



# Overview of the Board of Management compensation system

Applicable since January 1, 2020

# Design of the compensation system for the members of the Board of Management

## Non-performance-related elements

Base compensation	
<ul style="list-style-type: none"> <li>Non-performance-related and contractually agreed annual compensation paid out in 12 equal installments within a calendar year</li> </ul>	<a href="#">DETAILS</a>
Fringe benefits	
<ul style="list-style-type: none"> <li>Fringe benefits such as assumption of costs for health screening and a company car</li> </ul>	<a href="#">DETAILS</a>
Pension entitlements	
<ul style="list-style-type: none"> <li>Pension installment paid out directly in a lump sum or contribution-based pension entitlement paid out upon retirement</li> </ul>	<a href="#">DETAILS</a>

## Performance-related elements

Short-term variable cash compensation (STI)													
<ul style="list-style-type: none"> <li>Assessment of performance in a fiscal year</li> </ul>	<a href="#">DETAILS</a>												
<p>1-year performance period (cap: 200%)</p> <table border="1"> <tr> <td>1/3</td> <td>+</td> <td>1/3</td> <td>+</td> <td>1/3</td> <td rowspan="2">                 (X) Individual performance/ nonfinancial targets (0.8 - 1.2)             </td> </tr> <tr> <td>Core EPS (Group level)</td> <td></td> <td>Free cash flow (Group level)</td> <td></td> <td>cEBITDA margin/ sales growth (Fx &amp; p. adj.) (divisional level)</td> </tr> </table>		1/3	+	1/3	+	1/3	(X) Individual performance/ nonfinancial targets (0.8 - 1.2)	Core EPS (Group level)		Free cash flow (Group level)		cEBITDA margin/ sales growth (Fx & p. adj.) (divisional level)	
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Core EPS (Group level)		Free cash flow (Group level)		cEBITDA margin/ sales growth (Fx & p. adj.) (divisional level)									
Long-term variable cash compensation (LTI)													
<ul style="list-style-type: none"> <li>Assessment of performance over a four-year period</li> </ul>	<a href="#">DETAILS</a>												
<p>4-year performance period (cap: 250%)</p> <table border="1"> <tr> <td>40%</td> <td>+</td> <td>40%</td> <td>+</td> <td>20%</td> <td rowspan="2">                 (X) Absolute share price development             </td> <td rowspan="2">                 (+) Dividend equivalent             </td> </tr> <tr> <td>Relative TSR</td> <td></td> <td>ROCE (Group level)</td> <td></td> <td>Sustainability goals (Group level)</td> </tr> </table>		40%	+	40%	+	20%	(X) Absolute share price development	(+) Dividend equivalent	Relative TSR		ROCE (Group level)		Sustainability goals (Group level)
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## Further contractual provisions

<p>Malus/clawback</p> <p><a href="#">DETAILS</a></p>	<p>Share Ownership Guidelines</p> <p><a href="#">DETAILS</a></p>
<p>Maximum compensation</p> <p><a href="#">DETAILS</a></p>	<p>Severance payments</p> <p><a href="#">DETAILS</a></p>

## Additional information

Compensation structure	
<ul style="list-style-type: none"> <li>The compensation structure defines the relative shares of the individual compensation elements</li> </ul>	<a href="#">DETAILS</a>

## Base compensation

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- Non-performance-related and contractually agreed annual compensation paid out in 12 equal installments within a calendar year
- The level of base compensation reflects the role on the Board of Management, experience, area of responsibility and market conditions
- The appropriateness of the Board of Management's base compensation is reviewed annually by the Supervisory Board and transparently disclosed in the Compensation Report.

## Fringe benefits

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- Fringe benefits comprise benefits in kind and other benefits that are related to or support Board of Management membership
- This generally includes:
  - Regular health screening
  - Insurance policies
  - Company car with driver
  - Security installations at private residence

## Pension entitlements

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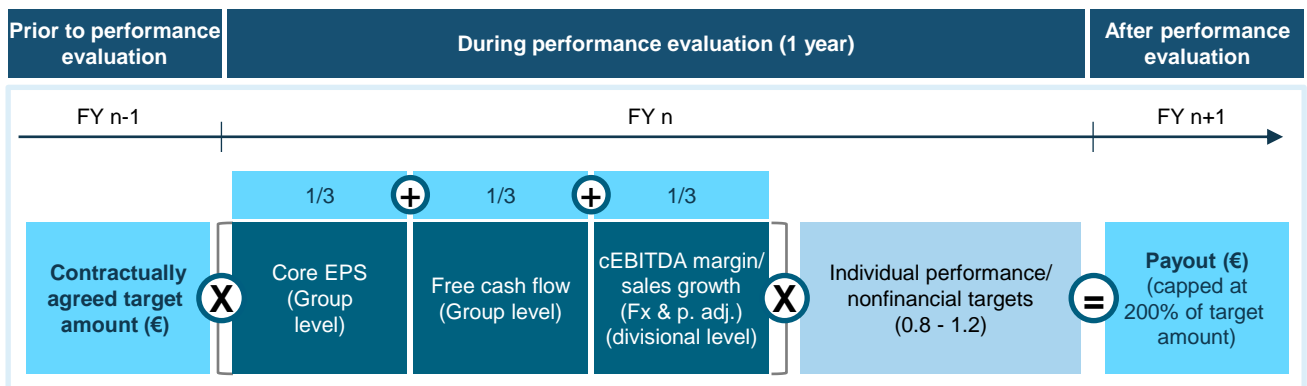
- Pension entitlements are aimed at providing contributions for the establishment of an adequate pension
- Members of the Board of Management newly appointed after January 1, 2020, receive an earmarked "pension installment" calculated as a percentage of their base compensation and paid out monthly in a lump sum
- Members of the Board of Management who were appointed prior to January 1, 2020, receive contribution-based pension entitlements. For these Board of Management members, Bayer provides a hypothetical contribution based on their base compensation. The total annual contribution is converted into a pension entitlement. The annual pension entitlement upon retirement is the total amount of the accumulated pension components including an investment bonus.

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# Performance-related elements of Board of Management compensation



## Short-term variable cash compensation (STI)



### Why core EPS?

Core EPS provides specific incentives to **raise profitability** in the Bayer Group. Core EPS also forms the **basis of our dividend policy** and therefore encourages value creation for our stockholders.

### Why free cash flow?

Using the free cash flow to calculate this component incentivizes an **increase in the cash flow** available for paying dividends, reducing debt and making acquisitions, and **ensures the Bayer Group's liquidity**.

### How does the component work at the divisional level?

This component is calculated for each division by **setting the clean EBITDA margin against sales growth in a matrix**. For members of the Board of Management with divisional responsibility, attainment is determined based on the performance of the respective division. For members of the Board of Management with functional responsibility, attainment is based on the weighted average performance of all divisions combined. This matrix serves to specifically incentivize **profitable growth in each division**. Growth should **only be generated while maintaining profitability**, and raising profitability should not obstruct growth.

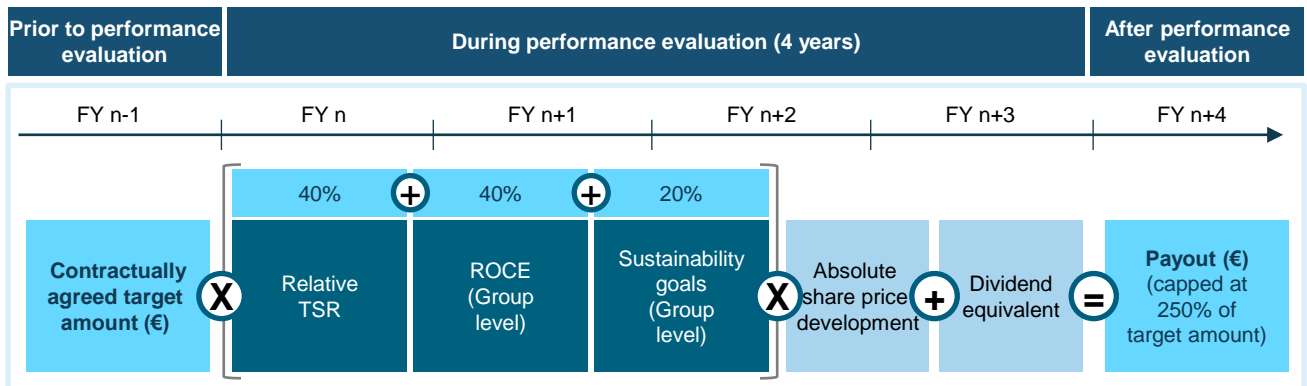
### What is meant by "Individual performance / nonfinancial targets"?

All members of the Board of Management are also set **individual targets** tailored to their respective areas of responsibility. Target attainment is individually evaluated by the Supervisory Board following the end of the fiscal year. In addition, team targets are agreed to reflect the **collective responsibility of the members of the Board of Management** as a governance body. The individual and team targets can include innovation progress as well as safety, compliance and sustainability goals, for example.

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# Performance-related elements of Board of Management compensation

## Long-term variable cash compensation (LTI)



### Why does the performance period total four years?

A four-year performance period enables the Supervisory Board to take into account **long-term targets derived from the strategy** while at the same time defining **valid performance targets**. A shorter performance period would lack a long-term alignment, while longer performance periods would not align with Bayer's planning cycle.

### What does relative TSR mean?

TSR refers to the return that a share generates, i.e., **the performance of Bayer shares plus dividends**. The relative TSR compares **Bayer AG's stock performance with that of its competitors** (EURO STOXX 50). Bayer aims to be an attractive investment target and therefore incentivizes above-average capital market performance.

### Why is there a dividend equivalent?

The LTI is granted in the form of virtual shares. The value of these virtual shares **develops parallel to the share price** of Bayer AG. In addition, the participants receive a dividend equivalent based on the **sum of the dividends paid** on each conditionally allocated virtual share **during the performance period**. The combination of absolute share price development and dividend payments **replicates the way actual shares work**. Without a dividend equivalent, the Board of Management would have a financial incentive to only pay out either a small dividend or none at all to our stockholders.

### Why ROCE?

ROCE is a strategic **value-based indicator** that forms an **important part of Bayer's corporate steering system** and therefore plays a key role in long-term variable cash compensation.

### Aren't sustainability targets already accounted for in the STI?

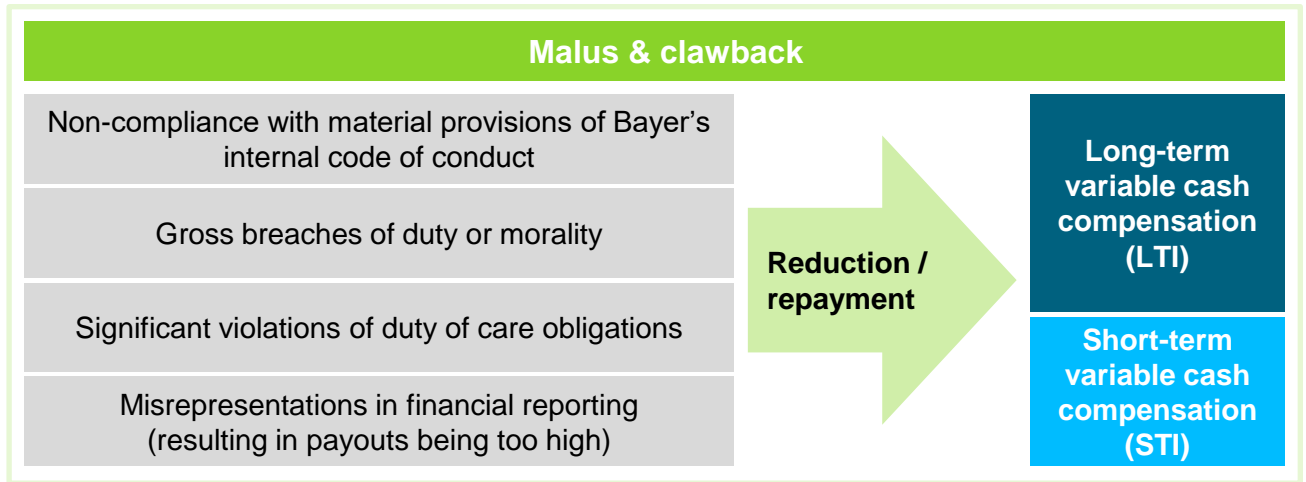
**Sustainability is an integral part** of our **business strategy** and our growth plans. Our Group-wide sustainability targets, such as pursuing our vision "Health for all, hunger for none," reducing our ecological footprint along the value chain and becoming carbon-neutral in our operations by 2030, are therefore also **accounted for in the LTI** by targeting measurable results and **adopting clear commitments**.

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## Further contractual provisions

### Malus/clawback

- The malus/clawback provision involves reducing variable compensation that has yet to be paid out or reclaiming variable compensation that has already been paid out.



*Who decides the scope of the reduction or repayment of variable compensation?*

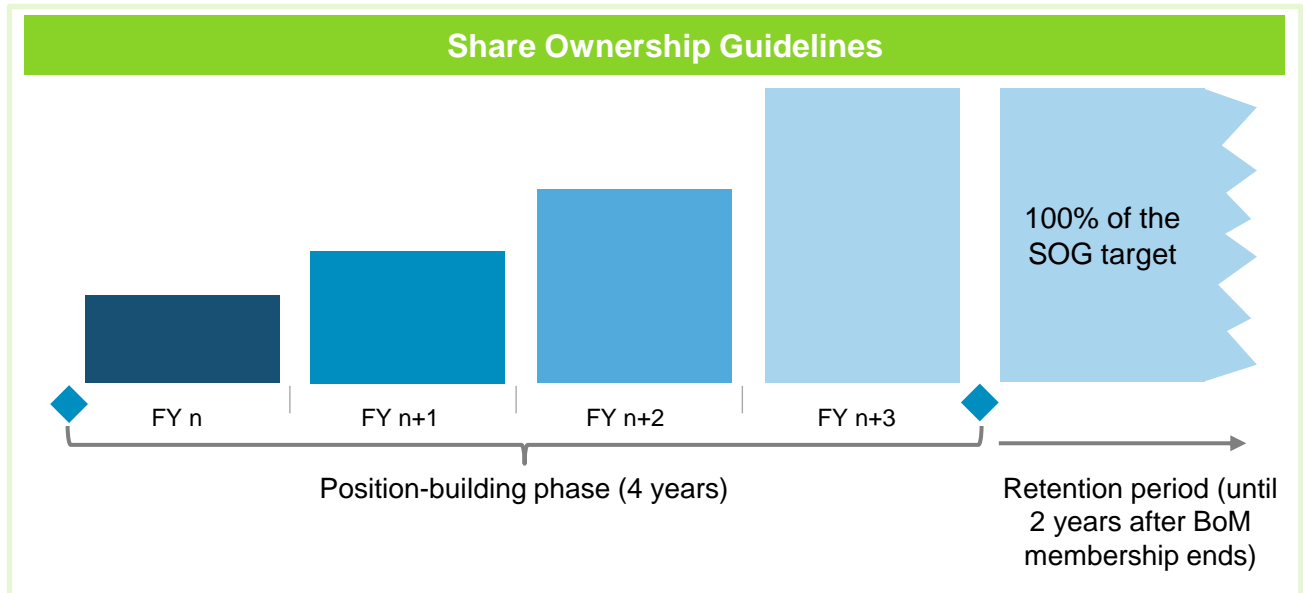
In the case of compliance violations, the Supervisory Board decides in the **proper exercise of its discretion** on the scope of the reduction and/or repayment of variable compensation. In the case of defective financial reporting, the **corrected amount** is applied to determine variable compensation.

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# Further contractual provisions

## Share Ownership Guidelines

- Under the Share Ownership Guidelines (SOGs), members of the Board of Management are required to retain significant shareholdings in the company until two years after their membership of the Board of Management ends.



### What is considered a significant shareholding?

Members 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.

### What happens if a Board of Management member does not purchase this volume of shares within 4 years?

If they are unable to provide evidence of the required share ownership at the given time, **they lose their claim to long-term variable compensation.**

### Do the virtual shares as part of the long-term variable cash compensation count toward the SOG target?

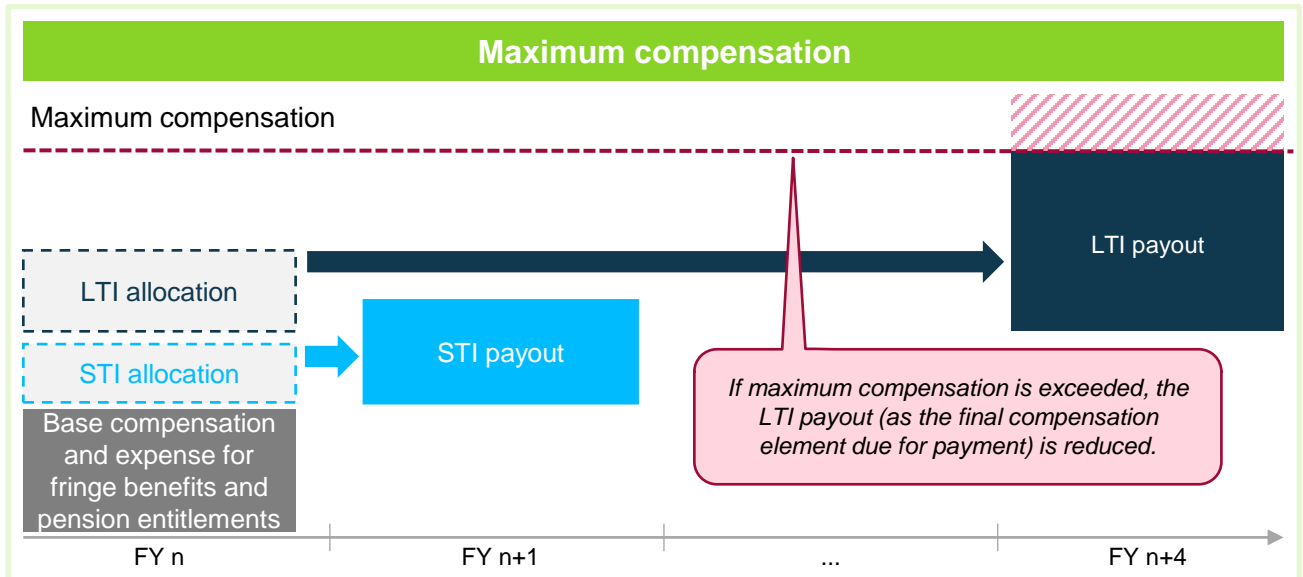
No, only **actual Bayer AG shares** owned by the member of the Board of Management count toward the SOG target.

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## Further contractual provisions

### Maximum compensation

- Payments for a fiscal year are limited to €12 million for the Chairman and €7.5 million for the other members of the Board of Management.



#### What is the reason for maximum compensation?

Setting maximum compensation levels is a legal requirement pursuant to **Section 87a, Paragraph 1, Number 1 AktG** and prevents the **payment of inappropriate levels of compensation**.

#### Has the specified maximum compensation levels of €12m and €7.5m, respectively, ever been reached?

No, **in recent years, the compensation actually paid was well below** the established maximum compensation levels. Furthermore, we ensure compliance with the maximum compensation levels by **limiting** the potential payouts from both **short-term variable cash compensation (STI)** and **long-term variable cash compensation (LTI)**.

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## Further contractual provisions

### Severance payments

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- Severance payments are limited to no more than two times the level of annual compensation, but capped at the remaining term of the service contract.

*Does each member receive a severance payment upon leaving the Board of Management?*

No, this generally only occurs if the service contract is terminated early – other than for cause – **at the company's instigation**. To ensure their independence, however, 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. 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 or she gives notice of termination within 12 months of the date of the change of control.

*Why is there a severance payment on top of the other compensation elements?*

The severance payment does not represent compensation that exceeds the commitments specified in the Board of Management service contracts. Instead, it **covers the compensation** the Board of Management member would have been entitled to **until the regular expiration of his or her service contract**. The severance payment is therefore always limited to the remaining term of the service contract.

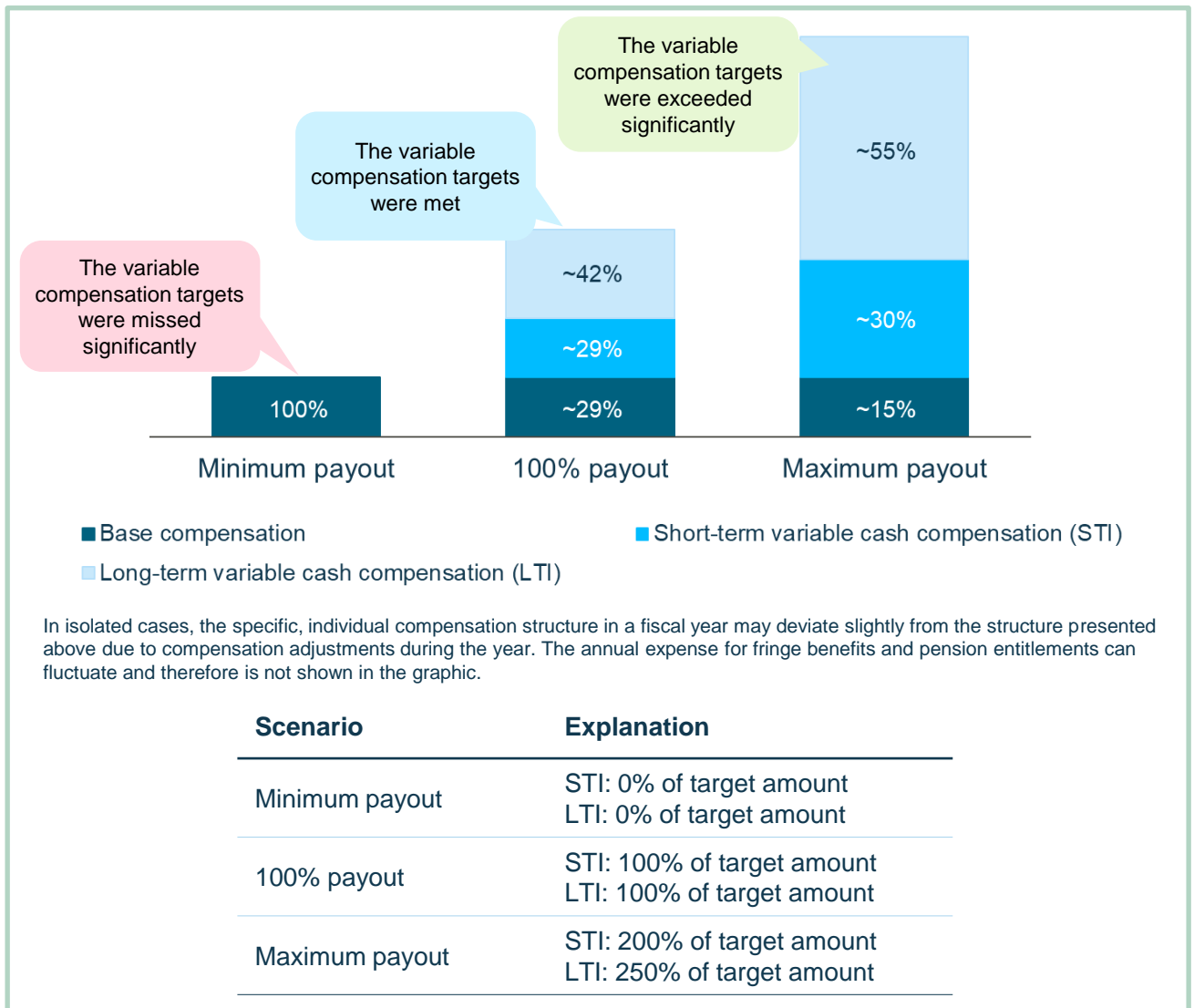
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# Additional information

## Compensation structure

- The compensation structure defines the relative shares of the individual compensation elements
- The Supervisory Board takes care to ensure that the compensation structure promotes the sustainable and long-term development of the Bayer Group. In concrete terms, this means that long-term variable cash compensation (LTI) has a much stronger weighting.
- Furthermore, over 70% of the contractually agreed target compensation is performance-related. Variable compensation can even account for a considerably higher share of overall compensation should performance targets be exceeded.

### Compensation structure



In isolated cases, the specific, individual compensation structure in a fiscal year may deviate slightly from the structure presented above due to compensation adjustments during the year. The annual expense for fringe benefits and pension entitlements can fluctuate and therefore is not shown in the graphic.

Scenario	Explanation
Minimum payout	STI: 0% of target amount LTI: 0% of target amount
100% payout	STI: 100% of target amount LTI: 100% of target amount
Maximum payout	STI: 200% of target amount LTI: 250% of target amount

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