

7. Corporate Governance Report

This Corporate Governance Report also constitutes the report pursuant to Section 3.10 of the German Corporate Governance Code.

7.1 Declaration on Corporate Governance*

*not part of the audited management report

DECLARATION BY THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD OF BAYER AG

concerning the German Corporate Governance Code (June 18, 2009 version) pursuant to Section 161 of the German Stock Corporation Act**

Under Section 161 of the German Stock Corporation Act, the Board of Management and the Supervisory Board of Bayer AG are required to issue an annual declaration that the company has been, and is, in compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette (Bundesanzeiger), or to advise of any recommendations that have not been, or are not being, applied. The declaration pursuant to Section 161 of the Stock Corporation Act shall be available to shareholders at all times. An annual declaration was last issued in December 2008.

With respect to the past, the following declaration refers to the June 6, 2008 version of the Code. With respect to present and future corporate governance practices at Bayer AG, the following declaration refers to the recommendations in the June 18, 2009 version of the Code.

The Board of Management and the Supervisory Board of Bayer AG hereby declare that the company has been in compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette since issuance of the last compliance declaration in December 2008 and is in compliance with the following exception:

D&O insurance with an appropriate deductible exists for the Members of the Supervisory Board, but the amount of the deductible is not in compliance with the recommendation given in Section 3.8 Paragraph 2 of the Code.

The D&O insurance is a group policy for numerous persons for whom a deductible in the recommended amount has not currently been agreed. For the Board of Management, it is planned to agree a deductible in line with the provisions of the German Law on the Appropriateness of Management Board Compensation when the policy next comes up for renewal on April 1, 2010. In this connection it is also planned to agree a corresponding deductible for the Supervisory Board. The company will therefore be in compliance with the recommendations of the Code from that date.

Leverkusen, December 2009

For the Board of Management:

For the Supervisory Board:




 WENNING KÜHN DR. SCHNEIDER

**This is an English translation of a German document. The German document is the official and controlling version, and this English translation in no event modifies, interprets or limits the official German version.



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Bayer in compliance with recommendations of the Corporate Governance Code

Bayer has always placed great importance on responsible corporate governance and will continue to do so. In 2009 the company was again able to renew its declaration that it has been fully compliant with the recommendations of the German Corporate Governance Code in the past and intends to be fully compliant again in the future with one temporary exception.

The Board of Management and Supervisory Board last year again addressed the question of compliance with the Corporate Governance Code, particularly in light of the new recommendations included in the amended version of the Code published on June 18, 2009. The resulting declaration of compliance, reproduced above, was issued in December 2009 and posted on Bayer's website along with previous declarations.

Duties and activities of the Board of Management

Bayer AG is a strategic management holding company, run by its Board of Management on the Board's own responsibility with the goal of sustainably increasing the company's enterprise value and achieving defined corporate objectives. The Board of Management performs its tasks according to the law, the articles of incorporation and the Board's rules of procedure, and works with the company's other governance bodies in a spirit of trust.

Board of
Management directs the
Group's operations

The Board of Management defines the long-term goals and the strategies for the Group, its subgroups and its service companies, and sets forth the principles and directives for the resulting corporate policies. It coordinates and monitors the most important activities, defines the portfolio, develops and deploys managerial staff, allocates resources and decides on the Group's financial steering and reporting.

The members of the Board of Management bear joint responsibility for running the business as a whole. However, the individual members manage the areas assigned to them on their own responsibility within the framework of the decisions made by the entire Board. The allocation of duties among the members of the Board of Management is defined in a written schedule.

The entire Board of Management makes decisions on all matters of fundamental importance and in cases where a decision of the entire Board is prescribed by law or otherwise mandatory. The rules of procedure of the Board of Management contain a list of topics that must be dealt with and resolved by the entire Board.

Meetings of the Board of Management are held regularly. They are convened by the Chairman of the Board of Management. Any member of the Board of Management may also demand that a meeting be held. The Board of Management makes decisions by a simple majority of the votes cast, except where unanimity is required by law. In the event of a tie, the Chairman has the casting vote.

According to the Board of Management's rules of procedure and schedule of duties, the Chairman bears particular responsibility for leading and coordinating the Board's work. He represents the company and the Group in dealings with third parties and the workforce on matters relating to more than one part of the company or the Group. He also bears special responsibility for certain departments of the Corporate Center and their fields of activity.

The schedule of duties also assigns particular areas of specialist responsibility to the other three members who served on the Board of Management in 2009, being respectively responsible for Strategy and Human Resources; Finance; and Innovation, Technology and Environment. Each of these members also represents certain geographical regions.

No committees of the Board of Management have been set up in view of the small number of members and the role of Bayer AG as a strategic management holding company.

Oversight of company management by the Supervisory Board

Supervisory Board: oversight and control functions

The role of the 20-member Supervisory Board is to oversee and advise the Board of Management. Under the German Codetermination Act, half the members of the Supervisory Board are elected by the stockholders, and half by the company's employees. The Supervisory Board is directly involved in decisions on matters of fundamental importance to the company, regularly conferring with the Board of Management on the company's strategic alignment and the implementation status of the business strategy.

The Chairman of the Supervisory Board coordinates its work and presides over the meetings. Through regular discussions with the Board of Management, the Supervisory Board is kept constantly informed of business policy, corporate planning and strategy. The Supervisory Board approves the annual budget and financial framework. It also approves the financial statements of Bayer AG and the consolidated financial statements of the Bayer Group, along with the combined management report, taking into account the reports by the auditor.

Committees of the Supervisory Board

The Supervisory Board currently has the following committees:

Presidial Committee: This comprises two stockholder representatives and two employee representatives. The Presidial Committee serves primarily as the mediation committee pursuant to the German Codetermination Act. It has the task of submitting proposals to the Supervisory Board on the appointment of members of the Board of Management if the necessary two-thirds majority is not achieved in the first vote at a plenary meeting. Certain decision-making powers in connection with capital measures, including the power to amend the Articles of Incorporation accordingly, have also been delegated to this committee.

Audit Committee: The Audit Committee comprises three stockholder representatives and three employee representatives. The Chairman of the Audit Committee in 2009, Dr. Klaus Sturany, satisfies the statutory requirements concerning the independence and expertise in the field of accounting or auditing that a member of the Supervisory Board and the Audit Committee is required to possess. The Audit Committee meets regularly four times a year. Its tasks include examining the company's financial reporting along with the financial statements of Bayer AG, the consolidated financial statements of the Bayer Group, the combined management report, the proposal for the use of the distributable profit of Bayer AG, and the interim financial statements and management reports of the Bayer Group, all of which are prepared by the Board of Management. On the basis of the auditor's report on the audit of the financial statements of Bayer AG, the consolidated financial statements of the Bayer Group and the combined management report, the Audit Committee develops proposals concerning the approval of the statements by the full Supervisory Board. The Audit Committee is also responsible for the company's relationship with the external auditor. The Audit Committee submits a proposal to the full Supervisory Board concerning the auditor's appointment, prepares the awarding of the audit contract to the audit firm appointed by the Annual Stockholders' Meeting, suggests areas of focus for the audit and determines the auditor's remuneration. It also monitors the independence, qualifications, rotation and efficiency of the auditor.

In addition, the Audit Committee oversees the company's internal control system – along with the procedures used to identify, track and manage risk – and the internal audit system. It also deals with corporate compliance issues and discusses developments in this area at each of its meetings.

Human Resources Committee: On this committee, too, there is parity of representation between stockholders and employees. It consists of the Chairman of the Supervisory Board and three other members. The Human Resources Committee prepares the personnel decisions of the full Supervisory Board, which resolves on appointments or dismissals of members of the Board of Management. The Human Resources Committee resolves on behalf of the Supervisory Board on the service contracts of the members of the Board of Management. However, it is the task of the full Supervisory Board to resolve on the total compensation of the individual members of the Board of Management and the respective compensation components, as well as to regularly review the

compensation system on the basis of recommendations submitted by the Human Resources Committee. The Human Resources Committee also discusses the long-term succession planning for the Board of Management.

Nominations Committee: This committee carries out preparatory work when an election of stockholder representatives to the Supervisory Board is to be held. It suggests suitable candidates for the Supervisory Board to propose to the Annual Stockholders' Meeting for election. The Nominations Committee comprises the Chairman of the Supervisory Board and another stockholder representative on the Presidial Committee.

Detailed information on the work of the Supervisory Board and its committees is provided in the Report of the Supervisory Board on page 10ff. of this Annual Report.

Personal liability in place of a deductible

In 2009 the company met the recommendation in the German Corporate Governance Code regarding deductibles for any Directors' & Officers' (D&O) liability insurance by obtaining personal declarations from each member of the Board of Management and Supervisory Board. According to these declarations, the members of the Board of Management undertake, should they cause damage to the company or third parties through gross negligence (as defined by German law) in the performance of their duties, to pay for such damage up to the equivalent of half their total annual compensation for the year in which such damage occurs; the members of the Supervisory Board undertake to pay for such damage, if caused by them, up to the equivalent of the variable portion of their respective annual compensation as Supervisory Board members for the relevant year. There is no insurance coverage for intentional breach of duty.

The company plans to agree the statutory deductible for the members of the Board of Management when the D&O insurance is renewed on April 1, 2010. It is also planned to agree a deductible for the members of the Supervisory Board in the amount recommended by the German Corporate Governance Code with effect from April 1, 2010. The personal declarations mentioned above will thus become obsolete as of April 1, 2010. They remain in effect until that date.

Disclosure of securities transactions by members of the Supervisory Board or Board of Management

To comply with Section 15a of the German Securities Trading Act, members of the Board of Management and Supervisory Board and their close relatives are required to disclose all transactions involving the purchase or sale of Bayer stock where such transactions total €5,000 or more in a calendar year. Bayer publishes details of such transactions immediately on its website and also notifies the German Financial Supervisory Authority accordingly. This information is provided to the company register for archiving.

No such transactions were reported to Bayer AG in 2009.

Information filed with the company by members of the Board of Management and Supervisory Board shows that, on the closing date for the financial statements, their total holdings of Bayer AG stock or related financial instruments were equivalent to less than 1% of the issued stock.

Systematic monitoring of all business activities

Bayer has a control system in place enabling it to identify any business or financial risks at an early stage and take appropriate action to manage them. This control system is designed to ensure timely and accurate accounting for all business processes and the constant availability of reliable data on the company's financial position.

When acquisitions are made, we aim to bring the acquired units' internal control systems into line with those of the Bayer Group as quickly as possible.

However, the control and risk management system cannot provide absolute protection against losses arising from business risks or fraudulent actions.

Corporate compliance

Our corporate activity is governed by national and local laws and statutes that place a range of obligations on the Bayer Group and its employees throughout the world. Bayer manages its business responsibly in compliance with the statutory and regulatory requirements of the countries in which it operates.

Bayer expects legally and ethically impeccable conduct from all of its employees in daily business operations, as the way they carry out their duties affects the company's reputation. By ensuring regular dialogue between employees and their supervisors and providing training courses involving the responsible Compliance Officers, the company endeavors to acquaint its employees with the numerous statutory and regulatory requirements of the countries where they work that are of relevance to them. This lays the foundation for managing the business responsibly and in compliance with the respective applicable laws.

The Group Management Board has summarized in its Corporate Compliance Policy the areas in which violations of applicable law can have particularly serious adverse consequences, both for the entire enterprise and for the individual employee. The principles set forth in the Corporate Compliance Policy are designed to guide employees in their business-related actions and protect them from potential misconduct. Its core messages concern the need to

- comply with antitrust regulations,
- ensure integrity in business transactions,
- observe sustainability principles,
- keep business and personal interests strictly separate and
- ensure fair and respectful working conditions within the enterprise.

Employees may contact either their respective supervisors or the local Compliance Officers for support and advice on ensuring legally compliant conduct in specific business situations.

Each Group company with business operations has at least one local Compliance Officer. Some foreign companies have several local Compliance Officers with clearly defined responsibilities for the different business units. The main responsibilities of each local Compliance Officer include:

- providing advice to the operational business units,
- assessing risks,
- running or arranging compliance training programs, investigating any reports of possible compliance violations and initiating appropriate corrective action, and
- meeting Group-level reporting obligations toward the Chief Subgroup Compliance Officers at the Group management companies.

The Chief Subgroup Compliance Officers in turn report to the Group Compliance Officer, who is appointed by the Group Management Board. At least once a year, the Group Compliance Officer and the Head of Corporate Auditing report to the Audit Committee of the Supervisory Board on any compliance violations that have been identified.

The issue of corporate compliance has now been made a permanent part of the performance targets agreed with the members of the Group Leadership Circle (GLC). By virtue of their positions, these executives have a special obligation to set an example to their employees, spread the compliance message increasingly within their companies and take organizational measures to implement it. Starting in 2010, a GLC member may be required to repay the short-term incentive awards granted for up to five of the preceding years if a systematic violation of applicable law that caused financial loss to Bayer was committed in one or more years by a direct report and appropriate action by the GLC member could have prevented the violation.

Common values and leadership principles

To supplement the Corporate Compliance Policy, Bayer has drawn up a Group mission statement setting out the principles underlying the corporate strategy. It outlines the framework for Bayer's entrepreneurial activity to stockholders, customers, employees and the general public. Common values and leadership principles are considered essential for all employees in their daily work. The values include a will to succeed; a passion for our stakeholders; integrity, openness and honesty; respect for people and nature; and the sustainability of our actions. The assessment of managers' performance on the basis of defined leadership principles helps to ensure adherence to these values throughout the enterprise.

Detailed reporting

To maximize transparency, we provide regular and timely information on the Group's position and significant changes in business activities to stockholders, financial analysts, stockholders' associations, the media and the general public. Bayer complies with the recommendations of the Corporate Governance Code by publishing reports on business trends, financial position, results of operations and related risks four times a year.

In line with statutory requirements, the members of the Group Management Board provide an assurance that, to the best of their knowledge, the financial statements of Bayer AG, the consolidated financial statements of the Bayer Group and the combined management report provide a true and fair view.

The financial statements of Bayer AG, the consolidated financial statements of the Bayer Group and the combined management report are published within 90 days following the end of each fiscal year. During the fiscal year, stockholders and other interested parties are kept informed of developments by means of the half-year financial report and additional interim reports as of the end of the first and third quarters. The half-year financial report is voluntarily subjected to an audit review by the auditor, whose appointment by the Annual Stockholders' Meeting also relates specifically to this audit review.

Bayer also provides information at news conferences and analysts' meetings. In addition, the company uses the Internet as a platform for timely disclosure of information, including details of the dates of major publications and events, such as the annual and interim reports or the Annual Stockholders' Meeting.

In line with the principle of fair disclosure, we provide the same information to all stockholders and other principal target groups. All significant new facts are disclosed immediately to the general public. Stockholders also have immediate access to the information that Bayer publishes locally in compliance with the stock market regulations of various countries.

In addition to our regular reporting, we issue ad-hoc statements on developments that otherwise might not become publicly known but have the potential to materially affect the price of Bayer stock.

7.2 Compensation Report

Compensation of the Board of Management

Until December 31, 2009, the compensation of the Board of Management basically comprised four components: a fixed annual salary, a short-term incentive award on a yearly basis in relation to a target amount, a long-term incentive award for a three-year period in relation to a target amount, and a company pension plan conferring pension entitlements that increase with years of service. Compensation in kind and other benefits are also provided, such as the use of a company car for private purposes or reimbursement of the cost of health screening examinations.

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For further details of the Group mission statement see WWW.BAYER.COM/EN/MISSION-STATEMENT.ASPX

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The fixed salary consists of two parts: a base salary and a fixed supplement.

The short-term incentive award for 2009 is calculated according to the Group's EBITDA margin before special items and the weighted average target attainment of the HealthCare, CropScience and MaterialScience subgroups. The Supervisory Board can adjust this award according to individual performance. The target attainment of the subgroups is measured chiefly in terms of their EBITDA before special items. A qualitative appraisal in relation to the market and competitors is also taken into account.

The directly effected compensation (non-performance-related compensation and short-term incentive) of the members of the Board of Management in 2009 amounted to €8,830 thousand (2008: €8,813 thousand), comprising €2,156 thousand (2008: €2,105 thousand) in base salaries, €1,067 thousand (2008: €1,042 thousand) in fixed supplements and €5,442 thousand (2008: €5,498 thousand) in short-term incentive awards to be paid out in 2010 as well as €165 thousand (2008: €168 thousand) in compensation in kind and other benefits, the latter item consisting mainly of amounts assigned to compensation in kind and other benefits in accordance with German taxation guidelines.

The members of the Board of Management participate in the long-term stock-based compensation program Aspire I (annual tranches 2007 through 2009). Under this program, awards are paid out provided that the performance of Bayer stock (both in absolute terms and relative to the EURO STOXX 50 benchmark index) meets defined criteria over a three-year period. Further details of this program are provided in Note [26.6] to the consolidated financial statements. The fair value of the stock-based compensation newly granted in 2009 as of its grant date is included in the calculation of total compensation (see table below), although the award entitlement was only partially earned as of the closing date.

The following table shows the compensation components of the individual members of the Board of Management in 2009.

Board of Management Compensation – Aggregate Compensation

[Table 3.27]

		Werner Wenning	Klaus Kühn	Wolfgang Plischke	Richard Pott	Total
		€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Base salary	2009	812	448	448	448	2,156
	2008	794	437	437	437	2,105
Fixed supplement	2009	353	344	185	185	1,067
	2008	344	336	181	181	1,042
Fixed salary	2009	1,165	792	633	633	3,223
	2008	1,138	773	618	618	3,147
Compensation in kind and other benefits	2009	36	41	49	39	165
	2008	61	36	38	33	168
Total non-performance-related compensation	2009	1,201	833	682	672	3,388
	2008	1,199	809	656	651	3,315
Short-term incentive	2009	2,158	1,264	1,010	1,010	5,442
	2008	2,105	1,305	1,044	1,044	5,498
Total directly effected compensation	2009	3,359	2,097	1,692	1,682	8,830
	2008	3,304	2,114	1,700	1,695	8,813
Fair value of newly granted stock-based compensation as of grant date	2009	208	84	151	151	594
	2008	352	240	191	191	974
Aggregate compensation (according to the German Commercial Code)	2009	3,567	2,181	1,843	1,833	9,424
	2008	3,656	2,354	1,891	1,886	9,787

The award entitlements earned in 2009 – both from the 2009 tranche and from previous years' tranches on which the entitlements were only partially earned – are shown separately in the following table along with the changes in the value of entitlements from previous years' tranches based on the performance of Bayer stock in 2009. The fair value of the award entitlement already earned in 2009 from the 2009 tranche is included under "Stock-based compensation entitlements earned in the respective year." Since certain components of the award entitlements are included in both tables, the figures in the following and the preceding table should not be added together.

Board of Management Compensation – Stock-Based Compensation

[Table 3.28]

		Werner Wenning	Klaus Kühn	Wolfgang Plischke	Richard Pott	Total
		€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Long-term incentive (stock-based compensation entitlements earned in the respective year)	2009	587	398	319	319	1,623
	2008	569	364	267	309	1,509
Change in value of existing entitlements	2009	390	265	212	212	1,079
	2008	(195)	(135)	(97)	(106)	(533)

The current members of the Board of Management are generally entitled to receive a pension upon leaving the Bayer Group, though not before the age of 60, in an annual amount equal to at least 30% of the last yearly fixed salary. This percentage increases depending on years of service as a Board of Management member and is capped at 80% for members appointed prior to 2006 and 60% for those appointed since 2006. The respective surviving dependents' benefit is set at 60% of this pension level.

The current service cost for the pension entitlements of the members of the Board of Management is shown in the following table. Under the provisions of the German Accounting Law Modernization Act (BilMoG), which is being applied as of 2009, the current service cost for pension entitlements according to the German Commercial Code (HGB) also includes any past service cost resulting from new entitlements or variations in existing entitlements. The previous year's figures have been restated accordingly. Since HGB and IFRS prescribe different methods for calculating pension provisions, the table contains both the amounts disclosed in the financial statements of Bayer AG prepared according to HGB and those published in the consolidated financial statements of the Bayer Group prepared according to IFRS. The figures in each case represent divergent disclosures of one and the same pension entitlement.

Pension Entitlements

[Table 3.29]

		Werner Wenning	Klaus Kühn	Wolfgang Plischke	Richard Pott	Total
		€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Current service cost for pension entitlements earned in the respective year (IFRS)	2009	-	985	181	198	1,364
	2008	-	505	182	197	884
Present value of pension entitlements at the closing date (IFRS)*	2009	14,675	6,335	5,577	5,478	32,065
	2008	14,271	4,902	4,743	4,770	28,686
Current service cost for pension entitlements earned in the respective year (German Commercial Code)**	2009	4	1,090	200	223	1,517
	2008	2	575	626	223	1,426
Present value of pension entitlements at the closing date (German Commercial Code)**	2009	15,128	6,597	5,794	5,728	33,247
	2008	16,608	6,069	5,770	5,999	34,446

* after deducting plan assets

**2008 figures restated pursuant to the German Accounting Law Modernization Act

The aggregate compensation of the Board of Management according to IFRS does not include the fair value of newly granted stock-based compensation, but rather the stock-based compensation entitlements earned in the respective year plus the change in the value of stock-based compensation entitlements from previous years that have not yet been paid out. The current service cost for pension entitlements must also be added.

The components of the Board of Management's compensation are summarized in the following table:

Board of Management Compensation According to IFRS		[Table 3.30]	
	2008	2009	
	€ thousand	€ thousand	
Directly effected compensation	8,813	8,830	
Long-term incentive (stock-based compensation entitlements earned in the respective year)	1,509	1,623	
Change in value of existing entitlements	(533)	1,079	
Current service cost for pension entitlements earned in the respective year	884	1,364	
Aggregate compensation (IFRS)	10,673	12,896	

For active Board of Management members whose service contracts were concluded prior to the entry into force of the amendments to the German Corporate Governance Code in June 2008, a general severance indemnity clause applies if the service contract is terminated at the company's instigation prior to a member's 60th birthday. The basic principles according to this clause are as follows:

If a member of the Board of Management is not offered a new service contract upon expiration of his existing service contract because he is not reappointed to the Board of Management, or if the member is removed from the Board of Management prematurely during the term of his contract in the absence of grounds for termination without notice, he will receive a monthly bridging allowance amounting to 80% of his last monthly fixed salary for a maximum period of 60 months from the date of expiration of his service contract less the period for which he was released from his duties on full pay or otherwise compensated. (If he were removed during the term of his contract, he would also receive the payment due for the rest of the term, though this would be reduced to the amount of his annual fixed salary plus the target amount for the short-term incentive payment for at least twelve months.) His earnings from any new employment elsewhere would be offset against the bridging allowance. In the case of premature termination at the instigation of the company, further years of service might be credited under certain circumstances for the purpose of computing his Board of Management pension entitlement, though not beyond his 60th birthday.

This clause is now obsolescent and of only limited significance. The Supervisory Board has decided to follow the recommendation of the German Corporate Governance Code, as amended in June 2008, and limit severance payments under new service contracts.

Under only one existing member's contract could the clause still be invoked. In the case of the remaining contracts, either the clause is no longer applicable because the member is leaving the company or has reached the age of 60, or it has been agreed that payment claims can only arise in the event of premature contract termination by the company without cause. Such claims, including ancillary benefits, are then limited to the value of two years' compensation and may not compensate more than the remaining term of the contract. The severance payment cap is to be calculated on the basis of the total compensation (fixed salary plus the target value of the short-term incentive) for the previous year and, if appropriate, also the expected total compensation for the current year.

Post-contractual non-compete agreements have been concluded with the members of the Board of Management, providing for compensation payments to be made by the company during the two-year duration of the post-contractual non-compete clause. For members who held office in 2009, the amount of this compensation is 50% of the average contractually agreed salary for the preceding three years. For the members newly appointed to the Board of Management effective January 1, 2010, the compensation under the non-compete agreement is 50% of fixed salary. It is offset against any benefits payable by the company under the pension plan.

Members of the Board of Management who joined the company before January 1, 1979 – like all salaried employees hired prior to that date – are entitled to six months' pre-retirement leave. A cash payment may be made in lieu of this leave under certain conditions. The only current member to whom this applies is Werner Wenning.

Special supplementary arrangements apply in the event of a change of control, see "Takeover-Relevant Information," page 85ff.

There were no loans to members of the Board of Management outstanding as of December 31, 2009, nor any repayments of such loans during the year.

We currently pay former and retired members of the Board of Management a monthly pension equal to 80% of the last monthly base salary received while in service. The pensions paid to former members of the Board of Management or their surviving dependents are reassessed annually as of January 1, 2009 and adjusted taking into account the development of consumer prices. These benefits are in addition to any amounts they receive under previous employee pension arrangements. Pension payments to retired members of the Board of Management and their surviving dependents in 2009 amounted to €11,273 thousand (2008: €11,697 thousand). Pension provisions for former members of the Board of Management and their surviving dependents at the closing date amounted to €107,223 thousand (2008: €107,863 thousand) according to IFRS and €110,069 thousand (2008: €121,557 thousand) according to HGB.

COMPENSATION SYSTEM FOR THE BOARD OF MANAGEMENT EFFECTIVE 2010

The compensation system for the Board of Management already complied in the past with the recommendations of the German Corporate Governance Code and with many of the requirements of the new German Act on the Appropriateness of Management Board Compensation (VorstAG), which came into force in August 2009.

- The short-term incentive is designed so that payments vary upward or downward depending on the company's economic performance.
- Caps on both short- and long-term incentive payments have been in place for many years.
- Long-term incentive payments are governed by the long-term compensation program for members of the Board of Management and senior executives (Aspire I). Under the rules of this program, a personal investment must be made in Bayer shares. Performance is measured partly by the stock's outperformance of a reference index (EURO STOXX 50) and partly in terms of average prices.
- The consistency of compensation systems, from the Board of Management to junior managers, has been standard practice at Bayer for years, with identical compensation components, structures and performance parameters.

In December 2009, the Supervisory Board resolved on adjustments to ensure that the compensation of the Bayer AG Board of Management continues to comply fully with the requirements of the above Act and the recommendations of the German Corporate Governance Code. These adjustments are outlined below:

- To further enhance the sustainability aspect and long-term focus of the compensation structure, the previous short-term incentive (STI) for the Board of Management is being split

into two parts. 50% will continue to be paid out in the respective following year in the same way as the STI awards for all eligible employees in the Bayer Group. The remaining 50% takes the form of a new stock-based long-term incentive (LTI) component involving a grant of virtual Bayer shares, which are subject to a three-year retention period. The value of these shares then depends on the trend in the price of Bayer stock during the retention period. This strengthening of the long-term incentive means that the fixed salary and short-term incentive account for about 30% each and the long-term incentive for roughly 40% of total compensation.

- The performance period (retention period) under the current Aspire programs (Aspire I and II) is being extended from three to four years. At the same time, the performance hurdles are being raised. The proven elements already mentioned, such as payment caps, outperformance and average share price, are being retained.

In addition, the Board of Management has voluntarily undertaken to comply with the new share ownership guidelines, under which the Chairman in future will hold shares to the value of 150% and the other members 100% (formerly 40% in both cases) of annual fixed salary.

The adjustments described apply effective January 1, 2010 to all the members of the Board of Management except those leaving during 2010.

It is intended to seek the stockholders' approval for the compensation system for the members of the Board of Management by way of a consultative resolution at the 2010 Annual Stockholders' Meeting.

Compensation of the Supervisory Board

The Supervisory Board is compensated according to the relevant provisions of the Articles of Incorporation, which provisions have not been altered since the resolution of the Annual Stockholders' Meeting on April 29, 2005. This provides that, in addition to reimbursement of their expenses, each member of the Supervisory Board receives fixed annual compensation of €60,000 and a variable annual compensation component. The variable compensation component is based on corporate performance in terms of the gross cash flow reported in the consolidated financial statements of the Bayer Group for the respective fiscal year. The members of the Supervisory Board receive €2,000 for every €50 million or part thereof by which the gross cash flow exceeds €3.1 billion, but the variable component for each member may not exceed €30,000.

In accordance with the provisions of the German Corporate Governance Code, additional compensation is paid to the Chairman and Vice Chairman of the Supervisory Board and for chairing and membership of committees. The Chairman of the Supervisory Board receives three times the basic compensation, while the Vice Chairman receives one-and-a-half times the basic compensation. Members of the Supervisory Board who are also members of a committee receive an additional one quarter of the amount, with those chairing a committee receiving a further quarter. However, no member of the Supervisory Board may receive total compensation exceeding three times the basic compensation. It has been agreed that no additional compensation shall be paid for membership of the Nominations Committee. If changes are made to the Supervisory Board and its committees during the fiscal year, members receive compensation on a pro-rated basis. No member of the Supervisory Board received compensation or any other benefits for personally performed services such as consultancy or agency services. The company has purchased insurance for the members of the Supervisory Board to cover their personal liability arising from their service on the Supervisory Board.

In addition to their compensation as members of the Supervisory Board, those employee representatives who are employees of Bayer Group companies receive compensation unrelated to their service on the Supervisory Board. The total amount of such compensation was €605 thousand (2008: €591 thousand).

There were no loans to members of the Supervisory Board outstanding as of December 31, 2009, nor any repayments of such loans during the year.

Compensation of the Members of the Supervisory Board of Bayer AG in 2009

[Table 3.31]

	Fixed Compensation	Variable Compensation	Total
	€ thousand	€ thousand	€ thousand
Dr. Paul Achleitner	75	38	113
André Aich	60	30	90
Willy Beumann	60	30	90
Dr. Clemens Börsig	60	30	90
Karl-Josef Ellrich	75	38	113
Dr.-Ing. Thomas Fischer	75	38	113
Peter Hausmann	75	38	113
Prof. Dr.-Ing. e.h. Hans-Olaf Henkel	75	38	113
Reiner Hoffmann	60	30	90
Dr. rer. pol. Klaus Kleinfeld	60	30	90
Petra Kronen	75	38	113
Dr. rer. nat. Helmut Panke	60	30	90
Hubertus Schmoldt	75	38	113
Dr. Manfred Schneider (Chairman)	180	90	270
Dr.-Ing. Ekkehard D. Schulz	60	30	90
Dr. Klaus Sturany	90	45	135
Dipl.-Ing. Dr.-Ing. e.h. Jürgen Weber	75	38	113
Thomas de Win	120	60	180
Prof. Dr. Dr. h.c. Ernst-Ludwig Winnacker	60	30	90
Oliver Zühlke	60	30	90