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# ***Bayer A/S***

Arne Jacobsens Allé 13, DK-2300 Copenhagen

## **Annual Report for 1 January - 31 December 2017**

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CVR No 16 08 98 18

The Annual Report was  
presented and adopted at  
the Annual General  
Meeting of the Company on  
04/05 2018

Miriam Holstein  
Chairman

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# 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 2017.

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 2017 of the Company and of the results of the Company operations for 2017.

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.

Copenhagen, 4 May 2018

## Executive Board

Marion Christine McPherson

## Board of Directors

Miriam Holstein  
Chairman

Anna Karolina Svahn

Johanna Kristiina Kouru

Elisabeth Birgitte Lundström  
Staff Representative

Susanne Ingeborg Visler  
Staff Representative

# Independent Auditor's Report

To the Shareholder of Bayer A/S

## Opinion

We have audited the financial statements of Bayer A/S for the financial year 01.01.2017 - 31.12.2017, which comprise the income statement, balance sheet, statement of changes in equity, and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31-12-2017 and of the results of its operations for the financial year 01.01.2017 - 31.12.2017 in accordance with the Danish Financial Statements Act.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of 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.

## 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 Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity 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 scepticism throughout the

# Independent Auditor's Report

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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- 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 Entity'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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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.

## **Statement on management commentary**

Management is responsible for management commentary

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 commentary and, in doing so, consider whether management commentary 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 commentary provides the information

# **Independent Auditor's Report**

required under the Danish Financials Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 4 May 2018

**Deloitte**

Statsautoriseret Revisionspartnerselskab

Business Registration No 33 96 35 56

Martin Norin Faarborg  
State-Authorised Public Accountant  
mne29395

Morten Dandanell Kiærskou  
State-Authorised Public Accountant  
mne33749

## **Company Information**

### **The Company**

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

Telephone: + 45 45 23 50 00  
Facsimile: + 45 45 23 52 55  
Website: [www.bayer.dk](http://www.bayer.dk)

CVR No: 16 08 98 18  
Financial period: 1 January - 31 December  
Incorporated: 18 December 1952  
Financial year: 65th financial year  
Municipality of reg. office: Copenhagen

### **Board of Directors**

Miriam Holstein, Chairman  
Anna Karolina Svahn  
Johanna Kristiina Kouru  
Elisabeth Birgitte Lundström  
Susanne Ingeborg Visler

### **Executive Board**

Marion Christine McPherson

### **Auditors**

Deloitte  
Statsautoriseret Revisionspartnerselskab  
Weidekampsgade 6  
DK-2300 København S

## Financial Highlights

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

	2017	2016	2015	2014	2013
	TDKK	TDKK	TDKK	TDKK	TDKK
<b>Key figures</b>					
<b>Profit/loss</b>					
Revenue	1.443.904	1.388.624	1.353.901	1.228.521	1.315.187
Gross profit/loss	162.329	197.825	184.622	167.885	173.428
Profit/loss before financial income and expenses	47.423	82.521	64.568	56.034	67.331
Net financials	1.091	80	261.153	1.426	3.347
Net profit/loss for the year	37.308	63.645	310.363	42.164	52.225
<b>Balance sheet</b>					
Balance sheet total	438.508	381.339	585.826	367.639	380.733
Equity	126.639	184.706	391.061	195.698	153.534
Investment in property, plant and equipment	3.524	3.479	715	1.087	-454
Number of employees	122	118	124	123	122
<b>Ratios</b>					
Gross margin	11,2%	14,2%	13,6%	13,7%	13,2%
Profit margin	3,3%	5,9%	4,8%	4,6%	5,1%
Return on assets	10,8%	21,6%	11,0%	15,2%	17,7%
Solvency ratio	28,9%	48,4%	66,8%	53,2%	40,3%
Return on equity	24,0%	22,1%	105,8%	24,1%	41,0%

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 49.2 % to the Agricultural Sector (Crop Science), 48.2 % to Pharmaceuticals and 2.0 % to Consumer Health. 0.6 % is allocated to IT services.

The turnover increased with 4.0 % and the result from ordinary activities (EBIT) decreased with 41.8 %. The result after taxes decreased with MDKK 28 (44 %).

Crop Science shows revenue of MDKK 712 compared to MDKK 712 in the previous year (+ 0 %).

Pharmaceuticals shows revenue of MDKK 695 compared to MDKK 649 in the previous year (+7 %).

Consumer Health shows revenue of MDKK 28 compared to MDKK 19 in the previous year (+ 48 %).

As of January 2017, the former subsidiary Medrad Denmark ApS was merged into Bayer A/S and the business was integrated into the Radiology business within the Pharmaceutical division.

The merger has only had minor impact on the revenue and profit (<2 %).

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

The Management considers the 2017 revenue highly satisfactory. The growth of the Pharmaceutical division in the bigger brands and the rapid implementation of the new launched product in CropScience helped in developing the company topline. The result before taxes was lower than anticipated due to less product profitability than expected.

## **Capital resources**

Bayer A/S is well consolidated. The equity ratio (solvency) amounts to 28.9 % (2016: 48.4 %), corresponding to equity at 31 December 2017 of MDKK 127 (2016: MDKK 185).

## **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.

## **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.

# Management's Review

## Targets and expectations for the year ahead

Bayer A/S expects the main financial indicators to be at the same level as 2017. The Pharmaceutical and CropScience divisions are expected to grow on a low single digit percentage to compensate for the fully divested Diabetes Care business.

The result before taxes is expected to increase to a range of 50-60 MDKK under unchanged market conditions and cost effectiveness

## 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. Reference is made 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 Underepresented 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.

## **Management's Review**

Besides Bayer A/S's two female employee representatives, the Board of Directors consists of three women.

The Company's group of leaders, defined as the Danish Country Leadership Team consists of 3 women and 4 men.

Bayer A/S's Board of Directors is composed of the Senior Bayer Representative for the country group Nordics (Finland, Norway Sweden, Denmark, Iceland, Estonia, Latvia & Lithuania) and the managers of the two Nordic functions Human Resources and Law, Patents & Compliance.

For the time being these three positions are filled by women, but it is the goal that before year 2022 the underrepresented gender, presently being the male, should have at least one seat in the Board.

This will however only be possible whenever a replacement in any of the three mentioned positions becomes relevant, and the goal is therefore presently not fulfilled.

In this connection it should be mentioned, that it is Bayer A/S's policy to assure that both male and female candidates are considered and identified in connection with in- and external recruitment of employees and managers, and that both women and men are a part of the company's talent program.

## **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 position at 31 December 2017 of the Company and the results of the activities of the Company for the financial year for 2017 have not been affected by any unusual events.

## Income Statement 1 January - 31 December

	Note	2017 TDKK	2016 TDKK
<b>Revenue</b>	1	<b>1.443.904</b>	<b>1.388.624</b>
Other operating income		0	17.162
Expenses for raw materials and consumables		-1.110.126	-1.039.680
Other external expenses		-171.449	-168.281
<b>Gross profit/loss</b>		<b>162.329</b>	<b>197.825</b>
Staff expenses	2	-112.301	-113.532
<b>Profit/loss before depreciations</b>		<b>50.028</b>	<b>84.293</b>
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	3	-2.605	-1.772
<b>Profit/loss before financial income and expenses</b>		<b>47.423</b>	<b>82.521</b>
Financial income	4	10.731	9.021
Financial expenses	5	-9.640	-8.941
<b>Profit/loss before tax</b>		<b>48.514</b>	<b>82.601</b>
Tax on profit/loss for the year	6	-11.206	-18.956
<b>Net profit/loss for the year</b>		<b>37.308</b>	<b>63.645</b>

# Balance Sheet 31 December

## Assets

	Note	2017 TDKK	2016 TDKK
Software		44	83
Acquired rights		7.350	6.557
<b>Intangible assets</b>	7	<b>7.394</b>	<b>6.640</b>
Other fixtures and fittings, tools and equipment		926	781
<b>Property, plant and equipment</b>	8	<b>926</b>	<b>781</b>
Investments in subsidiaries	9	0	5.027
Other receivables	10	73	69
<b>Fixed asset investments</b>		<b>73</b>	<b>5.096</b>
<b>Fixed assets</b>		<b>8.393</b>	<b>12.517</b>
<b>Inventories</b>	11	<b>168.115</b>	<b>147.063</b>
Trade receivables		194.283	127.658
Receivables from group enterprises		42.687	89.155
Other receivables		20.867	3.548
Corporation tax		902	0
Prepayments	12	3.261	1.398
<b>Receivables</b>		<b>262.000</b>	<b>221.759</b>
<b>Currents assets</b>		<b>430.115</b>	<b>368.822</b>
<b>Assets</b>		<b>438.508</b>	<b>381.339</b>

# Balance Sheet 31 December

## Liabilities and equity

	Note	2017 TDKK	2016 TDKK
Share capital		78.000	78.000
Retained earnings		48.639	11.706
Proposed dividend for the year		0	95.000
<b>Equity</b>	13	<b>126.639</b>	<b>184.706</b>
Provision for deferred tax	15	706	394
<b>Provisions</b>		<b>706</b>	<b>394</b>
Credit institutions		4	4
Trade payables		132.245	69.020
Payables to group enterprises		99.486	59.264
Corporation tax		0	6.877
Other payables		79.428	61.074
<b>Short-term debt</b>		<b>311.163</b>	<b>196.239</b>
<b>Debt</b>		<b>311.163</b>	<b>196.239</b>
<b>Liabilities and equity</b>		<b>438.508</b>	<b>381.339</b>
Subsequent events	19		
Distribution of profit	14		
Contingent assets, liabilities and other financial obligations	16		
Related parties	17		
Fee to auditors appointed at the general meeting	18		
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## Statement of Changes in Equity

	Share capital TDKK	Retained earnings TDKK	Proposed dividend for the year TDKK	Total TDKK
Equity at 1 January	78.000	11.706	95.000	184.706
Net effect from merger and acquisition under the uniting of interests method	0	-375	0	-375
Adjusted equity at 1 January	78.000	11.331	95.000	184.331
Ordinary dividend paid	0	0	-95.000	-95.000
Net profit/loss for the year	0	37.308	0	37.308
<b>Equity at 31 December</b>	<b>78.000</b>	<b>48.639</b>	<b>0</b>	<b>126.639</b>



# Notes to the Financial Statements

	2017	2016
	TDKK	TDKK
<b>1 Revenue</b>		
<b>Geographical segments</b>		
Revenue, Denmark	1.040.673	1.008.779
Revenue, Sweden	186.831	159.650
Revenue, Norway	67.700	67.104
Revenue, Finland	90.969	82.621
Other	57.731	70.470
	<b>1.443.904</b>	<b>1.388.624</b>
<b>Business segments</b>		
CropScience	711.961	712.377
HealthCare	695.422	649.105
Consumer Health	28.431	19.221
Bayer Business Service	8.090	7.921
	<b>1.443.904</b>	<b>1.388.624</b>
<b>2 Staff expenses</b>		
Wages and salaries	101.489	104.388
Pensions	10.163	8.496
Other social security expenses	649	648
	<b>112.301</b>	<b>113.532</b>
<b>Average number of employees</b>	<b>122</b>	<b>118</b>

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

## Notes to the Financial Statements

	<u>2017</u> TDKK	<u>2016</u> TDKK
<b>3 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment</b>		
Amortisation of intangible assets	2.181	994
Depreciation of property, plant and equipment	318	778
Loss on disposal	106	0
	<u><b>2.605</b></u>	<u><b>1.772</b></u>
Which is specified as follows:		
Software	39	44
Acquired patents	2.142	950
Other fixtures and fittings, tools and equipment	318	778
Loss on sale of property, plant and equipment	106	0
	<u><b>2.605</b></u>	<u><b>1.772</b></u>
<b>4 Financial income</b>		
Interest received from group enterprises	14	416
Other financial income	0	3
Exchange adjustments	10.717	8.602
	<u><b>10.731</b></u>	<u><b>9.021</b></u>
<b>5 Financial expenses</b>		
Interest paid to group enterprises	267	237
Other financial expenses	188	1.656
Exchange loss	9.185	7.048
	<u><b>9.640</b></u>	<u><b>8.941</b></u>

## Notes to the Financial Statements

	2017 <u>TDKK</u>	2016 <u>TDKK</u>
<b>6 Tax on profit/loss for the year</b>		
Current tax for the year	9.119	18.135
Deferred tax for the year	323	821
Adjustment of tax concerning previous years	1.764	0
	<u><b>11.206</b></u>	<u><b>18.956</b></u>

### 7 Intangible assets

	<u>Software</u> TDKK	<u>Acquired rights</u> TDKK	<u>Total</u> TDKK
Cost at 1 January	774	20.618	21.392
Additions for the year	0	3.041	3.041
Disposals for the year	0	-118	-118
Cost at 31 December	<u>774</u>	<u>23.541</u>	<u>24.315</u>
Impairment losses and amortisation at 1 January	691	14.061	14.752
Amortisation for the year	39	2.141	2.180
Impairment and amortisation of sold assets for the year	0	-11	-11
Impairment losses and amortisation at 31 December	<u>730</u>	<u>16.191</u>	<u>16.921</u>
<b>Carrying amount at 31 December</b>	<u><b>44</b></u>	<u><b>7.350</b></u>	<u><b>7.394</b></u>
Amortised over	<u>3 years</u>	<u>5-15 years</u>	

## Notes to the Financial Statements

### 8 Property, plant and equipment

	Other fixtures and fittings, tools and equipment
	TDKK
Cost at 1 January	10.377
Additions for the year	483
Disposals for the year	-81
Cost at 31 December	<u>10.779</u>
Impairment losses and depreciation at 1 January	9.594
Depreciation for the year	340
Impairment and depreciation of sold assets for the year	-81
Impairment losses and depreciation at 31 December	<u>9.853</u>
<b>Carrying amount at 31 December</b>	<b><u>926</u></b>
Depreciated over	<u>3-10 years</u>

### 9 Investments in subsidiaries

	2017	2016
	TDKK	TDKK
Cost at 1 January	5.027	5.027
Disposals for the year	-5.027	0
<b>Carrying amount at 31 December</b>	<b><u>0</u></b>	<b><u>5.027</u></b>

# Notes to the Financial Statements

## 10 Other fixed asset investments

	<u>Other receiv- ables</u> TDKK
Cost at 1 January	69
Additions for the year	<u>4</u>
Cost at 31 December	<u>73</u>
<b>Carrying amount at 31 December</b>	<b><u>73</u></b>

## 11 Inventories

	<u>2017</u> TDKK	<u>2016</u> TDKK
Goods for resale	<u>168.115</u>	<u>147.063</u>
	<b><u>168.115</u></b>	<b><u>147.063</u></b>

## 12 Prepayments

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

## 13 Equity

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

There have been no changes in the share capital during the last 5 years.

## Notes to the Financial Statements

	2017 <u>TDKK</u>	2016 <u>TDKK</u>
<b>14 Distribution of profit</b>		
Proposed dividend for the year	0	95.000
Retained earnings	<u>37.308</u>	<u>-31.355</u>
	<b><u>37.308</u></b>	<b><u>63.645</u></b>
<b>15 Provision for deferred tax</b>		
Intangible assets	1.627	1.461
Property, plant and equipment	-524	-667
Inventories	-155	-155
Other payables	<u>-242</u>	<u>-245</u>
	<b><u>706</u></b>	<b><u>394</u></b>

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

## 16 Contingent assets, liabilities and other financial obligations

### Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

Within 1 year	12.369	12.386
Between 1 and 5 years	<u>6.286</u>	<u>6.527</u>
	<b><u>18.655</u></b>	<b><u>18.913</u></b>

### Other contingent liabilities

A bank guarantee of TDKK 3.202 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

## 17 Related parties

	<u>Basis</u>
<b>Controlling interest</b>	
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.

### Ownership

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

Bayer Nordic SE, Finland

### Consolidated Financial Statements

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

<u>Name</u>	<u>Place of registered office</u>
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.

## 18 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.

## 19 Subsequent events

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

# Notes to the Financial Statements

## 20 Accounting Policies

The Annual Report of Bayer A/S for 2017 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.

The Financial Statements for 2017 are presented in TDKK.

### Internal mergers

For intra-group mergers, the book value method is used, and the aggregation is therefore deemed to have occurred at the acquisition date at the carrying amounts.

Comparative figures are not adjusted.

The difference between the agreed consideration and the carrying amount of the acquired company is recognized in equity.

The merger between Bayer A/S and Merad Denmark ApS is effective per. 01.01.2017.

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

Assets are recognised 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 recognised 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



# Notes to the Financial Statements

## 20 Accounting Policies (continued)

described for each item below.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation 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.

### 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 recognised 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 recognised in financial income and expenses in the income statement.

### Revenue

Information on business segments and geographical segments are 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 recognised 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.

Services are recognised at the rate of completion of the service to which the contract relates by using the

# Notes to the Financial Statements

## **20 Accounting Policies** (continued)

percentage-of-completion method, which means that revenue equals the selling price of the service completed for the year. This method is applied when total revenues and expenses in respect of the service and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the service.

Revenue is measured at the consideration received and is recognised 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 year.

### **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.

### **Amortisation, depreciation and impairment losses**

Amortisation, depreciation and impairment losses comprise amortisation, 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 recognised as income in the income statement when adopted at the General Meeting of the subsidiary. However, dividends relating to earnings in the subsidiary before it was acquired by the Parent Company are set off against the cost of the subsidiary.

# Notes to the Financial Statements

## 20 Accounting Policies (continued)

### Financial income and expenses

Financial income and expenses comprise interest, realised and unrealised exchange adjustments and repayment under the onaccount 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 recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

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

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

## Balance Sheet

### Intangible assets

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding 3-15 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.

# Notes to the Financial Statements

## 20 Accounting Policies (continued)

### 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 amortisation 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.

### 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 realisable value.

The net realisable 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 realisable 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 amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

### Prepayments

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

# Notes to the Financial Statements

## 20 Accounting Policies (continued)

### 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 recognised in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised 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 crystallise 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.

Deferred tax assets are measured at the value at which the asset is expected to be realised, 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 recognised 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 amortised cost, substantially corresponding to nominal value.

#### **Deferred income**

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

## Notes to the Financial Statements

### 20 Accounting Policies (continued)

#### 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	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$