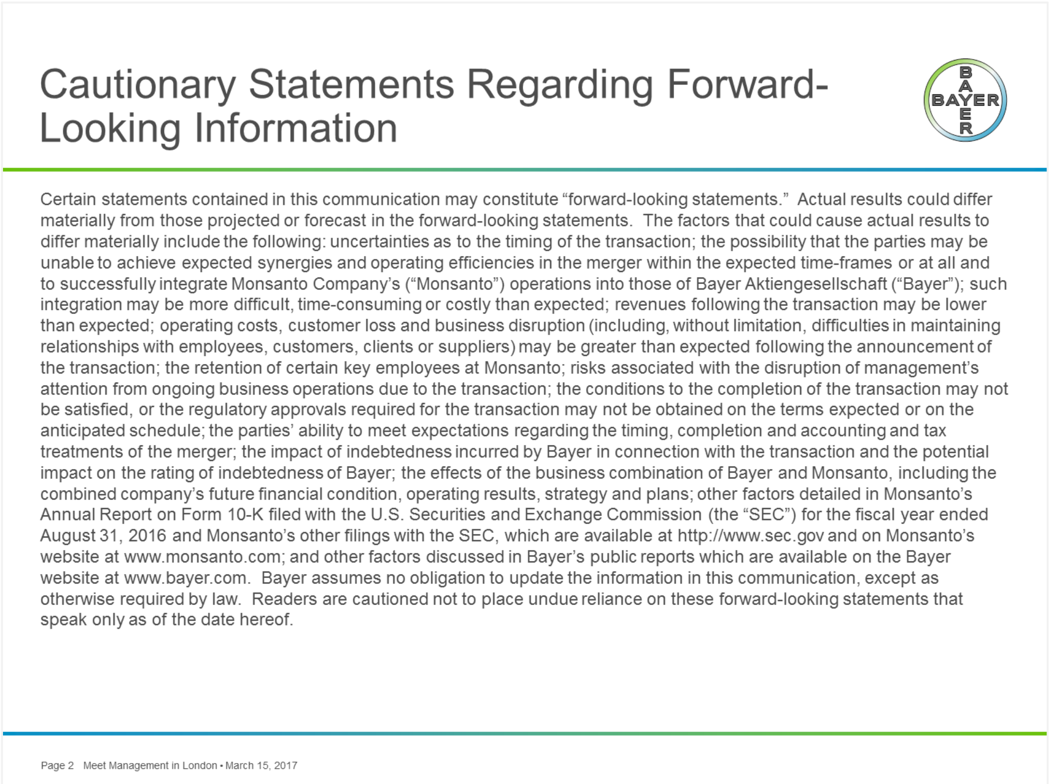
In the context of a planned rights issue, the absolute share price level will be adjusted to the TERP as being shown before, whereby sharers will receive subscription rights with a monetary value. Holders of these mandatory convertible notes however, do not receive subscription rights. According to the terms of the MCN and an adjusted mechanism is required to compensate MCN holder for the loss in value of the underlying shares.

Similar to the situation where dividend is paid, which MCN holders equally do not receive. The conversion price needs to be adjusted by an adjustment factor, dividing TERP by the current share price. Based on my illustrated example, explaining the discounted rights issue, the adjustment factor would be 0.938, resulting in an adjusted minimum conversion price of 84.42 Euros. The adjustment preserves the value of the shares delivered under the minimum and maximum ratio of the mandatory convertible bond.

Now let me summarize my presentation. From a conceptual point of view, the discounted rights issues includes a fair value element and a bonus element. These bonus shares should be added to all prior periods for EPS calculations, as well as for business case comparisons. Including this adjustment, the discount to TERP in a rights issue is neutral to EPS accretion or dilution.

The mandatory convertible bond has an effect on the number of shares already at the time of issuance and need to be looked at for EPS calculation and business case calculation. Accounting wise, it will be only a minor impact on the mandatory convertible notes on the P&L as being seen before. There will be an adjustment of conversion price for dividends and rights issue to protect MCN holder from dilution.

Now all you find more information in the appendix and later also, ready for discussion in the group session. That concludes my presentation. Thank you very much.



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