

Bayer A/S

Arne Jacobsens Allé 13, DK-2300 Copenhagen S

Annual Report for 1 January - 31 December 2016

CVR No 16 08 98 18

The Annual Report was
presented and adopted at
the Annual General Meeting
of the Company on 5/5
2017


Oliver Rittgen
Chairman

Contents

	<u>Page</u>
Management's Statement and Auditor's Report	
Management's Statement	1
Independent Auditor's Report	2
Management's Review	
Company Information	5
Financial Highlights	6
Management's Review	7
Financial Statements	
Income Statement 1 January - 31 December	10
Balance Sheet 31 December	11
Statement of Changes in Equity	13
Notes to the Financial Statements	14
Notes, Accounting Policies	21

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Bayer A/S for the financial year 1 January - 31 December 2016.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2016 of the Company and of the results of the Company operations for 2016.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.


We recommend that the Annual Report be adopted at the Annual General Meeting.

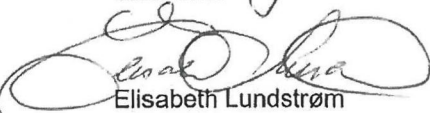
Solna, 5 May 2017

Executive Board


Marion Christine McPherson

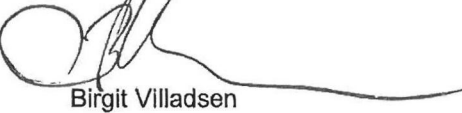
Board of Directors


Oliver Rene Rittgen
Chairman


Elisabeth Lundstrøm
Staff Representative


Johanna Kristiina Kouru


Susanne Öngör


Birgit Villadsen
Staff Representative

Independent Auditor's Report

To the Shareholder of Bayer A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Bayer A/S for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("Financial Statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

Independent Auditor's Report

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent Auditor's Report

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hellerup, 5 May 2017


PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31



Bo Schouboe
State Authorised Public Accountant



Lasse Hartlev
State Authorised Public Accountant

Company Information

The Company

Bayer A/S
Arne Jacobsens Allé 13
DK-2300 Copenhagen S

Telephone: + 45 45 23 50 00

Facsimile: + 45 45 23 52 55

Website: www.bayer.dk

CVR No: 16 08 98 18

Financial period: 1 January - 31 December

Incorporated: 18 December 1952

Financial year: 64th financial year

Municipality of reg. office: Copenhagen

Board of Directors

Oliver Rene Rittgen, Chairman

Johanna Kristiina Kouru

Susanne Öngör

Elisabeth Birgitte Lundstrøm

Birgit Villadsen

Executive Board

Marion Christine McPherson

Auditors

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

Strandvejen 44

DK-2900 Hellerup

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2016	2015	2014	2013	2012
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Revenue	1.388.624	1.353.901	1.228.521	1.315.187	1.054.920
Gross profit/loss	197.825	184.622	167.885	173.428	137.571
Profit/loss before financial income and expenses	82.521	64.568	56.034	67.331	36.019
Net financials	80	261.153	1.426	3.347	-868
Net profit/loss for the year	63.645	310.363	42.164	52.225	25.550
Balance sheet					
Balance sheet total	381.339	585.826	367.639	380.733	375.878
Equity	184.706	391.061	195.698	153.534	101.309
Investment in property, plant and equipment	3.479	715	1.087	-454	867
Number of employees	118	124	123	122	118
Ratios					
Gross margin	14,2%	13,6%	13,7%	13,2%	13,0%
Profit margin	5,9%	4,8%	4,6%	5,1%	3,4%
Return on assets	21,6%	11,0%	15,2%	17,7%	9,6%
Solvency ratio	48,4%	66,8%	53,2%	40,3%	27,0%
Return on equity	22,1%	105,8%	24,1%	41,0%	15,3%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Main activity

The main activity of Bayer A/S is marketing and sale of products within the divisions Pharmaceuticals (PH), Consumer Health (CH) & Crop Science (CS).

Development in the year

Revenue for the year is distributed with 51 % to the Agricultural Sector (Crop Science), 47 % to Pharmaceuticals and 1.4 % to Consumer Health. 0.6 % is allocated to IT services (Business Services).

The turnover increased with 2.6 % and the result from ordinary activities (EBIT) with 25.3 %. The result after taxes decreased with MDKK 254 (82 %), mainly due to the divestment in 2015 of the Company's subsidiary, Covestro A/S, resulting in a financial income of MDKK 264.

Crop Science shows revenue of MDKK 712 compared to MDKK 734 in the previous year (-3 %).

Pharmaceuticals shows revenue of MDKK 649 compared to MDKK 572 in the previous year (+14 %).

Consumer Health shows revenue of MDKK 19 compared to MDKK 37 in the previous year (- 48 %).

The past year and follow-up on development expectations from last year

Management considers the profit for the year 2016 to be satisfactory and as expected.

Capital resources

Bayer A/S is well consolidated. The equity ratio (solvency) amounts to 48.4 % (2015: 66.8 %), corresponding to equity at 31 December 2016 of MDKK 185 (2015: MDKK 391).

Foreign exchange risks

It is the Company's policy to hedge against commercial foreign exchange exposure. Hedging mainly takes place by means of balancing in and outgoing cash flows. To the extent this is not possible, forward exchange contracts are used.

Interest rate risks

As the net interest bearing debt does not constitute a significant amount, moderate changes in the level of interest will not have any material, direct effect on earnings. Therefore, the Company does not enter into interest rate agreements to hedge against interest rate exposure.

Targets and expectations for the year ahead

Bayer A/S expects a slightly decreased activity in 2017 in the level of 1-5 % and the profit for the year is expected to be at the level MDKK 60-65.

Management's Review

Basis of earnings

Research and development

As a sales unit the Company has no R&D costs.

External environment

The Company is a sales unit in Denmark with no significant impact on external environment. We refer to the Bayer Group's annual report for further about Bayer.

Intellectual capital resources

The Company is a sales unit in Denmark with no significant intellectual capital resources. We refer to the Bayer Group's annual report for further about Bayer.

Statutory report on Corporate Social Responsibility, CF section 99 a In the Danish Statement Act

The Company is covered by Bayer Group's policy for social responsibility. Refer to the Group Annual Report:

<http://www.investor.bayer.de/en/reports/sustainability-reports/>

Bayer AG is a member of the UN Global Compact and the Participants & Stakeholders Report is available at: <http://www.unglobalcompact.org/participant/1212> Bayer AG.

Statutory report on Underrepresented Gender, CF section 99 b In the Danish Statement Act

Regarding section 99 part b of the Danish Financial Statements Act, Bayer A/S generally wants to ensure, that it always is the most qualified person who possesses a given position at a given time. All employees and managers' efforts are measured based on individual goals.

We want to foster diversity and create opportunities for all persons, regardless of gender, age, and ethnicity, religious or political conviction.

Besides Bayer A/S's two female employee representatives, the Board of Directors consist of one man and two women.

The Company' group of leaders, defined as the Danish Country Leadership Team consists of 4 women and 2 men.

On this background Management assesses, the Company already complies with the intentions of diversity. As equal gender diversity has been achieved in the Board of Directors and in the Danish Country Leadership Team.

Management's Review

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

Unusual events

The financial positions at 31 December 2016 of the Company and the results of the activities of the Company for the financial year for 2016 have not been affected by any unusual events.

Income Statement 1 January - 31 December

	Note	2016 TDKK	2015 TDKK
Revenue	1	1.388.624	1.353.901
Other operating income		17.162	0
Expenses for raw materials and consumables		-1.039.680	-1.001.960
Other external expenses		<u>-168.281</u>	<u>-167.319</u>
Gross profit/loss		197.825	184.622
Staff expenses	2	<u>-113.532</u>	<u>-117.330</u>
Profit/loss before depreciations		84.293	67.292
Depreciation, amortization and impairment of intangible assets and property, plant and equipment	3	-1.772	-2.550
Other operating expenses		<u>0</u>	<u>-174</u>
Profit/loss before financial income and expenses		82.521	64.568
Income from investments in subsidiaries	4	0	263.500
Financial income	5	9.021	10.443
Financial expenses	6	<u>-8.941</u>	<u>-12.790</u>
Profit/loss before tax		82.601	325.721
Tax on profit/loss for the year	7	<u>-18.956</u>	<u>-15.358</u>
Net profit/loss for the year		<u>63.645</u>	<u>310.363</u>

Distribution of profit

	2016 TDKK	2015 TDKK
Proposed distribution of profit		
Proposed dividend for the year	95.000	270.000
Retained earnings	<u>-31.355</u>	<u>40.363</u>
	<u>63.645</u>	<u>310.363</u>

Balance Sheet 31 December

Assets

	<u>Note</u>	<u>2016</u> TDKK	<u>2015</u> TDKK
Software		83	56
Acquired rights		<u>6.557</u>	<u>5.122</u>
Intangible assets	8	<u>6.640</u>	<u>5.178</u>
Other fixtures and fittings, tools and equipment		<u>781</u>	<u>596</u>
Property, plant and equipment	9	<u>781</u>	<u>596</u>
Investments in subsidiaries	10	5.027	5.027
Other receivables	11	<u>69</u>	<u>69</u>
Fixed asset investments		<u>5.096</u>	<u>5.096</u>
Fixed assets		<u>12.517</u>	<u>10.870</u>
Inventories	12	<u>147.063</u>	<u>114.782</u>
Trade receivables		127.658	147.000
Receivables from group enterprises	15	89.155	301.591
Other receivables		3.548	131
Deferred tax asset	16	0	517
Corporation tax		0	9.460
Prepayments	13	<u>1.398</u>	<u>1.475</u>
Receivables		<u>221.759</u>	<u>460.174</u>
Currents assets		<u>368.822</u>	<u>574.956</u>
Assets		<u>381.339</u>	<u>585.826</u>

Balance Sheet 31 December

Liabilities and equity

	<u>Note</u>	<u>2016</u> TDKK	<u>2015</u> TDKK
Share capital		78.000	78.000
Retained earnings		11.706	43.061
Proposed dividend for the year		<u>95.000</u>	<u>270.000</u>
Equity	14	<u>184.706</u>	<u>391.061</u>
Provision for deferred tax	16	<u>394</u>	<u>0</u>
Provisions		<u>394</u>	<u>0</u>
Credit institutions		4	8
Trade payables		69.020	35.172
Payables to group enterprises		59.264	76.454
Corporation tax		6.877	0
Other payables		<u>61.074</u>	<u>83.131</u>
Short-term debt		<u>196.239</u>	<u>194.765</u>
Debt		<u>196.239</u>	<u>194.765</u>
Liabilities and equity		<u>381.339</u>	<u>585.826</u>
Contingent assets, liabilities and other financial obligations	17		
Related parties and consolidated financial statements	18		
Fee to auditors appointed at the general meeting	19		
Subsequent events	20		

Statement of Changes in Equity

	<u>Share capital</u>	<u>Retained</u> <u>earnings</u>	<u>Proposed</u> <u>dividend for the</u> <u>year</u>	<u>Total</u>
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	78.000	43.061	270.000	391.061
Ordinary dividend paid	0	0	-270.000	-270.000
Net profit/loss for the year	0	-31.355	95.000	63.645
Equity at 31 December	78.000	11.706	95.000	184.706

Notes to the Financial Statements

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
1 Revenue		
Geographical segments		
Revenue, Denmark	1.008.779	929.851
Revenue, Sweden	159.650	189.294
Revenue, Norway	67.104	64.159
Revenue, Finland	82.621	115.427
Other	<u>70.470</u>	<u>55.170</u>
	<u>1.388.624</u>	<u>1.353.901</u>
Business segments		
CropScience	712.377	734.019
HealthCare	649.105	571.785
Consumer Health	19.221	36.846
Bayer Business Service	<u>7.921</u>	<u>11.251</u>
	<u>1.388.624</u>	<u>1.353.901</u>
2 Staff expenses		
Wages and salaries	104.388	107.186
Pensions	8.496	9.443
Other social security expenses	<u>648</u>	<u>701</u>
	<u>113.532</u>	<u>117.330</u>
Average number of employees	<u>118</u>	<u>124</u>

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act. The Executive Board do not received any remuneration.

Notes to the Financial Statements

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
3 Depreciation, amortization and impairment of intangible assets and property, plant and equipment		
Amortization of intangible assets	994	1.143
Depreciation of property, plant and equipment	<u>778</u>	<u>1.407</u>
	<u>1.772</u>	<u>2.550</u>
Which is specified as follows:		
Software	44	77
Acquired patents	950	1.066
Other fixtures and fittings, tools and equipment	<u>778</u>	<u>1.407</u>
	<u>1.772</u>	<u>2.550</u>
4 Income from investments in subsidiaries		
Disposal, Covestro A/S	<u>0</u>	<u>263.500</u>
	<u>0</u>	<u>263.500</u>
5 Financial income		
Interest received from group enterprises	416	296
Other financial income	3	1
Exchange adjustments	<u>8.602</u>	<u>10.146</u>
	<u>9.021</u>	<u>10.443</u>
6 Financial expenses		
Interest paid to group enterprises	237	0
Other financial expenses	1.656	933
Exchange loss	<u>7.048</u>	<u>11.857</u>
	<u>8.941</u>	<u>12.790</u>

Notes to the Financial Statements

	2016 TDKK	2015 TDKK
7 Tax on profit/loss for the year		
Current tax for the year	18.135	15.549
Deferred tax for the year	821	-191
	<u>18.956</u>	<u>15.358</u>

8 Intangible assets

	Software TDKK	Acquired rights TDKK	Total TDKK
Cost at 1 January	703	18.233	18.936
Additions for the year	71	2.444	2.515
Disposals for the year	0	-59	-59
Cost at 31 December	<u>774</u>	<u>20.618</u>	<u>21.392</u>
Impairment losses and amortization at 1 January	647	13.111	13.758
Amortization for the year	44	950	994
Impairment losses and amortization at 31 December	<u>691</u>	<u>14.061</u>	<u>14.752</u>
Carrying amount at 31 December	<u>83</u>	<u>6.557</u>	<u>6.640</u>
Amortized over	<u>3 years</u>	<u>5-15 years</u>	

Notes to the Financial Statements

9 Property, plant and equipment

	<u>Other fixtures ar</u> TDKK
Cost at 1 January	16.772
Additions for the year	963
Disposals for the year	<u>-7.359</u>
Cost at 31 December	<u>10.376</u>
Impairment losses and depreciation at 1 January	16.176
Depreciation for the year	778
Reversal of impairment and depreciation of sold assets	<u>-7.359</u>
Impairment losses and depreciation at 31 December	<u>9.595</u>
Carrying amount at 31 December	<u>781</u>
Depreciated over	<u>3-10 years</u>

10 Investments in subsidiaries

	<u>2016</u> TDKK	<u>2015</u> TDKK
Cost at 1 January	5.027	30.000
Additions for the year	0	5.027
Disposals for the year	<u>0</u>	<u>-30.000</u>
Cost at 31 December	<u>5.027</u>	<u>5.027</u>
Value adjustments at 1 January	<u>0</u>	<u>0</u>
Value adjustments at 31 December	<u>0</u>	<u>0</u>
Carrying amount at 31 December	<u>5.027</u>	<u>5.027</u>

Investments in subsidiaries are specified as follows (in DKK):

<u>Name</u>	<u>Place of registered office</u>	<u>Share capital</u>	<u>Votes and ownership</u>	<u>Equity</u>	<u>Net profit/loss for the year</u>
Medrad Denmark ApS	Arne Jacobsens Allé 13	DKK 125.000	100%	4.652.736	452.384

Notes to the Financial Statements

11 Other fixed asset investments

	<u>Other receiv-</u> <u>ables</u> TDKK
Cost at 1 January	<u>69</u>
Cost at 31 December	<u>69</u>
Carrying amount at 31 December	<u>69</u>

	<u>2016</u> TDKK	<u>2015</u> TDKK
12 Inventories		
Goods for resale	<u>147.063</u>	<u>114.782</u>
	<u>147.063</u>	<u>114.782</u>

13 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well.

14 Equity

The share capital consists of 78,000 shares of a nominal value of TDKK 1,000. No shares carry any special rights.

15 Receivables from group enterprises

The company participates in Bayer Group cash pool. The cashpool is recognized under intercompany with group companies.

Notes to the Financial Statements

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
16 Provision for deferred tax		
Intangible assets	1.461	1.132
Property, plant and equipment	-667	-809
Inventories	-155	-507
Other payables	-245	-333
Transferred to deferred tax asset	<u>0</u>	<u>517</u>
	<u>394</u>	<u>0</u>

Deferred tax has been provided at 22% corresponding to the current tax rate.

Deferred tax asset

Calculated tax asset	<u>0</u>	<u>517</u>
Carrying amount	<u>0</u>	<u>517</u>

17 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

Within 1 year	12.386	12.975
Between 1 and 5 years	<u>6.527</u>	<u>19.706</u>
	<u>18.913</u>	<u>32.681</u>

Other contingent liabilities

A bank guarantee of TDKK 3.201 has been established to cover obligations in connection to leased offices.

The Danish group companies are jointly and severally liable for tax on the Group's jointly taxed income.

Notes to the Financial Statements

18 Related parties and consolidated financial statements

Basis

Controlling interest

Bayer AG, Leverkusen, Germany

Controlling shareholder, ultimate

Transactions

All transactions in the Bayer concern are based on arm's length principles. The local management believes that all transactions in all material aspects with related parties is based on market conditions.

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company of the largest and smallest group:

Name

Place of registered office

Bayer AG

The Group Annual Report of Bayer AG may be obtained at the following address:

Bayer AG Corporate Communications, 51368 Leverkusen Germany.

Bayer A/S, Arne Jacobsens Allé 13, 2300 Copenhagen.

19 Fee to auditors appointed at the general meeting

Fee to auditors appointed at the general meeting has not been disclosed in accordance with section 96 (3) of the Danish Financial Statements Act. Reference is made to the consolidated Financial Statements of Bayer AG.

20 Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Notes, Accounting Policies

Basis of Preparation

The Annual Report of Bayer A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

Financial Statements for 2016 are presented in TDKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Bayer AG, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Bayer AG, the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognized in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortized costs are recognized. Moreover, all expenses incurred to achieve the earnings for the year are recognized in the income statement, including depreciation, amortization, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognized in the income statement.

Assets are recognized in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognized in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Certain financial assets and liabilities are measured at amortized cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortized cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortization of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Notes, Accounting Policies

Translation policies

Danish kroner is used as the presentation currency. All other currencies are regarded as foreign currencies.

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognized in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognized in financial income and expenses in the income statement.

Revenue

Information on business segments and geographical segments based on the Company's risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments.

Income Statement

Revenue

Revenue from the sale of goods for resale and finished goods is recognized in the income statement when the sale is considered effected based on the following criteria:

- delivery has been made before year end;
- a binding sales agreement has been made;
- the sales price has been determined; and
- payment has been received or may with reasonable certainty be expected to be received.

Revenue is measured at the consideration received and is recognized exclusive of VAT and net of discounts relating to sales.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the enterprise.

Notes, Accounting Policies

Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortization, depreciation and impairment losses

Amortization, depreciation and impairment losses comprise amortization, depreciation and impairment of intangible assets and property, plant and equipment as well as gains and losses from current replacement of fixed assets.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Income from investments in subsidiaries

Dividends from subsidiaries are recognized as income in the income statement when adopted at the General Meeting of the subsidiary.

Financial income and expenses

Financial income and expenses comprise interest, realized and unrealized exchange adjustments and repayment under the on account taxation scheme.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and deferred tax for the year. The tax attributable to the profit for year is recognized in the income statement, whereas the tax attributable to equity transactions is recognized directly in equity.

Any changes in deferred tax due to changes to tax rates are recognized in the income statement.

The Company is jointly taxed with Covestro A/S and Medrad Denmark ApS. The tax effect of the joint taxation with the group enterprises is allocated to enterprises showing profits or losses in proportion to their taxable incomes (full allocation with credit for tax losses).

Notes, Accounting Policies

Balance Sheet

Intangible assets

Patents and licenses are measured at the lower of cost less accumulated amortization and recoverable amount. Patents are amortized over the remaining patent period, and licenses are amortized over the license period; however not exceeding 5-15 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Other fixtures and fittings, tools and equipment	3-10	years
Leasehold improvements	5-10	years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortization and depreciation.

If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount. If so, the asset is written down to its lower recoverable amount.

The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Goodwill, head office buildings and other assets for which a separate value in use cannot be determined as the asset does not on an individual basis generate future cash flows are reviewed for impairment together with the group of assets to which they are attributable.

Notes, Accounting Policies

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

Other fixed asset investments

Other fixed asset investments consist of deposits.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realizable value.

The net realizable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realizable value is determined allowing for marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured in the balance sheet at the lower of amortized cost and net realizable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Deferred tax assets and liabilities

Deferred tax is recognized in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognized in respect of temporary differences concerning goodwill not deductible for tax purposes and other items - apart from business acquisitions - where temporary differences have arisen at the time of acquisition without affecting the profit for the year or the taxable income.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallize as current tax. In cases where the computation of the tax base may be made according to alternative tax rules, deferred tax is measured on the basis of the intended use of the asset and settlement of the liability, respectively.

Notes, Accounting Policies

Deferred tax assets are measured at the value at which the asset is expected to be realized, either by elimination in tax on future earnings or by set-off against deferred tax liabilities.

Deferred tax assets and liabilities are offset within the same legal tax entity.

Current tax receivables and liabilities

Current tax receivables and liabilities are recognized in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on taxable incomes for prior years. Tax receivables and liabilities are offset if there is a legally enforceable right of set-off and an intention to settle on a net basis or simultaneously.

Financial debts

Debts are measured at amortized cost, substantially corresponding to nominal value.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Notes, Accounting Policies

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$