Description of the compensation system for the members of the Board of Management (agenda item 5)

1. Objective and strategic relevance of the compensation system for the Board of Management

The steadily growing and aging global population presents fundamental challenges in health care and nutrition. How will we feed up to 10 billion people in 2050 while contending with the impact of climate change? How will we ensure quality of life for an ever-increasing number of elderly people?

These are the challenges that we are looking to address. In line with our corporate mission "Science for a better life", we are driving the development of better medicines and the production of high-quality food through innovative solutions. We continuously develop our businesses so that they assume leadership positions in their respective industries and market segments to create value and achieve long-term success for our company. Our efforts are sustained by our employees and by our core competencies of innovation, customer focus, quality, process efficiency and portfolio management.

We plan to further strengthen our core businesses in the life sciences by implementing a number of portfolio changes along with efficiency and structural measures in the period through 2022. Our aim is to increase productivity and enhance our innovation capability and thus to significantly improve our competitiveness. With these actions we are paving the way for sustainable business success. We also intend to distinctly improve our cost structures.

The compensation system for the members of the Board of Management of Bayer Aktiengesellschaft plays an important role in promoting our long-term corporate strategy. Our goals for the Bayer Group are sustainable business success and profitable growth. We will therefore enhance the focus on profitability and liquidity as financial performance indicators that serve as significant incentivization factors in our compensation system for the Board of Management. In this way we aim to continuously increase the company's value for our stockholders and other stakeholders and ensure the continuity of the business for the long term.

We also promote steady growth in the company's value to our stockholders by deliberately aligning the interests of the Board of Management with those of the stockholders. Supporting the capital market performance of Bayer Aktiengesellschaft is therefore a further important factor in the compensation system for the Board of Management.

It is also our aim to drive forward the reduction of greenhouse gas emissions in our processes and along our value chains. Our goal is to make our in-house production facilities carbon neutral by 2030. In pursuit of that goal, we will invest in energy efficiency and obtain our electricity from renewable energy sources. Bayer sees it as its duty to contribute to the implementation of the Paris Climate Agreement. By acting sustainably we are safeguarding our future social and economic viability. Bayer as a company is a part of society and of public life. With this in mind and as part of the corporate strategy, we have integrated our sustainability goals into the compensation system for the Board of Management.

In this way the compensation system incentivizes the successful implementation of the corporate strategy and the sustainable development of the company, and is strongly aligned toward long-term value creation for our stockholders. At the same time it satisfies the requirements of the German Stock Corporation Act in all respects and also complies, for example, with the recommendations of the German Corporate Governance Code 2020 and the Guidelines for Sustainable Management Board Remuneration Systems issued in July 2018.

In designing the compensation system for the Board of Management, the Supervisory Board endeavors to align it as closely as possible with the compensation system for senior managers below Board level and to set the same targets in terms of financial performance indicators. This is the only way to ensure that all decision-makers pursue the same goals for our company's successful development.

The Supervisory Board has designed the compensation system based on the guidelines and principles shown in Figure 1.

Fig. 1

Guidelines for the compensation system for the Board of Management of Bayer AG

- Support for implementation **of long-term strategy** including sustainability goals
- Strong **pay-for-performance** focus and long-term orientation
- Strong focus on **shareholder interests** and consideration of **stakeholder objectives**
- **Intuitive**, readily understandable compensation system and **transparent disclosure**
- Compliance with **regulatory requirements** in Germany
- High level of **consistency** with compensation system for our senior managers
- Comparison with **compensation packages of competitors**
- Setting of appropriate, market-based **compensation levels**

2. Procedure for setting, implementing and reviewing Board of Management compensation

The Supervisory Board sets the Board of Management's compensation pursuant to Section 87 Paragraph 1 of the German Stock Corporation Act (AktG). In doing so the Supervisory Board is supported by its Human Resources Committee, which develops recommendations for the Board of Management compensation system that are discussed and resolved upon by the full Supervisory Board. The Supervisory Board may seek advice from external consultants, with care being taken to ensure their independence.

To avoid potential conflicts of interest, the members of the Supervisory Board and of all committees are obligated to declare any conflict of interest to the Supervisory Board. In the event of a conflict of interest, the member concerned does not participate in the resolutions on the relevant agenda items at the meetings of the Supervisory Board or the respective committees. Where a conflict of interest is substantial and not only temporary, it results in the termination of the member's service on the Supervisory Board.

2.1. Review of the compensation system

The Human Resources Committee prepares the Supervisory Board’s regular review of the compensation system for the members of the Board of Management. Where necessary it recommends to the Supervisory Board that changes be made. The compensation system is submitted to the Annual Stockholders’ Meeting for approval whenever significant changes are made or at least every four years. Should the Annual Stockholders’ Meeting not approve the system submitted to it for approval, a revised compensation system is presented for a decision at the next Annual Stockholders’ Meeting at the latest.

2.2. Setting compensation levels

The Supervisory Board sets the target and maximum compensation levels for the Board of Management at the beginning of each year. The Supervisory Board places importance on appropriately remunerating the Board of Management as a whole. Appropriateness in this context implies taking into account the levels of management board compensation at comparable companies in Germany. Compensation levels differ among the members of the Board of Management and reflect the evaluation of their fields of responsibility, the necessary ranges of experience and market conditions. In setting the targets for the variable compensation components, the Supervisory Board also ensures that the compensation is aligned toward sustainable corporate development and that the proportion of long-term variable components exceeds that of short-term variable components.

The appropriateness of the compensation levels is reviewed annually by the Supervisory Board. For this purpose the Human Resources Committee prepares a horizontal and a vertical comparison and, if adjustments are needed, drafts a resolution to be voted on by the full Supervisory Board. Adjustments are generally limited to the development of the consumer price index for Germany.

Horizontal comparison

The DAX 30 companies – excluding financial services providers – are taken as a guide when setting compensation levels. Based on the size of the Bayer Group and taking sales, employee numbers and market capitalization into account, the aim is to position Bayer among the top third of DAX 30 companies with respect to total compensation. Reviewing compensation levels annually and taking into account the size of the company over time ensures that the compensation the members of our Board of Management receive appropriately reflects the company’s position. It is the goal of the Supervisory Board – within the regulatory framework – to offer them a compensation package that is in line with the market and at the same time competitive.

Vertical comparison

In setting Board of Management compensation, the Supervisory Board also undertakes a vertical comparison against the company’s internal compensation structure and looks at the relation between Board of Management compensation and that of senior managers and other employees in Germany over time.

3. Components of the compensation package for the Board of Management

The total compensation of the members of the Board of Management of Bayer Aktiengesellschaft comprises fixed and variable components. The fixed, non-performance-related compensation consists of the base compensation along with fringe benefits and pension entitlement or pension installment. The fixed compensation components for members of the Board of Management who receive a pension installment (see 6.1. c) account for about 35% of the total target compensation.

The variable, performance-related cash compensation components are the short-term incentive (STI) and the long-term incentive (LTI). For members of the Board of Management who receive a pension installment, these variable components account for about 65% of the total target compensation. Before the start of each fiscal year the Supervisory Board sets appropriate, ambitious targets for the variable compensation components that ensure the long-term implementation of the corporate strategy. The extent to which these targets are attained determines the level of the payouts.

The potential total compensation is capped for each member of the Board of Management (maximum total compensation).

In addition to the compensation components mentioned, malus and claw-back provisions and share ownership guidelines are also integrated into the compensation system. The compensation system also specifies whether payments are made in the event of early termination of service on the Board of Management and the level of any such payments.

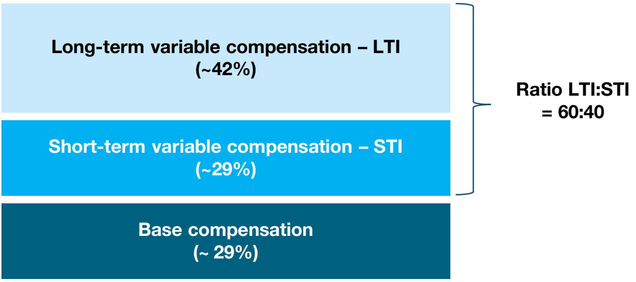
The compensation system is illustrated in Figure 2 (on pages 10-13).

4. Compensation structure

In accordance with the requirements of the German Stock Corporation Act, the recommendations of the German Corporate Governance Code and the Guidelines for Sustainable Management Board Remuneration Systems, the variable portion of compensation at Bayer has a predominantly long-term character. The LTI thus exceeds the STI. This places the focus on sustainable corporate development without losing sight of operational targets. The compensation structure excluding fringe benefits and pension entitlement/installment is illustrated in Figure 3.

Fig. 3

Compensation structure excluding fringe benefits and pension entitlement/installment



Total compensation also includes fringe benefits, which are granted in a ratio of about 5% to the respective base compensation (not including any indemnity payments to new members of the Board of Management for variable compensation forfeited on termination of previous employment), as well as the pension installment (as outlined in 6.1. c), which amounts to 40% of the respective base compensation.

Compensation system overview

Compensation component	Design
Base compensation (fixed annual compensation)	// Fixed, contractually agreed compensation // Generally paid out in 12 equal installments each year

Fringe benefits	// Regular health screening
	// Insurance policies
	// Company car with driver
	// Security installations at private residence
	// Reimbursement of work-related moving expenses
	// Indemnity payments to new members of the Board of Management for variable compensation forfeited on termination of previous employment

Pension entitle-ment/installment	// Members of the Board of Management newly appointed after January 1, 2020, also receive an earmarked pension installment calculated as a percentage of their base compensation and paid out directly in a lump sum

Short-term variable cash compensation (STI)	Annual bonus based on a target amount, with payout after one year computed as follows:
	// 1/3 weighting: Core EPS at Group level
	// 1/3 weighting: Free cash flow at Group level
	// 1/3 weighting: Matrix for clean EBITDA margin vs. sales growth at divisional level
	// Individual performance factor (0.8 – 1.2)
	// Payout capped at 200% of individual target amount

Long-term variable cash compensation (LTI)	Virtual stock program based on a target amount, with payout after four years computed as follows:
	// Absolute performance of Bayer stock
	// 40% weighting: performance relative to EURO STOXX® 50 Total Return (50% weighting in fiscal 2020)
	// 40% weighting: ROCE at Group level (50% weighting in fiscal 2020)
	// 20% weighting: sustainability goals (starting in fiscal 2021)
	// Dividends paid by Bayer Aktiengesellschaft over the four-year period for each virtual share conditionally allocated at the beginning of the tranche
	// Payout capped at 250% of individual target amount

Fig. 2

Objective and strategic relevance
// Reflects the role on the Board of Management, experience, area of responsibility and market conditions // Guarantees an appropriate income while avoiding undue risks to the company
// Reimbursement of costs and offsetting of financial disadvantages that arise from, or facilitate, service on the Board of Management
// Contributions provided to ensure an adequate private retirement income

// Attainment of corporate targets for the respective year
// Incentivizes profitable growth and stable cash flow based on Bayer performance indicators
// Continuous, sustainable development of the operational business
// Takes operational success into account at Group and divisional level
// Enables performance differentiation among Board of Management members and encourages personal contribution

// Provides incentive for a long-term, sustainable increase in enterprise value
// Focus on capital market performance (also against competitors) and profitability of the Bayer Group
// Takes our stakeholders’ interests into account
// Reflects Bayer Aktiengesellschaft’s responsibility for implementing the sustainability strategy

Compensation system overview (continued)

Compensation component	Design
Maximum total compensation	// The maximum total annual compensation is EUR 12 million for the Chairman of the Board of Management and EUR 7.5 million for the other Board of Management members
Malus and clawback provisions	// In the event of gross misconduct or misrepresentation in financial reporting, the Supervisory Board can withhold all or part of the STI and LTI (malus) or require their repayment to the company (clawback)
Share ownership guidelines	// Pledge to build a certain position size in Bayer stock by the end of a four-year period // Obligation to retain the shares throughout the period of service on the Board of Management and for two years thereafter
Contract termination	// If the service contract is terminated early – other than for cause – at the company's instigation, a severance payment of up to twice the annual compensation may be made, however limited to the compensation for the remaining term of the respective contract // Two-year post-contractual noncompete agreement; indemnity payment in the amount of base compensation
Change of control	// In the event of a change of control, members of the Board of Management are – if certain narrow conditions are met – entitled to a severance payment of 250% of annual base compensation, or 200% of annual cash compensation in legacy cases, limited in either case to the compensation for the remaining term of the respective contract

Fig. 2 (continued)

Objective and strategic relevance
// Avoids inappropriately high payouts
// Ensures appropriateness of variable compensation // Promotes adherence to important operating principles of the Bayer Group
// Aligns interests of the Board of Management with those of stockholders and fosters the members' identification with the company // Investment of own capital in the company to promote sustainable corporate development
// Cap on benefits paid on early termination of Board of Management service as per German Corporate Governance Code // Avoidance of inappropriately high payments
// Promotes the independence of Board of Management members in takeover situations

5. Caps on variable compensation components and total compensation

Performance evaluation for both of the variable compensation components is fundamentally oriented toward profitability and sustainability. The Supervisory Board sets ambitious targets for the variable compensation while at the same time ensuring a balanced opportunity-and-risk profile. The short-term variable compensation can fall to as low as zero if targets are not attained. If targets are clearly exceeded, the payout is limited to 200% (STI) or 250% (LTI) of the individual target amount.

The theoretical maximum total compensation can be calculated from the capped variable components, the base compensation, the expense for fringe benefits and the pension entitlement/installment. The Supervisory Board has set an absolute amount in euros for the maximum total compensation in a fiscal year pursuant to Section 87a, Paragraph 1, Sentence 2, No.1 of the German Stock Corporation Act. The maximum total annual compensation is EUR 12 million for the Chairman of the Board of Management and EUR 7.5 million for the other members of the Board of Management.

The maximum total compensation includes all fixed and variable compensation components:

- Base compensation,
- Fringe benefits,
- Pension entitlement/installment,
- Short-term variable cash compensation (STI) and
- Long-term variable cash compensation (LTI).

6. Compensation components in detail

6.1. Fixed compensation

The fixed compensation guarantees the members of the Board of Management an appropriate income while avoiding undue risks for the company.

a) Base compensation

The base compensation is fixed, contractually agreed annual compensation generally paid out in cash in 12 equal installments within a calendar year. The level of fixed compensation reflects the role on the Board of Management, experience, area of responsibility and market conditions.

b) Fringe benefits

Fringe benefits include costs for health screening and various insurance policies. A budget is also available to each member of the Board of Management for a company car, including driver, for business and a reasonable amount of private use. In addition, the company pays the one-time cost of security installations at each member’s private residence. Work-related moving expenses are either individually reimbursed or compensated in the form of a flat-rate allowance. Indemnity payments to new members of the Board of Management for variable compensation forfeited on termination of previous employment also constitute a possible fringe benefit.

c) Pension entitlement/installment

Members of the Board of Management appointed after January 1, 2020, are not granted benefits under the company pension plan but instead receive an earmarked amount known as a pension installment, which is paid out directly in a lump sum. The pension installment equals 40% of the respective base compensation. For the company this avoids all the interest-rate and biometric risks involved in financing a pension entitlement. It also eliminates the complex actuarial calculations and administrative procedures associated with this. The members of the Board of Management are responsible for financing their pension arrangements. The pension installment is not included in the basis for calculating the variable compensation components.

According to the explanatory memorandum to the act transposing the second E.U. Shareholder Rights Directive into German law (ARUG II) and in compliance with the 2020 version of the German Corporate Governance Code, system changes do not have to be applied to the existing service contracts of the Board of Management members. In keeping with this proposition, it is intended that members of the Board of Management who were appointed prior to January 1, 2020, retain their contribution-based pension entitlements. For these individuals, Bayer provides a hypothetical contribution equal to 42% of the amount by which their respective base compensation exceeds the contribution ceiling for statutory pension insurance in Germany. This percentage comprises a basic contribution of 6% and a further contribution of 36%, which is four times the member's personal contribution of 9%. The total annual contribution is converted into a pension entitlement according to the annuity table for the applicable tariff of the Rheinische Pensionskasse VVaG pension fund. The annual pension entitlement upon retirement is the total amount of the accumulated pension entitlements including an investment bonus. The investment bonus is determined annually based on the net return on the assets of the Rheinische Pensionskasse VVaG minus the minimum return on the contributions that is guaranteed under the tariff and approved by the German Financial Supervisory Authority (BaFin). If the contract of a member of the Board of Management is terminated due to permanent incapacity to work before he/she reaches the age of 60, an invalidity pension is granted. The individual pension entitlements agreed upon prior to January 1, 2020, are detailed in the Compensation Report. The current members of the Board of Management are being offered the aforementioned pension installment system as an alternative to the existing arrangements.

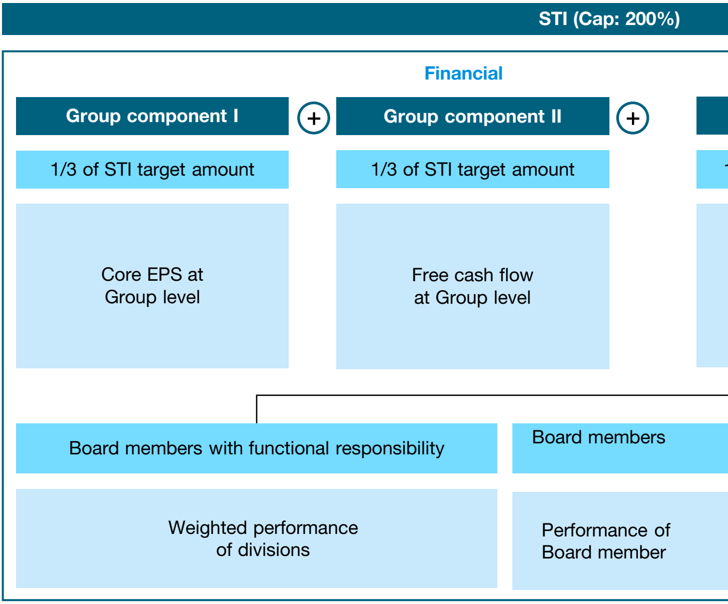
6.2. Variable compensation

The variable compensation for the members of the Board of Management of Bayer Aktiengesellschaft is designed to provide the right incentives for them to act in accordance with the company's strategic alignment and in the interests of the stockholders and other stakeholders, as well as to sustainably achieve operational and long-term goals. The level of variable compensation is primarily determined by the economic development of the Bayer Group and takes the performance of the members of the Board of Management into account. In this respect the Supervisory Board follows a consistent "pay for performance" approach. The short-term variable compensation (short-term incentive, or STI) and the long-term variable compensation (long-term incentive, or LTI) differ in terms of the performance periods and the performance criteria on which the payouts are based. In selecting the performance criteria, the Supervisory Board has taken care to ensure that they are clearly measurable and strategically relevant. The financial performance criteria are entirely based on performance indicators that are regularly used to steer Bayer's business. Consideration of the interplay between multiple, different performance indicators enables us to holistically map the company's financial success.

a) Short-term variable cash compensation (STI):

The short-term variable cash compensation depends on the success of the business in the respective year. It incentivizes operational success accompanied by profitable growth within the established strategic framework. It also focuses on sustainable cash flow (free cash flow) development and the associated safeguarding of dividend potential. In addition, the individual performance of the members of the Board of Management is evaluated using a performance factor that permits the establishment of further targets, particularly nonfinancial ones. The level of the STI payout is largely governed by each member's individual target amount, the attainment of the three financial components and on the individual performance factor. Depending on the company's success, the target attainments for the three equally weighted financial components may vary between 0% and 200%. The components of the short-term variable cash compensation (STI) are shown in Figure 4 (on pages 16 and 17).

Components of short-term variable cash compensation (STI)



Group component I:
Group component I is derived from core EPS at Group level. Core EPS is an alternative performance indicator based on the concept of Group earnings per share as defined in the international financial reporting standard IAS 33, adjusted for special items, and forms the basis of our dividend policy. Thus core EPS provides specific incentives to raise profitability in the Bayer Group and at the same time encourages value creation for our stockholders. At the start of each fiscal year, the Supervisory Board sets a minimum value, a target value and a maximum value for core EPS (referred to as “benchmarks”). The target function is based on Bayer’s operational planning for the respective fiscal year. However, the Supervisory Board determines whether it is sufficiently ambitious and adjusts it if necessary. At the end of each year, the core EPS achieved is compared against the target value previously set for that year. If core EPS has reached the target value, target attainment is 100%. If the target attainment is above or below the target value, the target attainment corresponds to the target function within an interval of 0% to 200%. A sample payout curve for the core EPS target is given in Figure 5 (on page 17).

Fig. 4

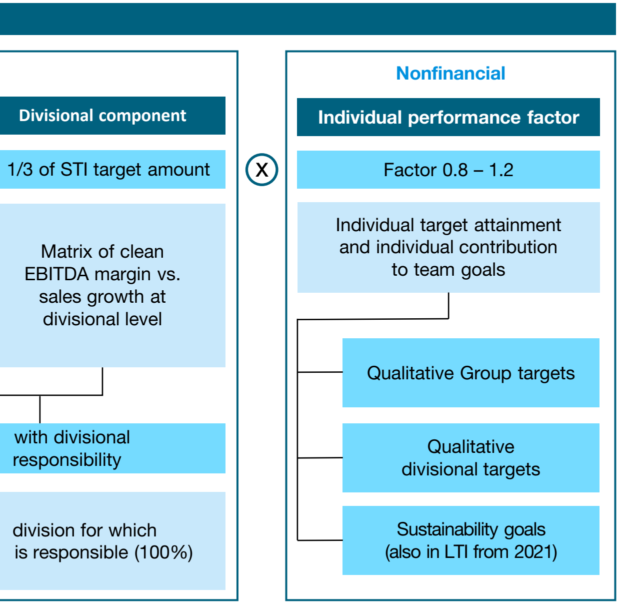
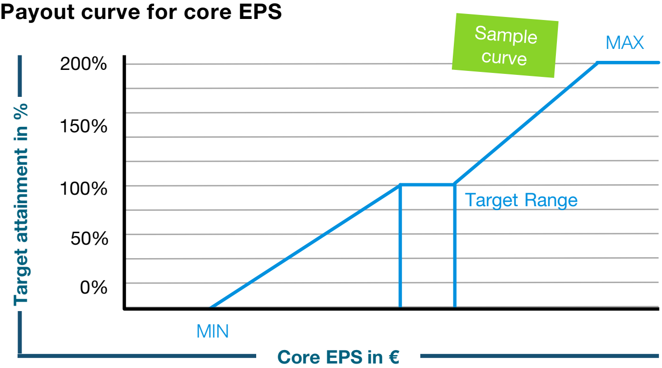


Fig. 5

Payout curve for core EPS



If there is a change in the number of shares on which core EPS is based due to a capital increase or decrease, the Supervisory Board assesses the impact this would have on the STI payout and resolves separately on any necessary adjustments. It is intended that any share buybacks, in particular, shall not affect the core EPS component of target attainment. Also in the event of significant changes in the business not foreseen in the operational planning, such as acquisitions or divestments of companies, the Supervisory Board assesses the impact on the STI payout and resolves separately on any necessary adjustments.

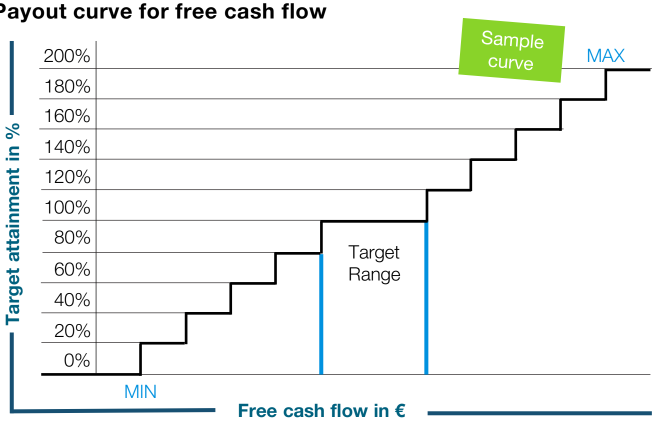
The actual payout curve, the target attainment and an explanation and rationale for any adjustments the Supervisory Board makes to the core EPS target are published subsequently in our annual Compensation Report.

Group component II:
The Group component II is determined by the free cash flow at the Group level. Free cash flow is an alternative performance measure based on the operating cash flow from continuing operations according to IAS 7. Using the free cash flow to calculate this component incentivizes an increase in the cash flow available for paying the dividend and reducing debt as well as for acquisitions, and ensures the Bayer Group's liquidity. At the start of each fiscal year, the Supervisory Board sets a minimum value, a target value, a maximum value and additional benchmarks for the free cash flow.

The target value is based on Bayer's operational planning for the respective fiscal year. However, the Supervisory Board determines whether it is sufficiently ambitious and adjusts it if necessary. At the end of each year, the free cash flow achieved is compared against the target value previously set for that year. If the target attainment is above or below the target value, the target attainment corresponds to the target function within an interval of 0% to 200%. A sample payout curve for the free cash flow target is given in Figure 6.

Fig. 6

Payout curve for free cash flow



In determining target attainment, the Supervisory Board has the discretion to adjust the free cash flow for significant unplanned and nonrecurring extraordinary effects for which no allowance could be made, or that could be allowed for only differently, when the target was set and that are considered irrelevant to performance with respect to the STI. A complete list of predefined criteria is drawn up for this purpose.

The specific performance levels, the target attainment along with an explanation and rationale for any adjustments the Supervisory Board makes to the free cash flow are published subsequently in our annual Compensation Report.

Divisional component:
This component is calculated for each division by setting the clean EBITDA margin against sales growth in a matrix. Members of the Board of Management with divisional responsibility are assessed based on the respective division's performance and members of the Board of Management with functional responsibility are assessed based on a weighted average performance of all divisions. The clean EBITDA margin is defined as the EBITDA margin before special items. Profitable growth is among the Bayer Group's main priorities, and this matrix serves to specifically incentivize profitable growth in each division. Growth should only be generated while maintaining profitability, and raising profitability short-term should not be incentivized towards growth. At the start of each fiscal year, the Supervisory Board sets a minimum value, a target value, a maximum value and additional benchmarks for each division's clean EBITDA margin and sales growth. The target matrix is based on the operational planning of the divisions for the respective fiscal year. However, the Supervisory Board determines whether it is sufficiently ambitious and adjust it if necessary. At the end of each year, the clean EBITDA margin and the sales growth achieved are compared to the target matrix previously set for that year. A sample payout matrix for the divisional component is given in Figure 7 (on pages 20 and 21).

The actual matrix and the target attainments are published subsequently in our annual Compensation Report).

Individual performance factor:
To ensure adequate performance differentiation, the individual performance of each member of the Board of Management is evaluated at the end of the year. This means assessing the extent to which the individual performance targets agreed with the members of the Board of Management at the start of the year have been attained while taking into account their personal contributions to the achievement of the Board of Management's team goals. The attainment of the divisions' nonfinancial targets, such as innovation progress or safety and compliance, along with sustainability goals, is also taken into account. (The sustainability goals will also form part of the LTI evaluation starting in 2021.) The attainment of the financial targets is multiplied by a factor of between 80% and 120%.

An explanation of how the individual performance factors for the members of the Board of Management have been determined on the basis of these targets is published subsequently in our annual Compensation Report.

Payout matrix for divisional component

		Clean EBITDA				
Sales Growth vs. Previous Year		32.7%	32.9%	33.1%	33.3%	33.5%
		–1.0%	–0.8%	–0.6%	–0.4%	–0.2%
2.7%	–2.5%	0%	10%	20%	30%	40%
3.2%	–2.0%	10%	20%	30%	40%	50%
3.7%	–1.5%	20%	30%	40%	50%	60%
4.2%	–1.0%	30%	40%	50%	60%	70%
4.7%	–0.5%	40%	50%	60%	70%	80%
5.2%	0%	50%	60%	70%	80%	90%
5.7%	0.5%	60%	70%	80%	90%	100%
6.2%	1.0%	70%	80%	90%	100%	110%
6.7%	1.5%	80%	90%	100%	110%	120%
7.2%	2.0%	90%	100%	110%	120%	130%
7.7%	2.5%	100%	110%	120%	130%	140%

Payment of the short-term variable compensation (STI):
The STI is paid out in cash in April of the following year and is capped at 200% of the individual target amount.

Sample calculation (hypothetical values):

// Target amount = **EUR 800,000**

// Financial target attainment:
- Core EPS = 110%
- Free cash flow = 120%
- Clean EBITDA margin vs. sales growth (matrix) = 85%
- Total target attainment = 105%

// Assessed individual performance factor = **1.05**

// Payout = EUR 800,000 x 105% x 1.05 = **EUR 882,000**

b) Long-term variable cash compensation (LTI):
Members of the Board of Management are eligible to participate in the annual tranches of the long-term variable cash compensation (LTI) provided that they purchase an individually determined number of Bayer shares as a personal investment and hold them for a specified time period (see “Share Ownership Guidelines”). The annual tranches are allocated in the form of virtual shares with a performance period of four years for each tranche. The number of virtual shares conditionally allocated is determined by dividing an individual target amount by the arithmetic mean of the XETRA closing prices for Bayer stock on the 30 stock exchange trading days immediately preceding the

Fig. 7

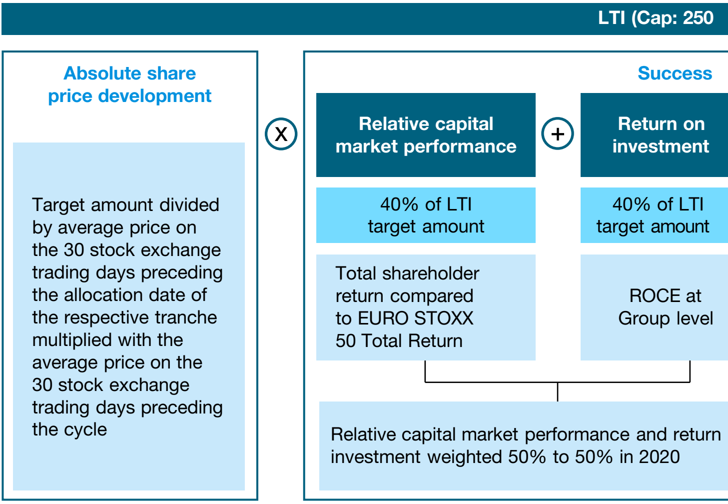
Sample matrix

Margin						
	33.7%	33.9%	34.1%	34.3%	34.5%	34.7%
	0%	0.2%	0.4%	0.6%	0.8%	1.0%
	50%	60%	70%	80%	90%	100%
	60%	70%	80%	90%	100%	110%
	70%	80%	90%	100%	110%	120%
	80%	90%	100%	110%	120%	130%
	90%	100%	110%	120%	130%	140%
	100%	110%	120%	130%	140%	150%
	110%	120%	130%	140%	150%	160%
	120%	130%	140%	150%	160%	170%
	130%	140%	150%	160%	170%	180%
	140%	150%	160%	170%	180%	190%
	150%	160%	170%	180%	190%	200%

allocation date of the tranche. The payout at the end of the performance period depends on the target attainment for three performance criteria: relative capital market performance, return on investment, and sustainability. The three performance criteria have weightings of 40%, 40% and 20%, respectively, with sustainability to be included starting in 2021. Therefore, in fiscal 2020 the relative capital market performance and the return on investment will each be given a 50% weighting. Depending on the company's success, the target attainments for the performance criteria may vary between 0% and 200%. The payout is calculated by multiplying the conditionally allocated number of virtual shares by the arithmetic mean of the XETRA closing prices for Bayer stock on the 30 stock exchange trading days immediately preceding the end of the performance period. In addition, the participants receive a dividend equivalent based on the sum of the dividends paid on each virtual share conditionally allocated during the performance period. The LTI payout is capped at 250% of the individual target amount. The components of the long-term variable cash compensation (LTI) are shown in Figure 8 (on pages 22 and 23).

Relative capital market performance:
The relative capital market performance is determined by the difference in the development of Bayer's total shareholder return (TSR) and a benchmark index, the EURO STOXX® 50 Total Return. The TSR shows how Bayer shares performed over the four-year performance period, including share price development and hypothetically reinvested gross dividends. This takes account of the capital market performance of Bayer in relation to the EURO STOXX® 50 Total Return. We aim for Bayer to be an attractive investment target and are therefore incentivizing above-average capital

Components of long-term variable cash compensation (LTI)



market performance. The initial and final values for calculating the TSR are based on the arithmetic mean of the XETRA closing prices for Bayer stock on the 30 stock exchange trading days immediately preceding the start and the end, respectively, of the four-year performance period. The final value also includes the hypothetically reinvested gross dividends paid during that time. This reduces the effect of incidental share price movements that are not sustained. Target attainment is determined from the difference between Bayer's TSR over the period and that of the EURO STOXX® 50 Total Return. If the difference is zero – i.e. performance is on a par with that of the index – target attainment is 100%. If the difference is more than -30% points, the target attainment is 0%. If the difference equals -30% points, the target attainment is 40%. If the difference is +50% points or more, the target attainment is 200%. The payout curve for the relative TSR target is given in Figure 9 (on page 23).

Return on investment:
The return on investment is based on the return on capital employed (ROCE) at Group level. The ROCE is used as a strategic indicator and is the ratio of the operating result after taxes to the average capital employed. The annual comparison of the ROCE to the weighted average cost of capital indicates the value generated by the company. The ROCE is an important part of Bayer's corporate steering system. At the start of each tranche, the Supervisory Board sets a minimum value, a target value, a maximum value and additional benchmarks for ROCE. The minimum value is based on the weighted average cost of capital (WACC) on the date of issue of the respective tranche. The target value for 100% target attainment is based on the WACC and an ambitious premium. At the end of the four-year

Fig. 8

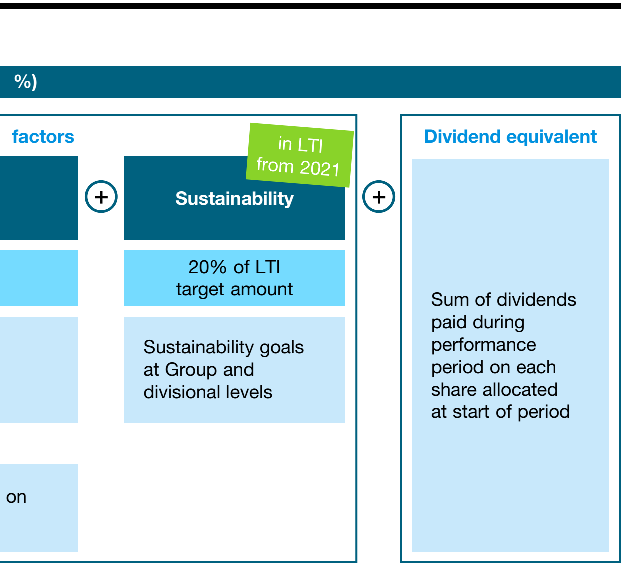
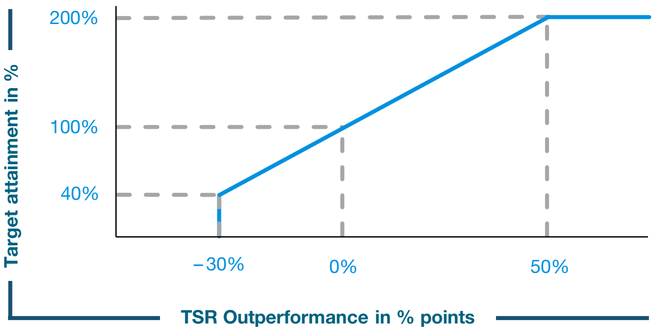


Fig. 9

Payout curve for relative TSR

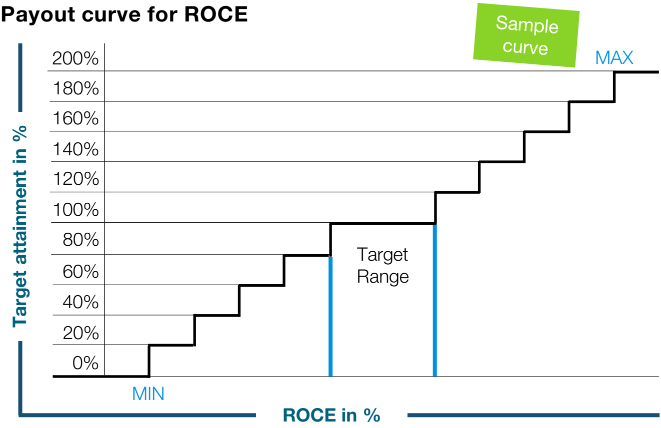


performance period, the ROCE achieved in the final year of the performance period is compared to the target value set for that tranche of the LTI. If the target value has been achieved, target attainment is 100%. If the target attainment is above or below the target value, the target attainment corresponds to the target function within an interval of 0% to 200%. A sample payout curve for the ROCE target is given in Figure 10 (on page 24).

In determining target attainment, the Supervisory Board has the discretion to adjust the ROCE for significant extraordinary effects for which no allow-

Fig. 10

Payout curve for ROCE



ance could be made, or that could be allowed for only differently, when the target was set and that are considered irrelevant to performance with respect to the LTI. A complete list of predefined criteria is drawn up in advance for this purpose.

The actual payout curve, the target attainment and an explanation and rationale for any adjustments the Supervisory Board makes to the ROCE target are published subsequently in our annual Compensation Report.

Sustainability:
Acting sustainably is an integral part of our strategy and safeguards our future social and economic viability. We are a company with leading positions in the areas of nutrition and health. With our innovative products and services we aim to contribute to overcoming some of the greatest global challenges, especially the fight against hunger and the improvement of health care, as well as measures to combat climate change. The sustainability goals take into account the impact of our business activities on social and environmental issues. For 2020 the evaluation of the sustainability goals (in the STI) will be based on the establishment of a target system, defining relevant indicators, and the formation of a sustainability council. Starting with the 2021 fiscal year, the Supervisory Board determines which sustainability goals are relevant for the four-year performance period upon the issuance of each LTI tranche. Sustainability goals at both divisional and Group level may be taken into account. In setting the sustainability goals, the Supervisory Board takes care to ensure that these are measurable and transparent and in doing so is guided by the goals contained in the Bayer sustainability strategy. At the start of each four-year tranche, the Supervisory Board sets a minimum value, a target value and a maximum value for the individual sustainability goals. If the target attainment is above or below the target value, the target attainment corresponds to the target function within an interval of 0% to 200%.

The specific sustainability goals are disclosed in the Compensation Report in which the allocation of the respective LTI tranche is announced. An explanation of how the target attainment for the individual sustainability goals was determined is published subsequently in our annual Compensation Report.

Payment of the long-term variable compensation (LTI):
Payment is made in cash on the earliest possible date after the end of the four-year performance period and is capped at 250% of the individual target amount.

Sample calculation (hypothetical values)

- Target amount = **EUR 1,200,000**
- Share price at the start of the performance period = EUR 75
- Number of virtual shares allocated = EUR 1,200,000 / EUR 75 = **16,000**
- Financial target attainment:
  – Relative capital market performance (40% weighting) = 110%
  – Return on investment (40% weighting) = 120%
  – Sustainability (20% weighting) = 85%
  – Weighted total target attainment = **109%**
- Share price at the end of the performance period = **EUR 85**
- Total dividends paid over four years = **EUR 8**
- Payout = [(16,000 x 109%) x EUR 85] + [EUR 8 x 16,000] = **EUR 1,610,400**

7. Malus and clawback provisions for variable compensation
In the event of gross misconduct or misrepresentation in financial reporting, the Supervisory Board has the discretion to withhold the STI and LTI for fiscal years from 2020 onward (malus) or – if these have already been paid out – to require that they be repaid to the company (clawback). In the event a member of the Board of Management violates a substantial duty of care, significant obligations under his/her service contract or other important operating principles such as those prescribed by the Code of Conduct for Members of the Board of Management or the Corporate Compliance Policy, the Supervisory Board in the proper exercise of its discretion may reduce or cancel the portion of the variable compensation that has not yet been paid out (malus). The Supervisory Board in the proper exercise of its discretion may also require that all or part of any gross amount that has already been paid out be repaid to the company (clawback).

Moreover, the members of the Board of Management are obligated to repay any variable compensation already paid out if it is subsequently established that the audited and approved consolidated financial statements on which the calculation of the payout for fiscal years from 2020 onward was based were defective. This applies even if the defectiveness of the consolidated financial statements is not attributable to any fault on the part of the members of the Board of Management.

Irrespective of the above, a legal basis also exists for payment reductions or regress in the event of a damaging breach of duty by members of the Board of Management.

8. Share Ownership Guidelines
The Bayer Share Ownership Guidelines are also an integral factor in the compensation system. They serve to further align the interests of the Board of Management with those of our stockholders and to strengthen sustainable

development. The Bayer Share Ownership Guidelines pledge the members of the Board of Management to build substantial positions in Bayer shares within four years of joining the Board. They must purchase shares to the value of 200% of base compensation in the case of the Chairman and 100% in the case of the other members of the Board of Management and retain them during the remainder of their service on the Board of Management and for two years thereafter. If they cannot provide evidence of this share ownership, they have no claim to payment of the LTI. The virtual shares allocated for purposes of the LTI do not count toward the number of Bayer shares to be purchased under the Share Ownership Guidelines.

9. Contract durations and entitlements upon termination of service on the Board of Management

In appointing members of the Board of Management and determining the durations of their service contracts, the Supervisory Board observes the requirements of Section 84 of the German Stock Corporation Act and the recommendations of the German Corporate Governance Code. Members of the Board of Management are generally appointed for an initial term of office of three years under a three-year service contract. Subsequent reappointments / contract extensions are for maximum further terms of five years each.

If the service contract of a member of the Board of Management is terminated before the end of the term of office – other than for cause – at the company’s instigation, his/her entitlements under the service contract are fulfilled until the termination date. Payments of variable compensation are made on the originally agreed dates and conditions and are not brought forward. In line with the recommendations of the German Corporate Governance Code, the service contracts of the members of the Board of Management contain the provision that payments upon termination of service shall not exceed twice the annual compensation or the compensation amount for the remaining term of the contract if this is lower.

Change of control:
To ensure their independence, members of the Board of Management are also entitled to a severance payment in the event of a change of control as defined in the German Securities Acquisition and Takeover Act, if certain narrow conditions are met. The claim to a severance payment only arises if the service contract is terminated by mutual agreement at the company’s instigation or if the position of the Board of Management member is significantly affected by the change of control and he/she gives notice of termination within 12 months of the date of the change of control. The position of the Board of Management member is significantly affected if, in particular, one of the following conditions is fulfilled:

- Significant changes in the company’s strategy,
- Significant changes in his/her own area of activity or
- Significant changes in the company’s legal form.

In these cases, members of the Board of Management are entitled to a severance payment of 250% of annual base compensation, though this must not exceed the compensation for the remaining term of the respective contract. Members of the Board of Management who were appointed in or prior to 2010 are entitled, in the cases described above, to a severance payment of 200% of annual cash compensation (base compensation, target STI and target LTI), though this must not exceed the compensation for the remaining term of the respective contract. This entitlement does not exist if termination takes place for cause as defined in Section 626 of the German Civil Code.

Post-contractual noncompete agreements:
Post-contractual noncompete agreements exist with the members of the Board of Management, providing for indemnity payments to be made by the company for the two-year duration of these agreements. The indemnity payment for each of the two years amounts to 100% of a member's average base compensation for the 12 months preceding his/her departure and is deducted from the amount of any severance payment. Upon contract termination, the company may waive the post-contractual noncompete agreement, in which case no indemnity is paid.

Unfitness for works:
In the event of temporary unfitness for work, members of the Board of Management continue to receive the contractually agreed compensation. The Supervisory Board may early terminate the service contract of a Board of Management member who has been continuously unfit for work for at least 18 months and is likely to be permanently incapable of fully performing his/her duties (permanent incapacity to work).

10. Payment for service on governance bodies
Any compensation a member of the Board of Management receives for service on the supervisory board of a Bayer Group company is deduced from his/her base compensation. A membership in a supervisory board of a company outside the Bayer Group must be approved in advance by the Supervisory Board. Where a member of the Board of Management serves on the supervisory board of a company outside the Bayer Group, the Supervisory Board of Bayer Aktiengesellschaft decides whether and to what extent a deduction is made.

11. Temporary deviations from the compensation system
Individual elements of the compensation system described may deviate temporarily in exceptional cases if this is necessary for the long-term good of our company. Any such deviations require a resolution of the Supervisory Board. The elements of the compensation system that may deviate in exceptional cases are the performance criteria for the STI and LTI. Moreover, the position-building phase under the Share Ownership Guidelines may be temporarily suspended if there is a potential risk of insider trading.