

Report
on the
Voluntary Special Audit
at
Bayer AG,
Leverkusen

March 20, 2020

The Report on the voluntary special audit at Bayer AG, Leverkusen was provided in German.
The English convenience translation was prepared by Bayer AG.

Content Overview

Table of contents	3
List of abbreviations	7
A. Audit Engagement to Conduct a Voluntary Special Audit	11
B. Basis of Information.....	12
C. Management Summary	16
D. Audit Implementation	19
E. Audit Subjects.....	21
I. Adequacy of the group’s internal guidelines and requirements with regard to the performance of DD in the context of material M&A transactions (Audit Subject I) ...	21
1. Audit Mandate	21
2. Status Quo at the Time of the Audit	22
3. Assessment	37
4. Recommendations and Remarks.....	38
II. Internal reporting lines between the employees entrusted with the DD audit in the context of major M&A transactions and corporate management (Audit Subject II)...	41
1. Audit Mandate	41
2. Status Quo at the Time of the Audit	42
3. Assessment	68
4. Recommendations and Remarks.....	69
F. Concluding Remarks.....	71

Table of contents

Table of contents3

List of abbreviations7

A. Audit Engagement to Conduct a Voluntary Special Audit 11

B. Basis of Information..... 12

C. Management Summary 16

D. Audit Implementation 19

E. Audit Subjects.....21

I. Adequacy of the group’s internal guidelines and requirements with regard to the performance of DD in the context of material M&A transactions (Audit Subject I) ...21

1. Audit Mandate21

2. Status Quo at the Time of the Audit22

2.1 Implementation of Mergers & Acquisitions – General.....22

2.2 Transaction Process according to Corporate Policy 1783.....23

2.3 Description of the DD Process25

2.3.1 General Information25

2.3.2 Information Sources26

a) Management Presentation (MP)26

b) Virtual Data Room (VDR)26

c) Written Questions and Answers (Q&A)27

d) Expert Sessions.....27

e) Site Visits27

2.3.3 DD Coordination27

a) Project Management27

b) DD Team Organization28

c) Communication/Protocol28

d)	Internal DD Kick-off.....	29
e)	Internal DD Reporting	29
2.3.4	DD Results of the Individual Workstreams.....	30
a)	General Responsibilities of the Workstream Leaders.....	30
b)	Identification and Mitigation of Risks	30
c)	Input to the Business Case	31
d)	Handling of draft transaction agreements	32
2.4	Internal Practice – BAG-MAL using the example of BlueRock and other transactions.....	32
3.	Assessment	37
4.	Recommendations and Remarks.....	38
II.	Internal reporting lines between the employees entrusted with the DD audit in the context of major M&A transactions and corporate management (Audit Subject II)....	41
1.	Audit Mandate	41
2.	Status Quo at the Time of the Audit	42
2.1	Overview of MAL's reporting lines within BAG	42
2.2	Internal reporting lines of BAG	43
2.2.1	Mergers, Acquisitions & Licensing (MAL)	43
a)	Organizational involvement.....	43
b)	Reporting lines regarding the execution of M&A transactions in accordance with Corporate Policy 1783	43
c)	Reporting lines regarding M&A activities in accordance with current practice	46
2.2.2	Divisions PH, CH and CS.....	47
a)	Organizational involvement.....	47
b)	Reporting lines within the Pharmaceuticals Division (PH).....	47
c)	Reporting lines within the Consumer Health Division (CH).....	48

d) Reporting lines within the Crop Science (CS) Division	49
2.2.3 Law, Patents & Compliance (LPC).....	51
a) Organizational involvement, tasks and scope of activities.....	51
b) Reporting lines regarding M&A activities	52
2.2.4 Group Finance (GFI)	53
(a) Organizational involvement, tasks and scope of activities	53
b) Reporting lines regarding M&A activities	53
2.2.5 Corporate Controlling.....	55
a) Organizational involvement, tasks and scope of activities.....	55
b) Reporting lines regarding M&A activities	55
2.2.6 Risk Management (RM)	56
a) Organizational involvement, tasks and scope of activities.....	56
b) Reporting line regarding M&A activities.....	57
2.2.7 Internal Audit	58
a) Organizational involvement, tasks and scope of activities.....	58
b) Reporting lines regarding M&A activities	60
2.2.8 Corporate Office & Regional Coordination.....	61
a) Organizational involvement, tasks and scope of activities.....	61
b) Reporting lines regarding M&A activities	61
2.2.9 Board of Management of BAG	62
a) Tasks and field of activity regarding M&A activities.....	62
b) Reporting lines regarding M&A activities according to Corporate Policy 1745	63
2.2.10 Supervisory Board of the BAG.....	64
2.3 Internal practice of the reporting lines using the example of BlueRock and other transactions	64
3. Assessment	68

4. Recommendations and Remarks.....	69
F. Concluding Remarks.....	71

List of abbreviations

Abbreviation	Meaning
acc.	according to
AG	Public limited company
AktG	German Stock Corporation Act
BAG	Bayer AG
BD&L	Business Development & Licensing
BO	Binding Offer
CE	Commercial Evaluation
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CH	Consumer Health (Division)
Corporate Directive 1753	Corporate Directive: Organizational Principles for the Consumer Health Division, Directive No. 1753 (Version 4) of April 1, 2019
Corporate Directive 1754	Corporate Directive: Organizational Principles for the Crop Science Division, Directive No. 1754 (Version 1) of August 1, 2019
Corporate Directive 3002	Corporate Directive: Enterprise Risk Management, Directive No 3002 (Version 1) of January 1, 2018
Corporate Policy 1745	Corporate Policy: Tasks and Organization of the Board of Management, Policy No. 1745 (Version 12) of January 1, 2020
Corporate Policy 1745 (V.11 Old)	Corporate Policy: Duties and Organization of the Board of Management, Policy No. 1745 (Version 11) of October 1, 2019
Corporate Policy 1752	Corporate Policy: Organizational Principles for the Pharmaceuticals Division, Policy No. 1752 (Version 3) of June 1, 2017

Corporate Policy 1764	Corporate Policy: Management of Internal Regulations, Policy No 1764 (Version 6) of February 1, 2020
Corporate Policy 1783	Corporate Policy: Mergers, Acquisitions & Licensing, Policy No. 1783 (Version 3) of August 1, 2018
Corporate Policy 2076	Corporate Policy: Internal Audit Charter, Policy No 2076 (version 2) of May 1, 2018
Corporate Policy 2087	Corporate Policy: Insiderhandels-Compliance, Policy Nr. 2087 (Version 2) vom 01. August 2016
CS	Crop Science (Division)
DD	Due diligence
e.g.	for example
ELT	Executive Leadership Team
ERM	Enterprise Risk Management
esp.	in particular
etc.	et cetera
ExCo	Executive Committee
GFI	Group Finance
GFI MA	Group Finance M&A and Projects
GO	Rules of Procedure
HR	Human Resources
HSE	Health, Safety and Environment
i. a.	inter alia
IDW	Institute of Financial Auditors in Germany
if nec.	if applicable
incl.	including
IPO	Initial Public Offering

iPSC	Induced Pluripotent Stem Cells
IRL	Information Request List
KonTraG	Gesetz zur Kontrolle und Transparenz im Unternehmensbereich
KPI	Key Performance Indicator/s
LLP	Limited liability partnership
LP	Limited partnership
LPC	Law, Patents & Compliance
LPC MA	Law, Patents & Compliance – Mergers & Acquisition
M&A	Mergers and Acquisitions
MA	Employee
MAL	Mergers, Acquisitions & Licensing
MARGO	Management regulations
MP	Management Presentation
NBO	Non-binding Binding Offer
p.	Page
PAT	Project Assessment Tool
para.	paragraph
PDR	Post-deal Deal Review
PH	Pharmaceuticals (Division)
Q&A	Question & Answers
R&D	Research & Development
ref.	regarding
RM	Risk Management
USA	United States of America

VDR

Virtual Data Room

A. Audit Engagement to Conduct a Voluntary Special Audit

Bayer AG (BAG) and Prof. Christian Strenger have entered into an agreement to resolve their existing differences with respect to the acquisition of the Monsanto Company (Monsanto) by BAG and the ongoing litigation against Monsanto in the United States on the issue of possible carcinogenicity of the crop protection active ingredient glyphosate and the Roundup-branded products containing glyphosate as an active ingredient (the "BAG/Strenger Agreement"). Pursuant to No. 1 of the "BAG/Strenger Agreement", BAG has undertaken to have a voluntary special audit carried out with regard to the existing specifications and requirements to ensure that Due Diligence (DD) is conducted properly in future material M&A transactions. BAG and Prof. Strenger have agreed to appoint Prof. Dr. Hans-Joachim Böcking as voluntary special auditor. The latter is to be engaged by the Board of Management of BAG, thus creating a mandate relationship between BAG and the voluntary special auditor. "The subject of the voluntary special audit shall be

- (i) Adequacy of the group's internal guidelines and requirements with regard to the execution of DD in the context of material M&A transactions; and
- (ii) the internal reporting lines for reporting from the employees entrusted with DD in material M&A transactions to the management of BAG"¹

In accordance with the agreement, the signatory, Prof. Dr. Böcking, was engaged by BAG with a voluntary special audit in an engagement letter dated January 9, 2020. The audit subjects contained in the engagement letter correspond to those mentioned above. The acquisition of the Monsanto Company by BAG is not the subject of the voluntary special audit.

¹ In accordance with the engagement letter dated January 9, 2020 between the BAG and the signatory of the report of the voluntary special audit. For reasons of better readability, only the masculine pronouns are used in the report, [German version only], which is based on the engagement letter. These designations refer to persons of any gender.

B. Basis of Information

BAG had agreed to provide Prof. Dr. Böcking with all documents (digital or physical copies) which directly concern the two subjects of the audit. For this purpose, BAG had inter alia provided documents with which it is possible to trace, by way of example, how the group-internal guidelines and requirements regarding the performance of DD in the context of material M&A transactions as well as the corresponding internal company reporting guidelines for reporting from the employees entrusted with such a DD to the corporate management were applied in a recent company acquisition (BlueRock Therapeutics LP, hereinafter BlueRock). Additional documents and records requested by Prof. Dr. Böcking – including those relating to other transactions – were also provided in a timely manner. Prof. Dr. Böcking also addressed specific questions to various recipients at BAG, which were answered verbally in discussions or subsequently in writing.

In addition, in accordance with the "BAG/Strenger Agreement", on February 7, 2020, for reference purposes, BAG provided to Prof. Dr. Böcking the information provided by the law firm Linklaters LLP, Dr. Ralph Wollburg as well as Prof. Dr. Mathias Habersack, Ludwig-Maximilians-Universität, giving their expert opinions "on the question of whether the members of the Board of Management of Bayer AG acted in accordance with their obligations under Stock Corporation Law when they decided to conclude and implement the Agreement and Plan of Merger with the Monsanto Company, in particular with regard to the liability risks arising from the glyphosate business" (p.1). There was no further right to inspect documents. The statement on the expert opinion of Prof. Dr. Habersack of 6 February 2020 contains a sentence on DD: "The Board of Management has further ensured that the assessments available to it, also regarding the liability risks arising from Monsanto's glyphosate business were also confirmed by Monsanto in a Due Diligence process prior to the conclusion of the Monsanto Merger Agreement, and has acted in accordance with those assessments" (p. 7-8). The statement on the expert opinion of Dr. Wollburg (Law Firm Linklaters LLP) of February 7, 2020 also refers to DD: "At a board meeting, the results of the Confirmatory Due Diligence, in which Monsanto had granted Bayer access to the Q&A and Expert Calls in all areas requested by Bayer, where the potential opportunities and risks for the business case were identified were also presented to the Board of

Management". As part of Confirmatory Due Diligence, Monsanto representatives stated, among other things, that "Monsanto has not booked accruals for glyphosate-related claims and believes, based on scientific assessments, that it will prevail in the claims proceedings" (p. 6).

The first telephone contact was made by BAG on December 17, 2019. Key points of contact at BAG for organizational questions of Prof. Dr. Böcking were the Head of Law Corporate and the Head of Mergers, Acquisitions & Licensing (MAL). As part of the voluntary special audit, following two meetings on January 23, 2020 and February 3, 2020, between the period February 6, 2020 to February 19, 2020 discussions were held with persons from the following functional areas on site in Leverkusen:

- Mergers, Acquisitions & Licensing (MAL)
- Law, Patents & Compliance (LPC)
- Group Finance (GFI)
- Corporate Controlling
- Risk Management (RM)
- Internal Audit
- Corporate Office.

Subsequently, specific questions were sent by e-mail, which were answered in writing. Prof. Dr Böcking's working papers document the BAG staff members with whom discussions were held, and also contain the questions asked and answers received.

Towards the end of the audit period, the Chairman of the BAG Board of Management and the Chairman of the BAG Supervisory Board were each available for conversations in Leverkusen in March 2020.

Within the scope of the voluntary special audit, the following documents in particular were made available by BAG and analyzed:

- Internal regulations²
 - Corporate Policies (binding regulatory category)
 - Corporate Directives (binding regulatory category)
 - Procedures (binding regulatory category)
 - Knowledge Documents (non-binding regulatory category)
- Specifying Notes
- Company Presentations
- Protocols, e.g.
 - Excerpts from the minutes of the Deal Committee meetings
 - Excerpts from the minutes of Board of Management meetings
 - Excerpts from the minutes of Supervisory Board meetings
- Documents of various Mergers & Acquisitions (M&A) transactions, e.g.
 - Non-Binding Offer (NBO) Presentation, NBO Offer Letter, Resource Requests
 - Documents relevant to strategy and evaluation
 - DD Kick-off Presentation, DD Wrap-up Meeting, DD Report
 - Binding Offer (BO) Presentation, BO Supervisory Board Presentation
 - Cover letter – Supervisory Board
 - Final Merger Agreement
- Questions answered in writing.

The information and documents provided also included an overview of the working methods of BAG-MAL (as of November 15, 2018), a transaction history (as of October 16, 2019) and an organization chart of the corporate function BAG-MAL (as of January 13, 2020) and an organization chart of BAG (as of January 20, 2020).

The data and documents provided were fully documented in the working papers of Prof. Dr. Böcking. All requested documents were made available by BAG in a timely and

² Cf. hierarchy of internal regulations in accordance with Corporate Policy 1764 in version 6 of February 1, 2020, p. 6-7.

complete manner. Prof. Dr Böcking was not impeded in carrying out the voluntary special audit.

Furthermore, BAG has issued a declaration of completeness dated March 20, 2020 confirming that all documents required to conduct the voluntary special audit had to the best knowledge and belief been made available in full. Furthermore, this declaration confirms that all persons providing information have, to the best of their knowledge and belief, fully and truthfully informed Prof. Dr Böcking of all facts which may be of discernible significance within the scope of the voluntary special audit but which are not evident from the documents provided.

The findings and statements are based exclusively on information provided verbally and in data and documents submitted in writing. Most of the information transfer was conducted via a Virtual Data Room (VDR) hosted by Intralinks, where relevant information was made available by BAG-MAL.

C. Management Summary

On the Willingness to be Audited

It is to be noted that both the willingness to be audited and the personnel and time resources required for the audit of BAG was established within the scope of the voluntary special audit. BAG took suitable measures to ensure a smooth execution of the voluntary special audit mandate.

Regarding Audit Subject I

The investigation within the scope of Audit Subject I related to the audit of the appropriateness of the Group's internal guidelines and requirements with regard to the execution of DD within the scope of material M&A transactions. In this respect, the Group's internal guidelines and requirements for future material transactions were the subject of the audit.

In order to define the materiality of M&A transactions, reference was made to value limits and qualitative criteria of BAG laid down in internal regulations (see E.I.1.), above which the M&A transaction is to be approved by BAG's Board of Management and Supervisory Boards.

After completion of the voluntary special audit, it can be stated that BAG has an established process in the corporate function BAG-MAL for conducting DD in the context of material M&A transactions. The process implemented is suitable for integrating all persons involved in an appropriate manner and also ensures that the findings are passed on to the decision-making bodies (Board of Management and Supervisory Board) (see also the assessment of Audit Subject II).

With regard to the group-internal guidelines and requirements for conducting DD, a principle-based approach is used for plausible reasons rather than formalization in the sense of a rule-based approach. The internal practice found during the voluntary special audit is considered appropriate and was consistently applied in the transactions examined.

Based on a careful analysis of the documents submitted by BAG as well as the information provided, it can be stated that the internal group guidelines and

requirements with regard to the performance of DD in the context of material M&A transactions are appropriate.

Recommendations and comments that go beyond the audit subject were submitted to BAG and are part of this report on the voluntary special audit (see E.I.4.).

Regarding Audit Subject II

The investigation within the scope of Audit Subject II related to the audit of the internal reporting lines for reporting from the employees entrusted with DD to the company's management in the context of material M&A transactions.

Corporate Policies 1745 and 1783 as well as other documents provided were used to define the internal reporting lines as well as the employees entrusted with this task. Within the scope of the voluntary special audit, reporting lines of selected departments were reviewed, which are either directly involved in DD (such as Group Finance) or are indirectly involved in the transaction process after DD (such as Internal Audit).

Following the conclusion of the voluntary special audit, it can be stated that the internal reporting lines for reporting from the employees entrusted with DD to the company's management in the context of material M&A transactions exist to an appropriate extent. By reviewing the reporting lines of employees who are involved in the M&A transaction process after DD, such as Internal Audit or Corporate Controlling, it was also possible to demonstrate that a control of the M&A transactions and their processes takes place. The reporting is not limited to formal reporting lines in the sense of a written and binding requirement, but also provides for the recording of practices as well as informal, non-written reporting lines between the employees entrusted with M&A transactions. In that sense, a frequent exchange between the Chairman of the Board of Management and the Chairman of the Supervisory Board is frequently taking place.

Beyond the audit mandate, the signatory considers it important to ensure consistency between the respective formal reporting lines. Accordingly, it is advisable to adjust the relevant Corporate Policies and Corporate Directives in order to eliminate conceptual inaccuracies. It is also recommended that selected reporting lines be (bindingly) formalized in writing by BAG-MAL in the future. Further recommendations and comments were submitted to BAG and are part of this report on the voluntary special audit (see E.II.4.).

D. Audit Implementation

The voluntary special audit was conducted in the period from January 9, 2020 to March 20, 2020. The signatory has carried out this audit in Leverkusen, Frankfurt am Main and Heusenstamm during the aforementioned period.

The voluntary special audit began with a review of all publicly available documents (e.g. articles of association, company presentations, information on individual transactions completed, etc.). In addition, the audit was based primarily on Corporate Policy 1745, Corporate Policy 1783 and other documents made available during the audit.

In concrete terms, the chronological sequence was as follows: Initially, the Head of BAG-MAL reported on the working methods at BAG-MAL in a telephone conference. Subsequently, numerous, extensive documents were iteratively made available in a password-protected VDR hosted by Intralinks (see section B.). Based on this, a first catalog of questions was sent to the Head of BAG-MAL and the submission of further documents was requested. BAG provided the requested documents in a timely manner, answered a material portion of the questions in writing and backed up the answers with additional documents. In several on-site meetings, the DD process was explained by BAG-MAL on the basis of material M&A transactions for the assessment of the appropriateness of the internal group guidelines and requirements regarding the performance of DD in the context of material M&A transactions, and initial internal reporting lines for reporting from the employees entrusted with DD in the context of material M&A transactions to the corporate management were presented. For this purpose, selected major transactions – including transactions in which BAG acted as buyer (buy-side) or seller (sell-side) – were presented and related documents were made available in the VDR. The transactions presented were initially selected by the BAG. The documents made available allowed an insight into the internal practice of the BAG-MAL function. In a separate meeting, insights were provided into the structure of the database for recording and storing completed and ongoing M&A transactions (iDeal Database), which has been implemented at BAG since 2016. In addition, a presentation of the database (SharePoint) used by BAG-MAL for internal purposes (e.g. for training purposes and archiving of transaction documents prior to 2016) was subsequently carried out. In addition, at the request of the signatory, a detailed insight into additional

already completed, archived transactions was made possible on a random sample basis without prior consultation.

In addition, talks were held with the heads and employees of the following functional areas in February 2020 in Leverkusen:

- Risk Management (RM)
- Internal Audit
- Group Finance (GFI)
- Law, Patents & Compliance (LPC)
- Corporate Controlling
- Corporate Office.

Discussions were also held in March 2020 with the Chairman of the Board of Management and the Chairman of the Supervisory Board, both at the offices of BAG in Leverkusen.

E. Audit Subjects

I. Adequacy of the group's internal guidelines and requirements with regard to the performance of DD in the context of material M&A transactions (Audit Subject I)

1. Audit Mandate

The first audit subject of the voluntary special audit comprises an assessment of the appropriateness of the Group's internal guidelines and requirements with regard to the performance of DD within the scope of material M&A transactions.

The signatory defines the term materiality by cumulative application of Corporate Policy 1745 and the Rules of Procedure (GO) of the Board of Management. It follows that a transaction (establishment, acquisition or sale of companies, parts of companies or participations in companies) with a value of ≥ 200 million € requires the approval of BAG's Board of Management and Supervisory Board.³ In addition, the signatory bases his definition of materiality on the fallback criteria set out in Corporate Policy 1745. This states that the Board of Management of BAG must always approve the acquisition or sale of company investments and parts of companies (incl. NBO and BO), if the transactions are of strategic importance or involve liability risks (e.g. product or environmental liability) which are of an unusual nature or unusually high for the corresponding industry.

Within the scope of the voluntary special audit, the Group's internal guidelines and requirements are defined as that they are not exclusively formalized and internally binding regulations, but also guidelines and requirements that are available in the form of Knowledge Documents.

³ Cf. Rules of Procedure of BAG's Board of Management dated January 1, 2016, § 8 Transactions requiring approval, pp. 11-12. Share and asset deals $\geq \text{€}50$ million require approval by the Board of Management, see Corporate Policy 1745, pp. 14-15.

2. Status Quo at the Time of the Audit

2.1 Implementation of Mergers & Acquisitions – General

An emphasized importance of M&A activities is set forth in § 2 para. 3 ("Object of the Company") of the Articles of Association of BAG as of December 20, 2019: "The Company may establish, acquire and participate in other companies, in particular those whose business purpose extend in whole or in part to the aforementioned areas. It may combine companies in which it holds shares under its combined management or limit itself to the management of the shareholding. It may carve-out its operations in whole or in part to affiliated companies or transfer them to affiliated companies"⁴. To this end, generally all M&A activities at BAG are controlled by a separate corporate function⁵. In terms of company organization, that corporate function – BAG-MAL – is directly subordinated to the Chairman of the Board of Management.

BAG-MAL uses the principles set out in the Corporate Policy 1783 as well as other Knowledge Documents for the execution of M&A processes. In accordance with the hierarchy of internal regulations associated with Corporate Policy 1764, Corporate Policies are located at the highest hierarchical level and are specified in this hierarchical order by means of so-called Corporate Directives, Procedures and Knowledge Documents. While Corporate Policies, Corporate Directives and Procedures represent binding regulatory categories, Knowledge Documents are assigned to the non-binding regulatory category. Corporate Policies and Corporate Directives "form the Group's internal 'Code of Law' and are referred to at Bayer as 'Management Regulations' (MARGOs)" (Corporate Policy 1764, p. 7). Procedures and Knowledge Documents are kept in other management systems.

Corporate Policy 1783 describes in particular the initiation, execution and approval processes for M&A and applies to all employees worldwide who are involved in M&A processes. The contact person for content and author of the Corporate Policy 1783 is the Head of BAG-MAL. In addition to the Head of BAG-MAL, the chairman of BAG's

⁴ Note that the English translation represents a convenience translation prepared by Bayer. References throughout this translation do not refer to the original English version of the documents but represent a convenience translation thereof.

⁵ BAG replaced the designation "Corporate Function" with "Enabling Function" as of February 13, 2020.

Board of Management Board of Management is cited as the approver. Other persons are not listed in this Corporate Policy 1783, in contrast to other Corporate Policies; however, Corporate Policy 1783 is currently being revised.

In accordance with Corporate Policy 1783, BAG-MAL's area of responsibility is divided into all M&A activities and Business Development & Licensing (BD&L) activities for the Consumer Health (CH) and Animal Health divisions as well as Commercial Evaluation (CE) activities. BAG-MAL comprises experts for M&A transactions, Separation & Integration, Health, Safety & Environment (HSE), BD&L activities in CH and Animal Health as well as CE. Pre-transaction activities (e.g. carve-out planning) and post-transaction activities (e.g. post-merger integration) are the exclusive responsibility of the division(s) and relevant functions.

2.2 Transaction Process according to Corporate Policy 1783

Corporate Policy 1783 defines the term M&A transactions. The term includes "all mergers, acquisitions and divestments of companies, group companies, products and/or product portfolios and related intellectual property, sites with product licenses and/or HR employees as well as joint ventures" (Corporate Policy 1783, p. 5). Corporate Policy 1783 stipulates that BAG-MAL must be involved in all planned M&A transactions of the Bayer Group. Conversely, M&A transactions can only be transferred to the responsibility of the respective divisions (see E.II.2.2.2) with the prior consent of BAG-MAL.

Corporate Policy 1783 divides the transaction process into the following areas: (i) Project Identification, (ii) Project Start, (iii) Project Team, (iv) Project Execution and Approvals.

(i) Project Identification: The identification of M&A project matters is generally carried out in the divisions – if necessary, supported by BAG-MAL and/or external consultants (such as investment banks and management consultants). The first contact with a potential transaction candidate is made via BAG-MAL or, in the case of existing business relationships, via the division. As soon as M&A-relevant aspects (e.g. transaction structure, transaction process, tactics, valuation and purchase price) are discussed, BAG-MAL should be involved. After all confidentiality agreements have

been signed, BAG-MAL must always be involved and must always be the first point of contact for the target⁶.

(ii) Project Start: The start of a transaction requires the approval of the Deal Committee (CEO, Head of BAG-MAL, responsible BAG-MAL M&A Vice President, and representative of the Executive Committee (ExCo) of the division). The division must inform BAG-MAL promptly of its intention to obtain the approval of the Deal Committee. In addition, the completeness of the documents required for the Resource Request must be ensured.

(iii) Project Team: The project team composition is done by BAG-MAL, the division concerned and the respective functional experts. The core team for negotiations with target usually comprises BAG-MAL, BAG-Law, Patents & Compliance – Mergers & Acquisitions (LPC MA) and the representatives of the respective division. External consultants, if required, are selected by BAG-MAL and the division/function concerned.

(iv) Project Execution and Approvals: Once the confidentiality agreement has been signed, BAG-MAL is the main point of contact for the target until the transaction is completed and, in consultation with the division, manages the communication related to the transaction. The confidentiality agreements are drawn up by a representative of LPC MA (Corporate Policy 2087). The final decision regarding the necessary confidentiality measures is taken by LPC MA.

Any organizational aspects within the framework of the DD are managed by BAG-MAL. In addition to setting up the project team, this also includes the generation of a timeline, determining the process flow and the content of the DD activities. In order to assess the value proposition of a transaction, comprehensive business cases are prepared in advance by BAG-MAL's CE group. The underlying assumptions are provided by the divisions. With regard to content and structural requirements, BAG-MAL guidelines must be followed when developing the business case in order to ensure uniformity across all projects. In accordance with Corporate Policy 1783, the responsible BAG-MAL M&A Vice President is available for discussions and questions regarding the integrity of the business case.

⁶ Depending on the context, the term "target" refers to either the company to be acquired (or part of a company or equity interest) or the company to be sold (or part of a company or equity interest).

Regarding M&A transactions BAG-MAL relies on approvals which are set out in Corporate Policy 1745 ("Matters subject to approval by the Board of Management", p. 12). According to this Corporate Policy, M&A transactions that are strategically important or associated with liability risks (e.g. product or environmental liability), are of an unusual nature or are unusually high for the company's industry are subject to the approval of the Board of Management. All other transactions are subject to special approval requirements depending on the purchase price plus the net value of financial and pension obligations (in the case of a share deal) or the present value of payments (in the case of an asset deal).

The Offer Letter is prepared by LPC MA and supported by BAG-MAL if necessary. The CEO Office (with support from BAG-MAL in providing the necessary documents, the respective division and LPC MA) coordinates and prepares the Supervisory Board presentation and the accompanying letter required for approval by the Supervisory Board. The division is responsible for business-related topics, BAG-MAL for process, evaluation and pricing-proposals content and LPC MA for the final cover letter.

2.3 Description of the DD Process

2.3.1 General Information

In addition to the Corporate Policy 1783, in accordance with Corporate Policy 1764, there are further regulations which describe BAG-MAL's work processes. There are no Corporate Directives and procedures for BAG-MAL's working methods, but there are extensive Knowledge Documents, which are accessible via databases (SharePoint and iDeal) and which represent BAG-MAL's internal practice. The DD process and additional concretizations can be described as follows on the basis of the information provided: First of all, it must be noted that no conclusive definition of the term DD is provided in the documents submitted by BAG. However, by mentioning the term explicitly, especially in the explanations regarding BD&L activities as in Corporate Policy 1783, an indication is given for the understanding of the definition by BAG-MAL, so that a definition is implicitly present.

In the Knowledge Documents, the objectives of the DD are formalized. Once the NBO phase (Phase I) has been completed, BAG may be invited by the target to participate in the second phase of the acquisition process (Phase II), at the end of which BAG can

submit a BO. According to the Knowledge Documents, a BO is only issued if BAG has gained sufficient confidence that both the value proposition and the opportunities and risks associated with the transaction have been fully understood. To gain that confidence, DD is carried out. As such, i.e. by looking at information not publicly available, the assumptions made in the NBO phase can be checked (e.g. on the business case and business model) and potential risks can be identified and assessed.

2.3.2 Information Sources

In M&A processes with multiple bidders, the target usually provides a process letter summarizing the information sources provided during DD, along with some additional DD specifications (e.g. timelines) and the bidding instructions for submitting a BO. In bilateral processes in which BAG is the sole prospective buyer, the DD approach is discussed and agreed between the parties. According to the documents submitted, a typical DD usually includes the following evaluation elements:

- a) Management Presentation (MP)
- b) Virtual Data Room (VDR)
- c) Written Questions and Answers (Q&A)
- d) Expert Sessions
- e) Site Visits

a) Management Presentation (MP)

Generally, the DD begins with a half to full day detailed presentation about the target object, covering a wide range of core topics such as operations, research and development (R&D), sales and marketing, and the forecast financial performance. The MP is designed to help obtain in-depth company information and is typically the first opportunity for BAG functional experts to enter into a more in-depth dialog with the management of the seller to understand specific details on key topics (e.g. details of R&D).

b) Virtual Data Room (VDR)

A VDR is used to provide a list of business documents from the functional areas of the target for DD evaluation. BAG transmits an Information Request List (IRL), which individually details further information required from BAG's perspective. BAG compares these with the information already provided to ensure that all the important

elements are taken into account. The IRL regularly builds on available IRLs of previous transactions (available on the SharePoint) and is adjusted according to the specific case.

With the exception of particularly sensitive information (e.g. from a competition law, commercial or HR point of view), which is regularly only available to a limited group of people, the information in the VDR is available to all DD participants.

c) Written Questions and Answers (Q&A)

During the evaluation of the data in the VDR, BAG poses written questions and submits additional data requests to the target. In situations where the target limits the number of questions to a minimum, BAG primarily focuses on those questions which, in the opinion of the division/specialist functions and BAG-MAL, may have a material impact on the value or risk assessment.

d) Expert Sessions

Expert sessions are planned by BAG-MAL for complex questions and corresponding answers in the context of DD . These discussions take place between the relevant experts on both sides (including consultants) in 2-3 hour telephone conferences or face-to-face meetings. Usually, an initial list of questions is presented before the sessions to allow for adequate preparation by the target's experts.

e) Site Visits

If sites (e.g. production sites) are of importance in the context of the transaction, BAG-MAL plans visits to selected main sites in order to obtain a better overview of the operating status. According to the documents submitted, BAG's duty applies in particular to significant DD aspects which can only be assessed by physical examination during the audit and require special attention (e.g. HSE). According to the information provided by BAG-MAL, care is taken to ensure that at least one person from BAG-MAL, in addition to the divisional representatives, is present at all inspections carried out, such as the environmental expert from BAG-MAL.

2.3.3 DD Coordination

a) Project Management

According to the Knowledge Documents of BAG-MAL, an essential prerequisite for the successful implementation of DD is effective communication and coordination of

all internal and external resources. In order to ensure high standards in all M&A projects, BAG-MAL is responsible for the general organization, execution and coordination of all DD activities, as well as for the compilation of all final work products. A divisional project manager for DD is appointed to facilitate project-related discussions within the division.

b) DD Team Organization

The DD team is composed of only a few members in the NBO phase given that the limited amount of information, initially provided by the target, is insufficient for a thorough DD examination. Additional team members will be brought in, both to ensure relevant expertise in all key functional areas and to enable the individual work streams to cope with the heavy workload that comes with tight deadlines in addition to their regular duties. The definition and continuous review of the project team, i.e. the identification of the required functions and the appointment of the respective functional workstream leaders, is carried out jointly by BAG-MAL and the respective leads of the relevant division. The workstreams are briefed on the project to question the relevance for their functional area.

According to the documents and explanations provided, the knowledge and experience necessary to conduct the functional DD examination and to fulfill the role of workstream leader will be taken into account for staffing the workstream leader. For further support, additional members of the functional team may be appointed by each workstream leader, if deemed necessary.

The selection of additional external consultants (with the exception of investment banks and HSE consultants) is carried out jointly by BAG-MAL and the respective functional/divisional experts. According to the information and other documents provided by BAG-MAL, there is a separate procedure for the selection of investment banks. This is based on continuous internal quality assessments of investment banks from previous business relationships. This results in a pool of eligible investment banks.

c) Communication/Protocol

BAG-MAL (and, if necessary, the engaged investment bank advisor) serves as the central contact point for all communication between BAG and the target. In the opinion of BAG-MAL, this should ensure the proper follow-up of open topics.

d) Internal DD Kick-off

Before the official start of DD, BAG-MAL invites all members of the DD team to a so-called DD Kick-off Meeting. This is to ensure that all DD team members have a clear understanding of the upcoming DD process. A DD kick-off presentation will be prepared, covering a wide range of topics to ensure that even colleagues without M&A experience understand the DD basics, timeline, available data sources, roles and responsibilities, results, critical points identified so far, do's and don'ts as well as next steps. For this purpose, additional Knowledge Documents (templates) from past transactions are available in the database (SharePoint), which can be used and, depending on the structure of the transaction, be adapted accordingly. In addition, BAG-MAL provides templates for upcoming DD activities and explains the internal procedures, including relevant examples from previous projects.

e) Internal DD Reporting

During the DD, BAG-MAL conducts regular telephone conferences (wrap-up calls) or meetings (wrap-up meetings) for follow-up (usually once a week with all workstream leaders, more often if necessary). In the course of the wrap-ups, BAG-MAL asks each workstream leader to describe the progress of their team and to explain the results of DD and the risks identified in more detail. Wrap-ups are designed to facilitate cross-functional communication and, as a result, raise awareness of critical issues that may affect individual work streams. Follow-up meetings between BAG-MAL and individual workstreams or important stakeholders are planned as required. Towards the end of the DD, each workstream leader has to submit a DD Report summarizing both the detailed description of their workstream activities during DD, including data sources as well as all open issues of DD, and the detailed description of the results and risks of DD.

For each DD result, the workstream manager must check whether the result is a potential deal breaker or whether appropriate measures are in place to limit the risk or damage. The workstream should also indicate the magnitude of the financial impact of the results on the business case and assess whether specific contractual consideration is required in the transaction agreement.

According to statements and the documents provided by BAG-MAL, essential findings that are determined during the DD process should be documented in the form of one-page summaries (one pager or wrap-up templates). This procedure serves to identify

critical issues or potential deal breakers during the DD process. According to BAG-MAL, the template of the one-pager is made available to the individual workstreams during the DD kick-off in order to ensure a uniform recording and presentation of the risks as early as possible. The template has been revised to ensure uniform application by the workstreams involved and was submitted to the signatory.

According to BAG-MAL, receipt of the DD report from each work stream is followed by the consolidation into one final DD report involving the entire project team. Doing so, BAG-MAL intends to ensure that the entire project team and the most important stakeholders are provided with the essential information from the transaction process.

2.3.4 DD Results of the Individual Workstreams

a) General Responsibilities of the Workstream Leaders

Workstream leaders are asked to closely monitor the DD process of their workstream and immediately report potential deal-breakers to the project leader or project manager. In addition to monitoring the activities of their team, workstream leaders or their representatives must attend all relevant meetings at the invitation of BAG-MAL in order to ensure the timely transmission of significant information to their team. The participation of all workstream leaders can be tracked by using an electronic calendar. Ultimately, each workstream leader is responsible for informing their functional organization of the results of the DD review and submitting the final DD report for their workstream.

b) Identification and Mitigation of Risks

In the course of DD, each workstream manager is responsible for identifying and assessing the risks in their area of responsibility. In addition, a risk mitigation action plan (including cost estimates) shall be developed to reduce the probability of occurrence of a risk and/or potential impact thereof.

In three recent pilot projects, RM experts have assisted workstream managers in applying the BAG Enterprise Risk Management (ERM) methodology, especially in applying the risk assessment principles. This is meant to ensure the comparability of risks in different workstreams (by using standardized templates). In addition to a general introduction of RM at the DD Kick-off meeting, RM attends all DD follow-up meetings and sets up follow-up meetings with relevant workstream leaders. With the input from

each workstream, RM produces a summary of the workstream risk assessments and recommended mitigation measures, which are then presented to project managers and key stakeholders. In addition, the risk summary is submitted to the integration planning team so that the planned risk mitigation measures are implemented during the integration. This inclusion has been systematic since 2020 after the completion and analysis of the pilot projects. The greater involvement of RM experts in the context of DD was initiated by BAG-MAL at the beginning of 2018 after publication of Corporate Directive 3002 and was also recommended by the corporate function Internal Audit in mid-2018 (see E.II.2.2.7).

In addition, since 2016, risk identification within the function BAG-MAL has been carried out using the Project Assessment Tool (PAT). The PAT was implemented as an early warning system (resource planning tool) and visualizes the number and extent (accumulation) of potential risks with the goal of being able to make conscious, data-based decisions regarding the risk situation and thus the probability of success of the project even before the project is executed. The visual result of the PAT is a simple diagram that shows the accumulation of risk factors without further details (a score of zero means no concerns and a score of two or more corresponds to material concerns). The aim of the open system is to see at a glance whether many risk categories come together and how strongly the probability of success of the transaction can be influenced by this. Based on a meta-analysis, information flowing into the tool can be classified into the following four risk indicator categories:

- (i) Financial situation of the target (e.g. financial difficulties, poor future outlook, low synergy potential, quality of financial data)
 - (ii) Execution risks related to the transaction structure (e.g. the form of the transaction such as joint ventures or minority interests, multiple jurisdictions, product supply)
 - (iii) External process obstacles (e.g. regulatory, political and patent risks)
 - (iv) Internal process obstacles (e.g. timing issues, conflicts of interest).
- c) Input to the Business Case

In order to prepare a BO the business case of Phase I (at the NBO stage) must be updated in order to reflect the DD results of the workstreams accordingly and to take them into account in the evaluation. In an iterative process between the workstreams, BAG-MAL

and, if necessary, external consultants, the business case is reviewed and adjusted to obtain the final business case. The division is responsible for providing all assumptions that form the basis of the business case. Nevertheless, BAG-MAL-CE experts work closely with the division to ensure a careful evaluation and to ensure that the business case meets BAG-MAL's requirements in terms of content and structure. Based on the prepared business case, BAG-MAL carries out a valuation using several valuation methods (method triangulation for the valuation in order to narrow the valuation range). Based on this, the BAG-MAL M&A Vice President derives price recommendations for the BO.

d) Handling of draft transaction agreements

Once the DD is completed, each workstream is requested to review the draft transaction agreements. Their focus is on the sections that fall within the respective areas of their responsibility. This may also include provisions to cover risks identified in the DD and not included in the valuation. The workstreams submit their comments to the LPC MA Workstream, a mutual exchange of opinion ensures that they are taken into consideration. In line with LPC MAs responsibility, the comments are reflected in the transaction agreement. The adjustments in the mark-up version usually require numerous sessions between LPC MA, BAG-MAL and the various workstreams before the final proposal is sent to the target together with the BO.

e) Input for BO Approval Presentation:

The BO is prepared towards the end of the DD evaluation phase. BAG-MAL collects the necessary input and initiates a final sign-off of the relevant work streams before the presentation is sent to the decision makers for approval of the BO.

2.4 Internal Practice – BAG-MAL using the example of BlueRock and other transactions

In order to enable the signatory to understand the group's internal guidelines and requirements regarding the performance of DD in the context of material M&A transactions and thus to assess their appropriateness, BAG-MAL selected a company acquisition classified as material (BlueRock). The application of Corporate Policy 1783 and other internal regulations (Knowledge Documents) was to be demonstrated using

the selected specific example. BAG-MAL presented the entire process in Leverkusen in accordance with the process flow description summarized in 2.3.

The selected company BlueRock was founded in 2016 as a joint venture with the investment company Versant Ventures (BAG held 50% of the shares at the time of foundation, but the project team had no operational insight into the company). In 2019, BAG PH considered the complete takeover of BlueRock. The start-up company for stem cell medicine focuses on the fields of neurology, cardiology and immunology using the proprietary technology platform (Cell+Gene platform) for induced pluripotent stem cells (iPSC) and therefore serves existing and strategically important focus areas of BAG. Due to the expected transaction volume, this was a major M&A transaction according to the statements of BAG-MAL (the valuation of BlueRock amounted to approximately USD 1 billion).

In order to prove that the DD process is appropriate from BAG's point of view, BAG-MAL reported in detail on the process side of the completed company acquisition. The following documents in particular served as audit evidence:

- NBO (information materials, presentation)
- NBO Offer Letter
- DD Kick-off presentation
- Update of first DD findings (critical findings during DD)
- Final DD Report
- BO (presentation incl. appendix)
- BO Supervisory Board presentation
- Minutes of the Board meetings
- Cover letter – Supervisory Board
- Final merger agreement.

Using the DD kick-off presentation, BAG-MAL demonstrated how the team is organized and described the process starting with the NBO and the DD, with a focus on R&D and production activities. Right at the beginning of the DD phase, certain critical findings were discovered regarding the target, which were forwarded to the Board of Management. Deal breakers were not identified, but numerous findings were noted and carefully considered.

With regard to the valuation methodology, BAG-MAL explained that in the case selected by BAG-MAL, due to the characteristics of a non-revenue generating early stage company, a valuation based on the discounted cash flow methodology was not yet possible. This resulted in various comparables (multiples) having been applied in order to narrow the evaluation range, which was completed together with an investment bank that has comprehensive experience in the biotech area. Various valuation methodologies were applied to triangulate the valuation.

The BAG-MAL team explained the course of the DD phase up to the submission of the final DD Report, which was sent to all DD participants, the divisional Board member, members of the divisional Executive Committee and the Board of Management member for Innovations. In addition to the final presentation (BO) to the Board of Management, the final presentation, which was sent to the Supervisory Board (including Board of Management meeting minutes) also served as further audit evidence.

BAG-MAL used a concrete example to explain that in the course of aggregating the DD findings in the approval presentation, the functional areas involved must ensure that the facts important to them are included. BAG-MAL pointed out that this was an iterative process. BAG-MAL always understands the need to provide the Board of Management with the most comprehensive information possible and to refrain from compressing it in case of doubt. In the BlueRock case, this was demonstrated, for example, by comprehensive appendices. In addition, it was noted that in the case of material transactions, members of the Board of Management may participate in important meetings/discussions on the status of the project.

The approval presentation is sent to the Corporate Office a few days before the Board of Management meeting. According to BAG-MAL's statements, the Board of Management thus has the opportunity to obtain further information on the transaction beforehand or to consult industry experts via its network. Furthermore, according to the information provided by BAG-MAL, it is possible that other experts may attend the board meeting to support the discussion.

As further proof of consistent application of the Corporate Policies and Knowledge Documents in the DD process, access was granted to documents of another major M&A transaction selected by BAG-MAL. This was a sell-side transaction, which was

presented in detail. The following documents in particular were regarded as audit evidence:

External documents (commissioning of external consultants):

- Information Memorandum
- Environmental assessment of individual sites domestic and abroad, review of compliance with environmental regulations
- Equity Story
- Fairness Opinions
- Financial Factbook
- Pensions Factbook
- Separation (Carve-out)
- Combined Interim Financial Statements
- Business Overview presentation

Internal documents:

- DD Process Overview
- Kick-off presentation
- Information Request List
- Sign-offs of the functions involved
- VDR Summary
- VDR Index
- Physical Data Room Index
- Physical Data Room rules
- Meeting overview of the individual workstreams
- Documents of the expert sessions held (schedule, presentations)
- Documents of the site visits carried out.

In addition, a random sampling of the database (iDeal) showed that even in non-material transactions, the documents material to the respective transaction were stored as Knowledge Documents and can be used accordingly as an internal Knowledge Database for new transactions. Evidence of the application of the PAT was also provided.

At the request of the signatory, further evidence of transactions that were aborted, inter alia, as a result of a DD test result were also provided in the VDR. In this context, it was also stated in writing that the remuneration of BAG-MAL employees would not be affected by an aborted transaction, since the same remuneration system is applied to the remuneration of BAG-MAL's executives and employees as to all executives and employees of BAG.

In order to present the internal practice, BAG-MAL explained how the employee training is structured and provided the corresponding evidence in the VDR. Onboarding training is provided for new employees in the BAG-MAL function. For general training, employees attend external events and training courses, among other things. In this context, various case studies are often presented by investment banks or consultants. In addition to the general training courses, targeted support for individual employees is provided through tailored exercises and individual training measures (e.g. Leadership Development Program or legal M&A training session). So-called Friday Education Sessions are also offered regularly (Educational M&A Curriculum in Leverkusen). For the most part, however, the training takes place "on the job". This is also supported by an appropriate allocation of tasks and projects, which enables the broadening of skills. BAG-MAL explained that in order to ensure a smooth project flow with regard to the distribution of resources, double staffing is implemented consistently (BAG-MAL Head and BAG-MAL M&A Vice President or BAG-MAL M&A Vice President and BAG-MAL Project Manager). On the one hand, this ensures project continuity in the event of loss of individual employees but can also be seen as an adherence to the four-eye principle and as "training on the job". In addition, BAG-MAL encourages a feedback culture, especially within a project team, where constructive feedback is seen as an internal form of further training.

3. Assessment

First of all, it should be noted that both the readiness to audit and the personnel and time availability of BAG were established within the scope of the voluntary special audit. BAG took suitable measures to ensure a smooth execution of the voluntary special audit mandate.

After the completion of the voluntary special audit, it can be stated that with the BAG-MAL function, BAG has an established process for conducting DD in the context of material M&A transactions. The process implemented is suitable for including all persons involved in an appropriate manner and also ensures that the knowledge gained is passed on to the decision-making bodies (usually the Board of Management and Supervisory Board) (see E.II.3).

The analysis of selected transactions also showed that the implemented process is internally applied on a consistent basis and tailored to the respective case as appropriate and lived in practice. This applies to both material and non-material M&A transactions. This was made clear by the extensive documents provided, which, according to Corporate Policy 1764, differ in their degree of obligation. In the context of the selected material transaction BlueRock, it was also shown that during the entire transaction process, BAG-MAL ensured that the Board of Management was kept informed about key aspects of the transaction on an ongoing basis. In this respect, BAG-MAL takes on a kind of governance role, in order to critically reflect and report on the assumptions and risks arising in particular from the divisions and functions.

Based on a careful analysis of the documents submitted by BAG as well as the information provided, it can be stated that the internal group guidelines and requirements with regard to the performance of DD in the context of material M&A transactions are appropriate.

4. Recommendations and Remarks

With regard to the existing internal group guidelines and requirements for the performance of DD, which were to be reviewed in accordance with the audit engagement, it should be noted that in addition to the subject matter of the audit that Corporate Policy 1783 is a Corporate Policy, but that no additional Corporate Guidelines or Procedures exist. This is in accordance with Corporate Policy 1764 Management of Internal Regulations. However, BAG-MAL relies on an extensive database of Knowledge Documents. From BAG-MAL's perspective, this is justified by the fact that every transaction is different and, depending on the transaction, significant adjustments and customization may be necessary. In this respect, a so-called principle-based approach is followed and a rule-based approach is abstained from. This is done taking into account the advantages and disadvantages inherent in both approaches:

A rule-based approach is characterized by extensive detailed and individual case regulations within specified classifications. The individual case regulations ensure that the user's scope for evaluation, prognosis and design is limited and that the user's behavior can be easily verified. Rules – in the sense of checklists – can also ensure that no essential facts are left out of consideration. However, there is an inherent risk that individual case regulations for specific situations are missing (regulatory gaps), that regulations are circumvented by structuring facts or that complex interrelationships cannot be traced in full. This so-called checklist mentality can make it difficult to depict the actual circumstances and may not be suitable for adequately assessing and depicting complex transactions, especially against the background of a change in values in business practice or in society as a whole.

A principle-based approach, on the other hand, places principles above rules. This approach provides a generally defined, conceptual basis for action, is flexible, adaptable, prevents regulatory gaps and offers scope for discretionary action. However, the principle-based approach harbors the danger that critical decisions and facts become factual discretionary decisions due to inadequate formalization and may lead to inconsistent actions that make comparability difficult.

BAG-MAL seems to consider the chosen principle-oriented approach to be advantageous to an admissible degree due to the complexity of both material and non-material M&A transactions. Since each transaction process in the field of M&A is

differently structured and complex, a detailed formalization of the DD process would be extremely difficult and impractical. The individuality of the various projects in BAG-MAL can be taken into account by means of a less casuistic set of rules. Consequently, the existing and practiced internal group guidelines and requirements for M&A transactions can be regarded as appropriate. Nevertheless, it should be pointed out that the principle-oriented approach adopted by BAG-MAL works on the premise that BAG-MAL is staffed with competent, experienced employees, and that staff turnover within the BAG-MAL function is not extraordinarily high.

The decision to follow a principle-based approach seems plausible under the premise of a high level of competence and the length of time employees stay with BAG. In this respect, the signatory considers the staffing of BAG-MAL to be appropriate and positively appreciates the interdisciplinary approach taken there. In terms of a recommendation that goes beyond the audit mandate, it might be appropriate to revise Corporate Policy 1783; according to BAG, this has already been initiated. In this context, a clearer link between Corporate Policy 1783 and internal practice (Knowledge Documents) should be established, taking Corporate Policy 1764 into account.

In terms of a further recommendation that goes beyond the scope of the audit, the following should be noted in the context of the revision of Corporate Policy 1783: At present, it does not systematically differentiate between the binding nature of the requirements contained in the Directive. In the interest of good corporate governance, it should be suggested that a distinction be made in terms of wording between so-called "should" or "can" suggestions, "should" recommendations, and actual or mandatory regulations. In this case, a comply-or-explain approach can be adopted. This would also serve to improve the verifiability of compliance with that Corporate Policy, both within BAG-MAL and through Internal Audit.

Further points in the context of the revision of the Corporate Policy 1783 could be, for example

- Definition DD
- References to the storage location of essential Knowledge Documents
- Principles for further training of BAG-MAL employees
- Involvement of the corporate function RM.

In the context of the involvement of the corporate function RM, and based on the completed and analyzed projects between RM and BAG-MAL, the signatory recommends at least the following: the corporate function RM, which was previously integrated into the divisions, is to be systematically involved at the beginning of a transaction (kick-off meeting and DD kick-off meeting) to ensure that all material risks (in the sense of the risk areas defined by RM in the Risk Universe) are considered using the same methodology. A similar procedure is recommended for the end of the DD in order to validate the risks and respective evaluation as identified by the division and the specialist functions. In addition, RM should assess and document the aggregated risk at Group level. Furthermore, the improved quantification and visualization of risks in the pilot projects that have already been carried out can be positively acknowledged. This serves the purpose of standardization and a Group-wide unified understanding of risk. With regard to the identification of risks prior to the start of the project in order to assess the probability of transactions, the signatory also appreciates the PAT used by BAG-MAL and kindly suggests that it could be further improved by applying quantitative methods.

II. Internal reporting lines between the employees entrusted with the DD audit in the context of major M&A transactions and corporate management (Audit Subject II)

1. Audit Mandate

As part of the voluntary special audit, the internal reporting lines from the employees entrusted with DD to the corporate management on material M&A transactions was audited.

For this purpose, not only are formal reporting lines formulated in accordance with the MARGOs (written and binding) or Knowledge Documents (written actual practice) considered, but also other informal reporting lines or information flows are examined, such as, for example, alignments that may arise in the course of a DD examination (lived practice).

In addition, the employees entrusted with DD in the context of major M&A transactions are defined to include not just those employees who are involved in a DD (such as workstream managers and their employees), but also employees who come into contact with the M&A transaction process after a DD (such as Internal Audit). This means that the reporting lines are comprehensively checked in the context of the execution of M&A transactions, in particular the implementation of DD. The starting point is the corporate function BAG-MAL, which is in close contact with the individual divisions.

In the following, reporting to corporate management refers to both the reporting line to the Board of Management (in particular to the Chairman) and the Supervisory Board (in particular to the Chairman) as well as the Board of Management and Supervisory Board offices responsible for this.

The signatory defines material M&A transactions in accordance with the definition given in Subject E.I.1.

2. Status Quo at the Time of the Audit

2.1 Overview of MAL's reporting lines within BAG

Formal reporting lines are primarily derived from the internal regulations of BAG, which are comprehensively defined and structured in Corporate Policy 1764⁷. The following binding management regulations are relevant for the voluntary special audit and must be applied to the internal reporting lines:

- Corporate Policy 1745
- Corporate Policy 1783
- Corporate Policy 1752
- Corporate Directive 1753
- Corporate Directive 1754.

Further reporting lines result from the internal practice at BAG, which is not necessarily laid down in management regulations.

Based on the formal reporting lines as well as the other information flows, the following organizational units can be identified in terms of the audit mandate as the employees entrusted with DD auditing material M&A transactions as well as the corporate management:

1. Mergers, Acquisitions & Licensing (MAL)
2. Divisions PH, CH and CS
3. Law, Patents & Compliance (LPC)
4. Group Finance (GFI)
5. Corporate Controlling
6. Risk Management (RM)
7. Internal Audit
8. Corporate Office & Regional Coordination
9. Board of Management of BAG

⁷ According to the guidelines, corporate policies must always be issued "when the content affects every Bayer employee, has a global focus [and] a member of the Board of Management deems it necessary" (Corporate Policy 1764, p. 8). Conversely, a corporate directive must be issued "if the content concerns a selective group of employees, if the scope of application relates to a function, specific community or division, if it defines methods and standards for operational procedures, if it describes requirements and responsibilities of a functional area/process area and/or a process group [and] it provides a harmonized and integrated framework for processes to be followed" (Corporate Policy 1764, p. 8).

10. Supervisory Board of BAG.

As a rule, there are separate management regulations for the organizational units mentioned above, each of which sets out the requirements and responsibilities and indicates further reporting lines.

2.2 Internal reporting lines of BAG

2.2.1 Mergers, Acquisitions & Licensing (MAL)

a) Organizational involvement

The corporate function BAG-MAL has a direct reporting line to the CEO of BAG. Within BAG-MAL, there are four other direct reporting lines to the Head of BAG-MAL (Corporate Policy 1745, p. 22). The majority of these and other employees of the corporate function BAG-MAL have many years of experience in the field of M&A/BD&L as well as, many years of affiliation with BAG.

b) Reporting lines regarding the execution of M&A transactions in accordance with Corporate Policy 1783

Coordination of the identification

In accordance with Corporate Policy 1783, the divisions are generally responsible for generating M&A projects and identifying potential takeover and divestment candidates. BAG-MAL supports these activities through regular interaction with external parties (especially investment banks). Potential project ideas are forwarded to the respective divisions for evaluation. The project ideas are assessed by the divisions in close coordination with the relevant strategy functions at divisional and Group level. BAG-MAL is informed regularly and at an early stage by the divisions about potential projects and is given the opportunity to bring M&A-relevant aspects into the discussion.

Coordination of the contact with the target

The initial contact with a potential transaction partner is established either through the divisions (e.g. in the case of existing business relationships) or by BAG-MAL. M&A-relevant aspects such as transaction structure, transaction process, tactics, valuation, purchase price are only to be discussed with the involvement of BAG-MAL. BAG-MAL must always be involved at the latest after signing the confidentiality agreements. The

precise form of BAG-MAL's involvement in the project identification phase will be agreed between BAG-MAL and the divisions.

Coordination of project start

As soon as a project idea is sufficiently concrete and further company resources in addition to BAG-MAL are required, the respective division must obtain approval from the Deal Committee. BAG-MAL should be informed by the division at an early stage of the intention to obtain the approval of the Deal Committee. Together with the divisions, BAG-MAL agrees on the necessary Resource Request and, if necessary, prepares further documents. Furthermore, BAG-MAL, together with the office of the CEO, coordinates the schedule, structure and format for approval by the Deal Committee.

Determination of project team

Together with the divisions and the corresponding functional experts, BAG-MAL coordinates and establishes the project team, i.e. the identification of the necessary functions and the appointment of the respective project representatives. In addition, if required, BAG-MAL selects external consultants such as transaction service providers and lawyers together with the respective functional experts. Management consultants are also selected jointly by BAG-MAL and the divisions. BAG-MAL also has responsibility for selection of investment banks (after approval by the CEO) and HSE advisors in connection with M&A transactions.

Coordination of the project team

The contact into investment banks and HSE advisors and their coordination is exclusively managed by BAG-MAL. BAG-MAL also maintains responsibility for the steering of the project team with regard to transaction-relevant work products and processes, including the associated timelines, in close coordination with the respective division and the responsible head of the functional work stream. The members of a functional workstream are accountable to the head of a functional workstream.

Project execution

BAG-MAL is the primary contact for the target and their advisors from the signing of the confidentiality agreements until the completion of the M&A transaction. To this end, BAG-MAL coordinates communication with the respective divisions; these divisions may be involved in discussions with the target in individual cases.

Preparation of the business case

CE experts within BAG-MAL assess the financial attractiveness of M&A projects on the basis of business cases and are, if necessary, supported by investment banks. The divisions provide the relevant business assumptions to BAG-MAL or CE for this purpose. BAG-MAL or CE experts work closely with the divisions and corresponding specialist functions during the execution of the complete financial assessment. The BAG-MAL M&A Vice President is responsible for questioning the assumptions and the general integrity of the business case and is available as a discussion partner. BAG-MAL performs the valuation based on the business case. The BAG-MAL M&A Vice President prepares recommendations for the purchase price or the minimum selling price based on the valuations.

Coordination of the approval of M&A transactions

Depending on the size and nature of the M&A transaction, approvals from certain committees are required. BAG-MAL coordinates with the divisions to obtain the necessary approvals. In consultation with the division and taking into account the input of all relevant functions, the appropriate documents are prepared to obtain the necessary approval. BAG-MAL consults with the divisions to obtain the necessary approvals and works at the company level to coordinate necessary approval processes with the Corporate Office and the CEO Office, although the divisions are responsible for coordinating the necessary approval processes within the divisions.

Coordination of the transaction agreement

The preparation and processing of transaction agreements including NBO and BO Offer Letters as well as any accompanying letters is carried out by the LPC MA department. BAG-MAL supports the creation and editing by providing its own comments on these documents. In addition, LPC MA also takes into account the comments of the other relevant functions.

Coordination of the approval by the Board of Management

A reference to the approval requirements of material M&A transactions by the Board of Management is not included in Corporate Policy 1783. However, these are set out in writing in Corporate Policy 1745, to which Corporate Policy 1783 refers.

Coordination of the approval by the Supervisory Board

BAG-MAL, LPC MA as well as the respective divisions support the CEO Office in preparing the presentation and the accompanying letter for the approval by the Supervisory Board based on the guidance provided by the CEO Office. BAG-MAL is responsible for the process- and valuation-relevant content as well as for pricing proposals, while the divisions are responsible for business-related content and LPC MA for the final cover letter. Further approval requirements are listed in the Board of Management's Rules of Procedure.

c) Reporting lines regarding M&A activities in accordance with current practice

The documents made available regarding the execution of an M&A transaction, in particular the DD (e.g. project documents, NBO, BO, minutes of meetings, etc.) showed - in the sense of actual practice - more comprehensive reporting lines existing than those set out in Corporate Policy 1783. This relates to the following four situations:

Sign-off of the NBO

BAG-MAL sends the NBO presentation to the involved departments, especially to the divisions, for sign-off. After the sign-offs have been taken, the division forwards the NBO presentation to the Deal Committee or the Corporate Office/Board for approval.

Reporting lines regarding the execution of DD

To perform the DD, a DD kick-off meeting is generally convened by BAG-MAL. BAG-MAL coordinates the execution of DD. During DD, weekly (and possibly more frequently) wrap-up calls/meetings are organized by BAG-MAL to enable reporting between the respective workstreams. The leaders of the workstreams have to report on aspects that have arisen during DD.

Alignment of the DD report

The activities carried out during DD, key findings and open issues should be summarized by the workstream leaders and included in the DD report. Potential deal-breakers must always be addressed. BAG-MAL consolidates the respective results and circulates them within the project team as well as with all corporate functions and divisions involved. This should ensure that all relevant aspects of the respective workstreams have been included.

Alignment of the BO

After DD has been carried out, the process migrates into the approval of the BO. The alignment process is similar to the process of an NBO and the respective workstreams are involved in the alignment again.

2.2.2 Divisions PH, CH and CS

a) Organizational involvement

Due to the organizational structure of BAG, one member of the Group Board is responsible for each of the divisions PH, CH, CS in addition to the CEO and CFO. As already mentioned, the respective divisions are responsible for business-related topics in the context of M&A transactions, while BAG-MAL is responsible for process- and valuation-relevant content and for pricing proposals.

b) Reporting lines within the Pharmaceuticals Division (PH)

An ExCo (PH ExCo) was set up for the PH Division in the course of New Bayer, which is responsible for the strategic management of the PH Division and is intended to ensure the long-term value of PH within the overall strategy of the BAG (Corporate Policy 1752, p. 5). The PH ExCo consists of the Group Board member for the PH Division (Head of PH), who is the Chairman, and twelve other members. The PH ExCo has to approve business projects and prepare them for the Board of Management. Without prejudice to Corporate Policy 1745, Corporate Policy 1752 regulates the approval steps for BD&L activities.⁸ According to this principle, all decisions and transactions affecting PH which, according to Corporate Policy 1745, must be submitted to the Board of Management, the Deal Committee or a corporate function for approval, must first be approved by the Head of PH. These activities include in particular M&A transactions in the form of share and asset deals (Corporate Policy 1752, p. 13).

Share deals

PH ExCo approval is always required for the purchase or sale of equity interests in companies, including equity interests, in the form of share deals outside the Bayer Group (including NBO and BO), for transactions that are of strategic importance or involve liability risks (e.g. product or environmental liability) that are of an unusual nature or unusually high for the industry. In addition, transactions must be approved by

⁸ A reference to Corporate Policy 1783 is not stated.

the PH ExCo if the acquisition value plus the related net financial liabilities and pension obligations exceed €10 million (Corporate Policy 1752, pp. 13-14).

Asset deals

Also for the purchase or sale of companies or parts of companies in the form of asset deals outside the Bayer Group (including NBO and BO), PH ExCo approval is always required for transactions that are of strategic importance or involve liability risks (e.g. product or environmental liability) that are of an unusual nature or unusually high for the industry. Similarly, transactions are to be approved by the PH ExCo if the present value of the payments exceeds €10 million (Corporate Policy 1752, p. 14).

c) Reporting lines within the Consumer Health Division (CH)

In accordance with Corporate Directive 1753, an ExCo (CH ExCo) was also established for the CH Division in the course of New Bayer. The CH ExCo is responsible for the strategic management of CH and aims to increase the long-term value of CH in accordance with the BAG's strategy. The CH ExCo's tasks include the evaluation and recommendation of M&A. The members of the CH ExCo are the Group Board member for the CH Division (Head of CH, who also chairs the Board), the CFO of the Division and nine other members. In principle, all resolutions or transactions which, according to Corporate Policy 1745, must be submitted to the Board of Management, the Deal Committee or other group functions for approval, or which are of strategic importance according to Corporate Directive 1753, must be approved in advance by the CH ExCo or an appropriate subcommittee.

The CH ExCo can form subcommittees for various issues, to which the CH ExCo delegates responsibilities and tasks. These subcommittees report regularly to the CH ExCo decisions of the subcommittees must be taken unanimously, otherwise they must be escalated to the Head of CH (Corporate Directive 1753, p. 6). In this context, the Subcommittee M&A Deal Team is required to review and submit all strategic M&A and licensing projects before the Board of Management grants approval. The tasks of the M&A Deal Team include the management of potential M&A transactions in CH, decision-making on all strategic M&A transactions in CH, monitoring and controlling all internal and external strategic M&A and licensing projects in CH, discussing central industry developments and trends from the perspective of M&A/BD&L, and ensuring

that findings from completed transactions are passed on to increase the efficiency of BAG (Corporate Directive 1753, p. 7-8).

The M&A Deal Team has a total of six members with the Head of CH as chairman (Corporate Directive 1753, p. 8). In accordance with Corporate Directive 1753, the M&A Deal Team is responsible for approving and resolving all BD&L activities relevant to CH, without prejudice to Corporate Policy 1745⁹. Under BD&L activities, this Corporate Directive also covers M&A transactions by means of share and asset deals (Corporate Directive 1753, p. 10).

Share deals

All share deals must be approved by the Head of Group Finance (GFI)¹⁰, the Deal Committee or the Board of Management after prior approval by the M&A Deal Team (Corporate Directive 1753, p. 10).

Asset deals

The purchase or sale of companies or parts of companies in the form of asset deals outside the Bayer Group (including NBO and BO) with a value of more than €10 million must be approved either by the Board of Management or by the Deal Committee after prior recommendation by the M&A Deal Team. However, approval by the Board of Management of BAG must always be obtained for transactions which are of strategic importance or involve liability risks which are unusually high for the industry (Corporate Directive 1753, p. 10).

d) Reporting lines within the Crop Science (CS) Division

In accordance with Corporate Directive 1754, an Executive Leadership Team (ELT) was established for the CS Division in the course of New Bayer's expansion. Like the ExCos of the other divisions, the ELT is responsible for the strategic management of CS and the long-term value enhancement of CS in line with the Group strategy. The ELT issues approvals and endorsements and prepares recommendations and approval requests for the Board of Management. It consists of a total of twelve members, including the Group Board member for the CS Division (Head of CS, who also chairs

⁹ A reference to Corporate Policy 1783 is not given.

¹⁰ According to Corporate Directive 1753, the term "Head of Finance" is used, although the analogy in Corporate Policy 1745 assumes that it is the Head of GFI.

the Board), the division's CFO and various heads of individual functions (Corporate Directive 1754, p. 6).

The CS ELT may establish subcommittees to which responsibilities and mandates for matters are delegated. The subcommittees of CS ELT are authorized to steer decision-making processes. They must report regularly to CS ELT on key issues (Corporate Directive 1754, p. 6). In contrast to the requirements in the CH Division, Corporate Directive 1754 does not mention whether subcommittee resolutions must also be passed unanimously.

The CS Deal Team is responsible for monitoring and controlling as well as decision-making and preparation of projects for external growth and disposals for approval by the ELT in accordance with Corporate Policies 1745 and 1783. The CS Deal Team¹¹ has a total of six members with the Head of Crop Strategy & Portfolio Management as Chairman¹² (Corporate Directive 1754, p. 9).

Corporate Directive 1754 stipulates that all resolutions or transactions which, according to Corporate Policy 1745, must be submitted to the Board of Management, the Deal Committee or other Group functions for approval must be approved in advance by the Head of CS. Without prejudice to Corporate Policies 1745 and 1783, CS ELT is responsible for the approval or endorsement of all M&A transactions (share and asset deals) for CS (Corporate Directive 1754, p. 11).

Share deals

The purchase or sale of equity interests in companies, including equity interests, in the form of share deals outside the Bayer Group (including NBO and BO), always requires the approval of the CS ELT prior to Board of Management approval for transactions that are of strategic importance or involve liability risks (such as product or environmental liability) that are of an unusual nature or unusually high for the industry. In addition, transactions with a value of more than € 10 million require the prior approval of the CS Deal Team and CS ELT before they are approved by the Deal Committee or the Board of Management (Corporate Directive 1754, p. 11-12).

¹¹ According to Corporate Directive 1754, the term "deal committee" is used, although it is assumed that it is the CS Deal Team.

¹² In contrast to the subcommittee M&A Deal Team of the CH Division, the CS Board member is not part of the CS Deal Team subcommittee.

Asset deals

The purchase or sale of companies or parts of companies in the form of asset deals outside the Bayer Group (including NBO and BO) must always be approved by CS ELT prior to approval by the Board of Management for transactions that are of strategic importance or involve liability risks (such as product or environmental liability) that are of an unusual nature or unusually high for the industry. Furthermore, transactions with a value of more than €50 million must be approved by the Board of Management in accordance with the requirements of Corporate Policy 1745.

2.2.3 Law, Patents & Compliance (LPC)

a) Organizational involvement, tasks and scope of activities

The corporate function LPC has a direct reporting line to the CFO of BAG (Corporate Policy 1745, p. 22). The responsibilities within the corporate function LPC were explained in more detail in a conversation and by means of a presentation. The corporate function LPC has several teams, each of which is dedicated to specific issues, such as Corporate Law, Compliance & Data Privacy, Intellectual Property, Process Governance & Community Management, and Mergers & Acquisitions.

Within LPC MA there are four direct reporting lines to the Head of LPC MA. This includes a reporting line, which is responsible in particular for merger control and develops, among other things, concept papers for competition and antitrust law issues. Through LPC MA, the legal M&A expertise is centralized within BAG. The expertise for legal M&A matters, at the country level, is built up in LPC MA through transactions, secondments and training, among other things, or by engaging external law firms.

LPC MA is a central, dedicated internal department which is responsible for all legal aspects of BAG's M&A projects. These include, for example, acquisitions, divestments, joint ventures as well as analyses and procedures of merger control. The tasks of LPC MA include the management of the legal workstream in M&A projects, analysis and filing of antitrust matters, transaction structuring from a legal perspective, confidentiality agreements, support in preparing Board of Management and Supervisory Board presentations, drafting of NBO/BO offer letters, legal DD, and drafting and negotiating transaction agreements.

According to the documents provided, the majority of the projects in connection with M&A transactions are covered internally by LPC MA. However, depending on the transaction structure (size, jurisdiction, internal capacity), external law firms are also engaged. When selecting the law firms, care is taken to ensure, among other things, that they are certified by BAG, that they have already had a successful cooperation with BAG, that the quality and commitment of the team is ensured, and that the fees are competitive.

LPC MA is basically responsible for the legal expertise of M&A transactions. Depending on requirements, external law firms are consulted for legal expertise on M&A topics as well as on local and business-related issues. LPC MA commissions law firms for local regulatory aspects, among others. Together with LPC MA, the transaction structure can be determined, the legal DD can be carried out, transaction agreements can be drafted and the legal aspects for the presentation to Board of Management and Supervisory Board can be checked. In addition, LPC MA is supported by the law firms that may be commissioned externally in merger control issues. LPC MA, however, also manages all legal activities in the case of hiring external law firms, remains the primary contact and is responsible for the offer letters and the legal aspects of strategic projects.

b) Reporting lines regarding M&A activities

LPC MA is integrated both as a workstream into the DD and beyond that into the general M&A transaction process. BAG-MAL and LPC MA will discuss the availability of resources as early as the start of an M&A project. During a meeting with the Head of LPC MA it was explained that LPC MA works very closely with BAG-MAL in the transaction process. At the beginning of an M&A transaction LPC MA is consulted for the drafting and negotiation of confidentiality agreements. For legal risks identified in the course of an M&A transaction, LPC MA also ensures that these findings are adequately addressed. Furthermore, LPC MA offers suggestions / advice to mitigate these legal risks.

Following DD, BAG-MAL is responsible for the preparation of the Board of Management presentations and, with the input of the CEO Office, for the Supervisory Board in accordance with Corporate Policy 1783. All workstreams involved in DD are

given the opportunity to check statements and results of their work in advance and to have comments included in the presentations. In this respect, LPC MA as a workstream ensures that possible insights from Legal DD are included. LPC MA is also responsible for the preparation of all legal documents (e.g. NBO, BO, contract). During the discussion with the Head of LPC MA it was explained that, for example, in the course of contract preparation, the draft contract is submitted to each workstream in order to check whether all addressed concerns are taken into account either in the contract or in the pricing. It is apparent that although obtaining feedback from the individual workstreams is a formal step for which the Head of the LPC MA is responsible, e.g. for drafting contracts, this is not set out in writing. The meeting with the corporate function LPC also pointed out and confirmed in writing that all Board of Management and Supervisory Board presentations will be submitted to the Head of LPC.

2.2.4 Group Finance (GFI)

(a) Organizational involvement, tasks and scope of activities

The corporate function GFI has a direct reporting line to the CFO (Corporate Policy 1745, p. 22). The responsibilities within the corporate function GFI were explained in more detail during a meeting with the Heads of GFI and GFI MS and by means of a presentation. According to this, GFI has several sub-functions, each of which is dedicated to specific issues, such as Accounting, Taxes, Treasury and M&A Projects (GFI MA). Each of these areas has a direct reporting line to the Head of GFI.

The corporate function GFI is responsible, among other things, for financial reporting and internal management reporting as well as the related internal control processes. As a central department, it also assumes responsibility for global tax issues and aims to secure liquidity and increase BAG's enterprise value. One business partner per division is also responsible for accounting. An interface has thus been set up which both provides a link to the corporate function and business-related proximity to the divisions.

b) Reporting lines regarding M&A activities

GFI is a key workstream for all M&A projects. Right at the start of an M&A project, the availability of resources is discussed between BAG-MAL and GFI MA. The GFI MA manager then determines whether the project can be covered by internal resources

in the accounting and tax department or whether there is a need for additional external consultants. GFI MA is the primary contact for BAG-MAL regarding accounting and tax issues. During the discussion with GFI, it was explained that talks between BAG-MAL and GFI MA are already being held before the so-called kick-off meeting. This is particularly important in the event of a divestment, in order to discuss the complexity of the business and the structuring of the accounting and tax processes in advance.

GFI MA also addresses DD issues for the preparation of business cases, NBO and BO. During the DD, the GFI MA staff, or any other internal staff or external consultants who may have been called in, will review the documents provided. The results are discussed with the target in Expert Sessions and summarized in the DD report. Possible deal-breakers are also addressed at an early stage, for example in the wrap-up sessions, analyzed with other colleagues if necessary and included in the relevant documents. According to statements made, potential deal-breakers have led to transactions being terminated in the past, for example due to excessive investment requirements. The Head of GFI and the Head of GFI MA also explained that in addition to quantitative risks, qualitative risks (e.g. reputational risks) are also addressed, which are sometimes only partially quantifiable in the business case. However, these would rarely appear in the accounting or tax areas of the GFI workstream.

The project team coordinates the individual documents, in particular the presentations of the Board of Management and Supervisory Board. According to GFI's information, it is ensured that all important aspects identified by GFI MA are included or addressed. Documents submitted to the Corporate Office require prior approval by GFI, usually by the GFI MA project members involved in the M&A project. In the case of significant transaction-related technical issues, approval is given in consultation with the GFI MA Manager or the Head of GFI. In the event of differences of opinion between GFI and BAG-MAL regarding the inclusion of significant risks in the Board of Management documents, this can be reported separately by the Head of GFI MA to the Head of GFI and finally to the CFO. Transparency within GFI is generally ensured through regular meetings between the Head of GFI and the Head of GFI MA, leadership team meetings of GFI management and regular M&A project team meetings with the divisional accounting business partner and selected representatives within GFI.

GFI MA also provides initial estimates of how the potential M&A transaction could affect the (combined) consolidated balance sheet and income statement.

2.2.5 Corporate Controlling

a) Organizational involvement, tasks and scope of activities

The corporate function Corporate Controlling has a direct reporting line to the CFO (Corporate Policy 1745, p. 22). During the discussion with Corporate Controlling, it was explained that this corporate function is responsible for post-deal reviews (PDR), in addition to other tasks and areas of activity. Corporate Controlling works together with BAG-MAL and the responsible divisions for this follow-up assessment. Corporate Controlling is involved both in the context of acquisitions, and especially in the context of divestments. In principle, Corporate Controlling is responsible for providing key models, assumptions, and data (such as exchange rates), and should ensure that these are consistent across the BAG.

b) Reporting lines regarding M&A activities

In the course of a discussion with the Head of Corporate Controlling, it was explained that Corporate Controlling is usually not involved in the course of DD (e.g. own workstream). Instead, the controlling of the respective divisions is integrated. Corporate Controlling is only increasingly involved in the course of acquisitions in the sense of a PDR. Following written confirmation, a PDR is generally performed for all M&A transactions with a transaction volume exceeding €10 million. This review is only mandatory for transactions that have been approved by the Board of Management and Supervisory Board. The size of the transaction determines the scope of each review, although the process is basically the same.

Transaction-specific key performance indicators (KPIs) for the PDR are defined by the Board of Management/Deal Committee as part of the BO to measure performance. These KPIs include both financial and non-financial parameters. As a rule, all M&A transactions are subject to a PDR three years after completion. In justified individual cases, the PDR can also be performed sooner or later. The Board of Management documents relating to the performance measurement of transaction-specific KPIs are prepared by the division concerned and checked for plausibility by Corporate Controlling. The success is checked in the sense of actual-vs-plan comparison

(acquisition case vs. integration case). The results obtained are presented at the Board of Management meeting after the end of the second quarter of each year. In this context, the Head of Corporate Controlling stated that PDR has been an element of the standard process since 2010. However, Corporate Controlling does not take over the review of DD. Instead, the decisions of the Board of Management are used as a basis for reviewing the deal KPIs.

In the context of divestments, Corporate Controlling is also heavily involved in the M&A transaction process as an independent workstream. In this case, questions regarding the emergence of potential costs and possible cash flows are dealt with by Corporate Controlling at an early stage. Within the scope of a large divestment project, corporate controlling was even included as an independent workstream, which helped develop questions regarding possible exit scenarios such as an IPO.

In the course of the discussion with the Head of Corporate Controlling, it was also explained that certain key figures or variables, such as exchange rates or inflation rates per country, are determined by Corporate Controlling for BAG-MAL and others. However, the responsibility for the actual implementation of these lies with BAG-MAL. The key figures are forwarded to BAG-MAL, in this case specifically to CE, as part of an M&A transaction (especially for acquisitions). This procedure is intended to ensure that business cases are calculated uniformly within BAG.

2.2.6 Risk Management (RM)

a) Organizational involvement, tasks and scope of activities

As part of New Bayer, the RM corporate function, which was previously located in the divisions, was re-established centrally at Group level. In accordance with Corporate Policy 1745 (V.11 Old), RM was previously managed by the CFO. The current Corporate Policy 1745 shows that the corporate functions Internal Audit, previously managed by the CEO, and RM have been merged to form a corporate function – Internal Audit & RM –reporting to the CFO, and that after a transition period, management will be carried out by one person. The new corporate function has a direct reporting line to the CFO and was presented to the BAG audit committee at the end of February 2020 (Corporate Policy 1745, p. 22).

According to the German Act on Control and Transparency in Business (“Gesetz zur Kontrolle und Transparenz im Unternehmensbereich”, KonTraG), the Board of Management must take appropriate measures, in particular to set up a monitoring system, in order to ensure that developments that could jeopardize the continued existence of the company are identified at an early stage (early risk detection system). In accordance with Corporate Directive 3002, the ERM established at BAG also serves as an early detection system, as it enables the identification, evaluation, management and reporting of material risks at an early stage that could threaten the existence of the company. The ERM also serves as a basis for external reporting.

A proactive RM according to Corporate Directive 3002 is intended to support the management in achieving the company's goals, protect assets and comply with legal requirements. To this end, a systematic approach to effective RM has been developed at BAG and established in all corporate functions and divisions, which is intended to provide management with transparency about relevant risks for the company. A transparent and proactive risk culture within BAG should enable a holistic overview to be achieved, allowing adequate attention and prioritization of risks to enable informed decisions to be made.

b) Reporting line regarding M&A activities

Based on Corporate Directive 3002, no direct reporting line between the corporate function RM and BAG-MAL is apparent. A direct reporting line regarding M&A activities has also not yet been set out in writing in Corporate Directive 3002. At best indirectly, it can be inferred that risks from M&A transactions that threaten the continued existence of the company are to be included in the ERM risk portfolio of BAG.

During the discussion with the Head of RM, it was clarified that Risk Owner are generally also identified for M&A transactions. From the point of view of the Head of RM, BAG-MAL, and here in particular the DD process, represents an essential component of the RM system at BAG.

In addition, the Risk Universe created can be accessed on the intranet, so that it can serve as an initial guideline for potential risks for BAG and could be used, for example, in the context of a DD to check the plausibility of the major risks.

In the course of the re-establishment of the corporate function RM, BAG examined whether the consideration of risks in business decisions could be further improved. The cooperation was initiated by BAG-MAL in the first quarter of 2018. This was based on the existing RM activities in the DD process and it was decided to develop the value contribution of systematically integrating the corporate function RM on the basis of three pilot projects.

During the discussion with the Head of RM, it was explained that in the pilot projects, a plausibility check of potential risks was carried out through constant dialog with the individual workstreams, and that a value contribution could thus be generated. It was also pointed out that responsibility for the respective risk identification, assessment and mitigation remains with the individual workstreams or subsequently with the division.

For an accurate assessment of the risks, the workstreams can involve external consultants. RM performs the final standardization and visualization of the risks. In addition to the individual coordination with the work streams, the overall view includes an evaluation, in consultation with the project manager, of how the overall identified risks are to be weighted.

The third pilot project was completed in December 2019 and the results were then summarized and discussed at working level. Since the beginning of 2020, RM has been systematically involved by BAG-MAL in all new M&A transactions. Against the background of ongoing organizational changes, the documentation of the standard process and the formal decision regarding the integration of RM in M&A processes are still pending; the tools have also been adapted on the basis of the pilot projects. However, meetings have already been held on 29 January 2020 and 27 February 2020 to reflect and document the experiences from the pilot projects in a timely manner. The documents developed in the process were made available to the signatory.

2.2.7 Internal Audit

a) Organizational involvement, tasks and scope of activities

In accordance with Corporate Policy 1745 (V.11 Old), the Internal Audit corporate function was previously located below the CEO of BAG and therefore reported directly to the CEO. In the course of a reorganization, Internal Audit was linked with RM to

form a new corporate function Internal Audit & RM and placed under the responsibility of the CFO of BAG as of 1 January 2020 (Corporate Policy 1745), who from now on also assumes technical responsibility for this corporate function. This new corporate function will be managed by a single person. Nevertheless, the relocation does not entail any restrictions on the CEO's access rights, as the CEO will continue to have direct access to the Head of Internal Audit. In addition to reporting to the Board of Management, the Head of Internal Audit must also report to the Audit Committee of the Supervisory Board in accordance with Corporate Policy 2076.

According to Corporate Policy 2076, Internal Audit has the task of providing independent, objective auditing and consulting services that create added value and improve the business processes of the BAG. A systematic and goal-oriented approach is used to evaluate and improve the effectiveness of corporate management, RM and control processes. In order to carry out its activities, the Board of Management authorizes the corporate function Internal Audit, among other things, to have full, free and unrestricted access to all functions, records, assets and employees relevant to the performance its mandate. The activities of Internal Audit aim, among other things, to provide the Board of Management, the audit committee and external bodies with an objective assessment of audit evidence, an independent evaluation of the adequacy and effectiveness of the management and supervision, the RM and control processes of BAG. To this end, Internal Audit's assessment must include an examination of whether risks associated with the achievement of BAG's strategic goals are adequately identified and managed, and whether actions are in line with BAG's guidelines and instructions and the applicable laws, regulations and governance standards.

In accordance with Corporate Policy 2076, the Head of Internal Audit has unrestricted access to the Board of Management and the Audit Committee and regularly reports, among other things, on the audit planning and task fulfillment compared to the original planning, on significant risk potential and control weaknesses that require the attention of the Board of Management or have been requested by the Board of Management, and on the overall results of the audit. In the same way, "potential for efficiency in management and supervision, in risk management and in control processes" (Corporate Policy 2076, p.10) identified in the course of an audit assignment must be communicated to the relevant management level.

b) Reporting lines regarding M&A activities

According to the Internal Audit Rules of Procedure, the audit planning of Internal Audit is based on the Risk Universe of BAG. During the discussion with the Head of Internal Audit, it was mentioned that, within the framework of the planning principles, audits are regularly carried out by Internal Audit in acquired areas approx. 1-3 years after the completion of the transaction. For major acquisitions, these audits also include the project and country organizations. The corporate function Internal Audit is thus not directly involved in the M&A process or actively involved in the DD review. Nevertheless, the subsequent review of successfully completed M&A transactions by Internal Audit is relevant for the voluntary special audit. In addition, the Board of Management is responsible for having further M&A transactions reviewed at any time by the corporate function Internal Audit. The first review will focus on whether material issues have been appropriately addressed and discussed. The audit by Internal Audit generally provides for a review in the sense of post-merger controlling. However, should aspects arise during the initial review of successfully completed transactions that represent a negative deviation from the norm, the entire transaction process can be examined by Internal Audit. Divisional protocols and reporting channels, e.g. to the Board of Management, are examined to identify possible process weaknesses. The Head of Internal Audit also pointed out that the report also addresses whether qualitative factors such as reputational risks have been adequately identified and addressed, although no standardized audit tool for reputational risks has been available to date. If critical aspects are identified in the course of the audit, these are reported to the full Board of Management or to the respective divisional board, depending on their nature, by the corporate function Internal Audit.

The Head of Internal Audit also explained that recommendations are also made to BAG-MAL as a result of audits. The signatory received written confirmation that in July 2018, during the course of the examination of an integration project at one point, independent of the discussions already underway between RM and BAG-MAL, reference was made to closer involvement of the RM units responsible at that time.

2.2.8 Corporate Office & Regional Coordination

a) Organizational involvement, tasks and scope of activities

The corporate function Corporate Office & Regional Coordination (hereafter Corporate Office) has a direct reporting line to the CEO of BAG (Corporate Policy 1745, p. 22). In the course of a discussion with the Head of the Corporate Office, it was explained that the Corporate Office is generally responsible for the organization of Board of Management matters and in particular for the organization of Board of Management meetings. It is responsible for preparing and documenting Board of Management resolutions and ensuring that action points are implemented and that the Board of Management's approval requirements are met. For this purpose, the Board of Management must be provided in advance with documents from the individual departments that are relevant to the meeting. The Corporate Office thus represents a link between the Board of Management and the rest of the BAG organization. However, coordination with the Supervisory Board does not take place via the Corporate Office, but via the CEO Office. This represents the reporting line to the Supervisory Board.

In addition, the Corporate Office is responsible for MARGO process management, as the Board of Management is assigned the task of approving Corporate Policies in accordance with Corporate Policy 1764. The Corporate Office informs all BAG employees about changes to MARGOs by means of a regular newsletter. This is intended to increase sensitivity to these regulatory instruments, also between corporate functions and divisions. In addition, the Corporate Office ensures that the MARGOs to be approved by the Board of Management are updated or checked every three years by the responsible departments to ensure that they are up-to-date (so-called lifecycle).

b) Reporting lines regarding M&A activities

According to the Head of Corporate Office, the Corporate Office is not directly involved in the M&A transaction process. Nevertheless, the Corporate Office controls all Board of Management meetings and coordinates with BAG-MAL and the respective divisions on the inclusion of M&A projects on the agenda of Board of Management meetings. Consequently, it is ensured that all relevant documents (in particular, presentations and accompanying letters) are available in full for the corresponding Board of Management meeting. The Board of Management, the Head of the Corporate Office, the Head of LPC

and the relevant divisional and BAG-MAL team members attend the Board of Management meetings.

Reporting on board meetings is based on a progress report. The draft of this document is prepared by the departments present and submitted to the Head of the Corporate Office for review. A first draft is sent to LPC for approval, then to the CEO and finally to the entire Board of Management. After approval, the departments concerned or involved receive an extract of the minutes for the corresponding agenda items.

It is the responsibility of the respective divisional Board of Management members to ensure that major M&A transactions are placed on the agenda of the Board of Management. In this regard, the Board of Management's Rules of Procedure refer in § 2 Overall responsibility and departmental responsibility to collegial cooperation and ongoing information on important measures and events in their departments. In addition, BAG-MAL controls the organization of discussing important M&A-related topics in the Board of Management or having them approved. Ongoing transaction-related issues are also discussed in the Board of Management meetings under the agenda item Corporate Affairs.

2.2.9 Board of Management of BAG

a) Tasks and field of activity regarding M&A activities

The articles of association of BAG emphasize as the object of the company that the company can "found, acquire and participate in other companies" (§ 2, Subsection 3, Articles of Association of BAG, as of December 20, 2019). Consequently, the entire Board of Management has a special responsibility for M&A processes. In accordance with Corporate Policy 1745, the CEO heads the corporate functions Corporate Office, Strategy & Business Consulting, Public Affairs & Sustainability, Communications, Investor Relations, Human Resources and especially MAL and Leaps by BAG. In addition, the CEO also chairs the Deal Committee.

With regard to M&A transactions, the CEO is responsible in particular for the strategic development and optimization of BAG's business portfolio, for initiating and supporting the development and utilization of growth potential and the establishment of new fields of activity (business development) and for the coordination of material acquisition, cooperation and disposal projects from a strategic perspective. If a need for investment

banks has been identified by BAG-MAL, the divisions and the functional experts, the selection and appointment of investment banks must be approved by the CEO. The CEO is also responsible for managing the company's investor relations program, ensuring the consistency of the communicated strategy, defining the core elements of the equity story and actively participating in the global investor relations program.

The CEO is equally responsible for ensuring compliance with legal regulations and internal guidelines. This implies overall responsibility for compliance matters and direct access to the Head of Internal Audit. Since LPC and Internal Audit/RM are subordinate to the CFO's management, the responsibility and direct access of the CEO does not affect the CFO's professional responsibility.

During the discussions it was also pointed out that the Board of Management will be informed about all current transactions in a quarterly "MAL Report". In addition, the CEO and other members of the Board of Management participate in discussions of major M&A transactions.

b) Reporting lines regarding M&A activities according to Corporate Policy 1745

Approval for financial investments (share deals)

The Board of Management of BAG must always approve the acquisition or sale of company investments, including financial investments outside the group (including NBO and BO), if the transactions are of strategic importance or involve liability risks (e.g. product or environmental liability) that are of an unusual nature or unusually high for the corresponding industry. In addition, the approval requirements for transactions are dependent on the purchase price plus the net value of the associated financial and pension obligations.

Approval for acquisition/disposal of companies (asset deals)

The purchase or sale of companies or parts of companies in the form of assets (group-external asset deals including NBO and BO) must always be approved by the Board of Management if the transactions are of strategic importance or involve liability risks (e.g. product or environmental liability) that are of an unusual nature or unusually high for the relevant industry. Furthermore, the authorization requirements for transactions depend on the present value of the payments.

2.2.10 Supervisory Board of the BAG

It can be seen from the Rules of Procedures of BAG's Board of Management that transactions exceeding a value of € 200 million must always be submitted to the Supervisory Board for approval of the BO¹³. The CEO Office is responsible for coordinating the preparation of the presentation and accompanying letter required for the approval of M&A transactions by the Supervisory Board. The CEO Office also translates the Supervisory Board presentations from English into German. In these presentations, inter alia, reference is made to DD results, such as reputational risks, among other things.

Further, a frequent exchange between the Chairman of the Supervisory Board and the Chairman of the Board of Management is taking place through e.g. Jours Fixes. Further, the Chairman of the Supervisory Board has the opportunity to review documents of Board of Management meetings in advance. Independent of the clear roles and responsibilities, this is meant to provide high informational transparency between the Chairman of the Supervisory Board and the Chairman of the Board of Management also in the context of material M&A transactions.

2.3 Internal practice of the reporting lines using the example of BlueRock and other transactions

The documents made available by BAG-MAL demonstrated that the practice described in the Corporate Policies and Corporate Directives as well as the internal practices beyond these represent actual practice. To this end, BAG uses the BlueRock transaction as an example to illustrate the practical application of formal and informal reporting lines using the following documents (see also I. 2.4 for an explanation of the transaction):

- (Revised) NBO Approval Request
- (Revised) NBO Offer Letter
- DD Kick-off presentation
- Update of first DD findings (critical findings during DD)

¹³ Cf. Rules of Procedure of the BAG's Board of Management dated January 1, 2016, § 8 Transactions requiring approval, pp. 11-12.

- Final DD Report
- BO Approval Request (Presentation of the Board of Management and Supervisory Board)
- Excerpts from the minutes of the Board of Management and Supervisory Board meetings
- Cover Letter Supervisory Board.

One special aspect here was that a business relationship already existed between BAG and BlueRock and therefore the reporting line regarding the coordination of target identification could not be shown as an example. The coordination with the target is carried out by BAG-MAL, which in the case of BlueRock could be checked by documenting the feedback in the NBO. The fact that the composition of the project team is coordinated with the divisions and corporate functions can be confirmed by the comprehensive DD team that was set up as evident in the DD kick-off presentation. In addition, it was explained during the individual discussions that the respective workstream managers and employees were introduced to the system of DD by BAG-MAL.

Coordination between the individual divisions and corporate functions is already taking place for the NBO. The documents provided show that BAG-MAL sends the NBO to the departments involved, in particular to the divisions, for alignment. This can also be confirmed by further documentation in the NBO Approval Request. An NBO Approval Request and a Revised NBO Approval Request made it possible to verify that the PH Division requests that the Board of Management approves the NBO. Excerpts from the minutes of the Board of Management meetings can also confirm that the Board of Management has approved the NBO and the revised NBO. The envisaged close cooperation between BAG-MAL and LPC MA is evident in that, for example, the NBO Offer Letter was signed by the Head of LPC MA and the Head of Law Corporate.

For the implementation of a DD, reporting lines of the respective work streams are essential. In accordance with the internal practice of BAG, which was reviewed within the framework of this voluntary special audit, a DD kick-off meeting is generally convened by BAG-MAL for the implementation of DD and a constant exchange is ensured by weekly wrap-ups. A documentation of these wrap-ups is not recorded by BAG-MAL and can therefore not be finally verified, although BAG-MAL confirms

that, for example, the participation of the workstream leaders can be verified internally through the acceptance of the respective calendar invitations.

The DD kick-off presentation showed that numerous workstreams were identified for the BlueRock transaction. Corporate functions include GFI, especially Accounting, Finance/Treasury and Tax and LPC MA. On the basis of the DD kick-off presentation and the DD report, it became clear that, for example, for the BlueRock transaction, in addition to the legal M&A workstream, another external workstream was filled by an international law firm. This law firm is also listed as an author in the DD report within the framework of the legal assessment. The majority of the identified workstreams originate from the PH Division, such as PH Finance/Controlling and R&D. As explained above, the corporate functions RM, Corporate Controlling or Internal Audit are not listed as a workstream. Instead of Corporate Controlling, however, the PH Finance/Controlling department was set up as a workstream.

The consolidation of the individual reporting lines is achieved by reporting in the DD Report, which is circulated by BAG-MAL for final sign-off. With the DD report on BlueRock it can be confirmed that relevant work streams were included in the DD. It was also possible to show that the reporting lines between the workstreams and BAG-MAL are actual practice. The DD Report and the BO Approval Request show that qualitative risks are identified by the individual workstreams in addition to quantitative risks. During the discussion with the Chairman of BAG Board of Management, it was also confirmed that the latter can also participate in project team meetings/calls at his own request, as can his colleagues on the Board of Management. In the case of BlueRock, for example, the member of the Board of Management for Innovation and the member of the Board of Management for PH participated in various conference calls.

In the case of the material M&A transaction BlueRock, approval was obtained from both the Board of Management and the Supervisory Board as part of the BO. The BO Approval Request proves that Division PH requests the Board of Management to approve the BO. The BO was discussed in two Board of Management meetings. During the corresponding agenda items, the transaction was presented by the responsible BAG-MAL M&A Vice President, who also answered questions about the transaction. The minutes of the meeting of the Board of Management show that the Chairman of the

Supervisory Board was informed informally in advance and that early feedback from him was received. As the transaction volume exceeded €200 million, the Board of Management's resolution was used as the basis for the Board of Management's request to the Supervisory Board for approval of the transaction. The Supervisory Board was asked to approve the transaction by means of a formal letter from the Board of Management containing key aspects of the BlueRock transaction. In addition to the formal letter from the Board of Management, two presentations were made available to the Supervisory Board. The Supervisory Board approved the transaction at an extraordinary meeting of the Supervisory Board. The Chairman of the Board of Management was also present at the Supervisory Board meeting to present and explain individual aspects. The fact that LPC MA was responsible for the legal design of the BO and that the contract was coordinated with the individual workstreams was confirmed in writing during the discussions held and upon request.

In addition to the BlueRock transaction, selected aspects of other transactions were provided by BAG-MAL. In this respect, it has been possible to verify whether the guidelines and procedures of the BAG-MAL set out in section II. 2.2, are actually lived in practice. Among the other M&A transactions, a divestment, non-material M&A transactions and an aborted M&A transaction were provided. In addition, the reporting line between BAG-MAL and RM was illustrated using the three pilot projects.

3. Assessment

First of all, it should be noted that both the factual readiness to audit and the personnel and time availability of the BAG to be audited were established within the scope of the voluntary special audit. BAG took appropriate measures to ensure that the voluntary special audit was carried out smoothly.

Following the performance of the voluntary special audit, it can be stated that sufficient internal reporting lines exist for reporting from the employees entrusted with DD audit in connection with material M&A transactions and corporate management. By checking the reporting lines of employees who come into contact with the M&A transaction process after a DD (e.g. Internal Audit or Corporate Controlling), it can also be shown that there is a control of the M&A transactions, their processes and reporting lines.

It was shown that, in accordance with the previously established definition, not only formal reporting lines, which are formulated in the sense of MARGOs (written and binding) or Knowledge Documents (written and actual practice), but also other informal reporting lines, such as voting (lived practice), exist and are applied. Reporting lines are only partially formalized. Essential reporting lines such as approval requirements by the Board of Management or by decision-making bodies of the divisions must always be applied in writing and are binding (MARGOs). The formal reporting documents provided for evaluation purposes, in particular Corporate Policies and directives, are very clearly written in places and generally follow a principle-based approach. For M&A transactions, this reflects the specifics of each transaction and is therefore reasonable. In the context of the provided transaction BlueRock, it could also be confirmed that during the entire transaction process a continuous reporting line to the Board of Management of BAG was available. The evidence of minutes of meetings, contents of the wrap-ups, e-mail votes regarding an NBO and BO on the basis of several completed M&A transactions made it possible to demonstrate that informal reporting lines are also available and represent actual practice. Assuming a low fluctuation rate of BAG-MAL employees, this approach seems plausible.

4. Recommendations and Remarks

In addition to the audit mandate, it is also recommended that even greater consistency be established between the respective formal reporting lines. In the opinion of the signatory, an adaptation of the relevant Corporate Policies and Corporate Directives could eliminate conceptual inaccuracies. For example, Corporate Policy 1783 does not refer to the process of approval requirements with the Board of Management in accordance with Corporate Policy 1745. There are also inconsistencies in places, for example, in the definition of material M&A transactions which, due to their inherent peculiarity, must be approved by the Board of Management (see Corporate Directive 1753, p. 10 compared to Corporate Policy 1745, p. 14-15). In addition, direct reference to the requirements of Corporate Policy 1783 is only made in the CS Division in accordance with Corporate Directive 1754, while the PH and CH Divisions only refer to Corporate Policy 1745. It cannot be excluded that such conceptual inaccuracies may have arisen due to a different revision or due to the translations between German and English. According to this, an even closer coordination of M&A-related activities in the Corporate Policies and Corporate Directives between the divisions and BAG-MAL could be appropriate. Care should be taken to ensure that, for example, changes to Corporate Policy 1783 with regard to M&A transactions also lead directly to adjustments to the respective Corporate Policies, Corporate Directives and procedures of the divisions. This procedure would be comparable to the article legislation procedure in Germany. On the positive side, it should be noted that, for example, the current Corporate Policy 1783 Version 3 of 1 August 2018 (the previous versions of 1 January 2006 were also presented, marked as version 01 and version 02 of 1 September 2013), has been increased in terms of its level of detail. Selected reporting lines could in future be (more mandatory) formalized in writing by BAG-MAL. For example, the regular coordination with the respective workstreams could be written down in the DD Report and the BO. BAG-MAL has already implemented and used this in a recent project. For this purpose, a uniform "Sign-off Sheet" is to be inserted at the end of each NBO and BO presentation, showing which workstreams have released the content of the presentation and their DD Report. It could also be uniformly stipulated that findings are to be shared between the relevant divisions after the transaction has been completed. For example, the Corporate Directive 1753 currently only requires the CH division to pass on information from completed M&A transactions in order to increase the

efficiency of BAG. For reasons of stringency, it might be appropriate to include this provision for the other divisions, CS and PH.

With regard to the corporate function RM guideline, no final assessment and recommendation can be made at present due to the ongoing discussions on its integration in the M&A process. In principle, the planned and already tested reporting line between BAG-MAL and RM should be pursued further, leading to a more consistent standardization and visualization of risks (risk matrix) (see E.I.4.).

For the reorganization of the corporate functions RM and Internal Audit in the sense of combining them under a single management, it should continue to be ensured in future that independent auditing and reporting to the Board of Management and Supervisory Board, in particular the Audit Committee, is possible. The different purpose of Internal Audit and RM should also be ensured. The transfer of the department from the CEO to the CFO does not appear to entail any restrictions on the CEO's access rights, as the CEO still has direct access to the Head of Internal Audit in accordance with Corporate Policy 1745. Consideration could be given to including the intensive coordination between the Head of Internal Audit and the Chairman of the Audit Committee or participation of the Head of Internal Audit in Audit Committee meetings in general agreement with the Board of Management into the Rules of Procedure of the Supervisory Board. In line with the recommendation on Audit Subject I, the following should be noted in the context of the future revision of Corporate Policies and Corporate Directives: At present, these do not systematically differentiate in terms of the level of mandatory nature of the requirements they contain. In the interests of good corporate governance, it should be suggested that a distinction be made in terms of wording between so-called "should" or "can" suggestions, "should" recommendations, and actual or mandatory regulations. In this case, a comply-or-explain approach can be adopted. This would also serve to improve the verifiability of compliance with those Corporate Policies and Corporate Directives.

F. Concluding Remarks

In my opinion, the voluntary special audit at Bayer AG resulted in the above-mentioned findings.

The voluntary special audit was conducted independently and impartially.

This report is based on a careful analysis of the documents submitted by Bayer AG and the information provided to the best of my knowledge and belief.

Heusenstamm, March 20, 2020

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