
Bayer A/S

Arne Jacobsens Allé 13, DK-2300 Copenhagen

Annual Report for 1 January - 31 December 2019

CVR No 16 08 98 18

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
12/6 2020

Miriam Holstein
Chairman of the General
Meeting

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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 2019.

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 2019 of the Company and of the results of the Company operations for 2019.

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, 12 June 2020

Executive Board

Jean Antoine Bernet

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 01.01.2019 - 31.12.2019, 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 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019 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 contents 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 review

Management is responsible for management 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 review and, in doing so, consider whether management 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 review 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 review 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 review.

Copenhagen, 12 June 2020

Deloitte

Statsautoriseret Revisionspartnerselskab

CVR No 33 96 35 56

Flemming Larsen
State-Authorised Public Accountant
mne27790

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

CVR No: 16 08 98 18
Financial period: 1 January - 31 December
Incorporated: 18 December 1952
Financial year: 67th 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

Jean Antoine Bernet

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:

	2019 TDKK	2018* TDKK	2017* TDKK	2016* TDKK	2015* TDKK
Key figures					
Profit/loss					
Revenue	1.467.407	1.414.136	1.443.904	1.388.624	1.353.901
Gross profit/loss	161.695	149.898	162.329	197.825	184.622
Profit/loss before financial income and expenses	39.059	38.194	47.423	82.521	64.568
Net financials	-669	-867	1.091	80	261.153
Net profit/loss for the year	29.245	28.567	37.308	63.645	310.363
Balance sheet					
Balance sheet total	490.654	372.206	438.508	381.339	585.826
Equity	184.451	155.206	126.639	184.706	391.061
Investment in property, plant and equipment	25.455	2.743	3.524	3.479	715
Number of employees	116	122	122	118	124
Ratios					
Gross margin	11,0%	10,6%	11,2%	14,2%	13,6%
Profit margin	2,7%	2,7%	3,3%	5,9%	4,8%
Return on assets	8,0%	10,3%	10,8%	21,6%	11,0%
Solvency ratio	37,6%	41,7%	28,9%	48,4%	66,8%
Return on equity	17,2%	20,3%	24,0%	22,1%	105,8%

*Comparative figures have not been adjusted for the effects of change in accounting policy related to IFRS 16.

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 39.7 % to the Agricultural Sector (Crop Science), 58.4 % to Pharmaceuticals and 1.4 % to Consumer Health. The remaining 0.5 % is allocated to IT services.

The turnover increased with 3.8 % and the result from ordinary activities (EBIT) increased with 2.3%. The result after taxes increased with MDKK 0.7 (2.4 %).

Crop Science shows revenue of MDKK 582 compared to MDKK 647 in the previous year (-10.0 %).

Pharmaceuticals shows revenue of MDKK 856 compared to MDKK 732 in the previous year (+ 16.9 %).

Consumer Health shows revenue of MDKK 21 compared to MDKK 25 in the previous year (- 16.9 %).

The Management considers the 2019 revenue satisfactory and in line with the estimation at the end of the previous campaign. The growth of the Pharmaceutical division comes from our big brands that have increased presence in the Danish market. The CropScience division suffered a decrease in turnover due to the carryover stocks from the previous campaign driven by the 2018 draught season. Despite the sales decline, the CropScience division gained market share on a divisional level. The result before taxes was lower than anticipated due to the lower sales in CropScience.

Capital resources

Bayer A/S is well consolidated. The equity ratio (solvency) amounts to 37.6 % (2018: 41.7 %), corresponding to equity at 31 December 2019 of MDKK 184 (2018: MDKK 155).

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 grow on a low single digit percentage. On July 1, 2020 (draft date provided regulatory approval), the Animal Health division will be divested and thus no revenue is foreseen for the division during the second half of 2020. The CropScience division is expected to grow 0-5% in turnover during 2020 and the Pharmaceutical division is expected to grow 5-10% in 2020.

The result before taxes is expected to increase to a range of MDKK 35-45 with increased sales and cost effectiveness. The present Covid-19 situation is not expected to have material influence on the coming year.

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 external environment.

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 Financial Statements 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/1212BayerAG>.

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.

The Company's group of leaders, defined as the Danish Country Leadership Team consists presently of 3

Management's Review

women and 4 men.

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

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.

Uncertainty relating to recognition and measurement

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

Unusual events

The financial position at 31 December 2019 of the Company and the results of the activities of the Company for the financial year for 2019 have not been affected by any unusual events.

Income Statement 1 January - 31 December

	Note	2019 TDKK	2018 TDKK
Revenue	2	1.467.407	1.414.136
Expenses for raw materials and consumables		-1.182.487	-1.133.017
Other external expenses		-123.225	-131.221
Gross profit/loss		161.695	149.898
Staff expenses	3	-109.670	-108.752
Profit/loss before depreciations		52.025	41.146
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4	-12.966	-2.952
Profit/loss before financial income and expenses		39.059	38.194
Financial income	5	6.980	8.594
Financial expenses	6	-7.649	-9.461
Profit/loss before tax		38.390	37.327
Tax on profit/loss for the year	7	-9.145	-8.760
Net profit/loss for the year		29.245	28.567

Balance Sheet 31 December

Assets

	Note	2019 TDKK	2018 TDKK
Software		0	8
Acquired rights		4.749	6.238
Intangible assets	8	4.749	6.246
Other fixtures and fittings, tools and equipment		14.706	1.187
Property, plant and equipment	9	14.706	1.187
Deposits		77	75
Fixed asset investments	10	77	75
Fixed assets		19.532	7.508
Inventories	11	188.324	217.004
Trade receivables		241.433	104.685
Receivables from group enterprises		30.998	33.115
Other receivables		6.062	4.796
Deferred tax asset	15	0	182
Corporation tax		0	3.842
Prepayments	12	729	1.074
Receivables		279.222	147.694
Cash at bank and in hand		3.576	0
Currents assets		471.122	364.698
Assets		490.654	372.206

Balance Sheet 31 December

Liabilities and equity

	Note	2019 TDKK	2018 TDKK
Share capital		78.000	78.000
Retained earnings		56.451	77.206
Proposed dividend for the year		50.000	0
Equity	13	184.451	155.206
Provision for deferred tax	15	3	0
Provisions		3	0
Lease obligations		4.701	0
Other payables		3.180	0
Long-term debt	16	7.881	0
Lease obligations	16	8.839	0
Trade payables		64.953	45.182
Payables to group enterprises		74.879	74.951
Corporation tax		945	0
Other payables	16	148.703	96.867
Short-term debt		298.319	217.000
Debt		306.200	217.000
Liabilities and equity		490.654	372.206
Subsequent events	1		
Distribution of profit	14		
Contingent assets, liabilities and other financial obligations	17		
Related parties	18		
Fee to auditors appointed at the general meeting	19		
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Statement of Changes in Equity

	Share capital	Retained earnings	Proposed dividend for the year	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	78.000	77.206	0	155.206
Net profit/loss for the year	0	-20.755	50.000	29.245
Equity at 31 December	78.000	56.451	50.000	184.451

Notes to the Financial Statements

1 Subsequent events

With the background in the new corona virus, Covid-19, Bayer A/S is following the development closely and is taking measures to minimize or eliminate the influence on the business. Bayer A/S is following the guidance from the health authorities and the government. Until today, Bayer A/S has not been substantially affected by the Covid-19 situation.

	<u>2019</u> TDKK	<u>2018</u> TDKK
2 Revenue		
Geographical segments		
Revenue, Denmark	1.138.130	1.028.659
Revenue, Sweden	125.608	155.944
Revenue, Norway	44.279	57.798
Revenue, Finland	67.750	84.595
Other	91.640	87.140
	<u>1.467.407</u>	<u>1.414.136</u>
Business segments		
CropScience	582.394	647.415
HealthCare	856.129	732.398
Consumer Health	21.154	25.457
Bayer Business Service	7.730	8.866
	<u>1.467.407</u>	<u>1.414.136</u>
3 Staff expenses		
Wages and salaries	98.703	96.974
Pensions	9.967	10.223
Other social security expenses	684	606
Other staff expenses	316	949
	<u>109.670</u>	<u>108.752</u>
Average number of employees	<u>116</u>	<u>122</u>

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

Notes to the Financial Statements

	2019 <u>TDKK</u>	2018 <u>TDKK</u>
4 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	2.736	2.485
Depreciation of property, plant and equipment	10.230	467
	<u>12.966</u>	<u>2.952</u>
Which is specified as follows:		
Software	8	36
Acquired patents	2.728	2.449
Buildings	6.345	0
Other fixtures and fittings, tools and equipment	3.885	467
	<u>12.966</u>	<u>2.952</u>
5 Financial income		
Interest received from group enterprises	71	56
Other financial income	11	0
Exchange adjustments	6.898	8.538
	<u>6.980</u>	<u>8.594</u>
6 Financial expenses		
Interest paid to group enterprises	285	269
Other financial expenses	490	54
Exchange loss	6.874	9.138
	<u>7.649</u>	<u>9.461</u>
7 Tax on profit/loss for the year		
Current tax for the year	8.743	9.648
Deferred tax for the year	185	-888
Adjustment of tax concerning previous years	95	0
Adjustment of deferred tax concerning previous years	122	0
	<u>9.145</u>	<u>8.760</u>

Notes to the Financial Statements

8 Intangible assets

	Software TDKK	Acquired rights TDKK	Total TDKK
Cost at 1 January	774	24.877	25.651
Additions for the year	0	1.521	1.521
Disposals for the year	0	-282	-282
Cost at 31 December	<u>774</u>	<u>26.116</u>	<u>26.890</u>
Impairment losses and amortisation at 1 January	766	18.639	19.405
Amortisation for the year	8	2.728	2.736
Impairment losses and amortisation at 31 December	<u>774</u>	<u>21.367</u>	<u>22.141</u>
Carrying amount at 31 December	<u>0</u>	<u>4.749</u>	<u>4.749</u>
Amortised over	<u>3 years</u>	<u>5-15 years</u>	

9 Property, plant and equipment

	Other fixtures and fittings, tools and equipment TDKK
Cost at 1 January	11.476
Additions for the year	23.934
Disposals for the year	-5.042
Cost at 31 December	<u>30.368</u>
Impairment losses and depreciation at 1 January	10.288
Depreciation for the year	10.147
Impairment and depreciation of sold assets for the year	-4.773
Impairment losses and depreciation at 31 December	<u>15.662</u>
Carrying amount at 31 December	<u>14.706</u>
Depreciated over	<u>3-10 years</u>
Carrying amount of right-of-use assets at 31 December	<u>13.337</u>

Notes to the Financial Statements

10 Deposits

	<u>Deposits</u> TDKK
Cost at 1 January	75
Additions for the year	<u>2</u>
Cost at 31 December	<u>77</u>
Carrying amount at 31 December	<u>77</u>

11 Inventories

	<u>2019</u> TDKK	<u>2018</u> TDKK
Goods for resale	<u>188.324</u>	<u>217.004</u>
	<u>188.324</u>	<u>217.004</u>

12 Prepayments

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

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

	2019 <u>TDKK</u>	2018 <u>TDKK</u>
14 Distribution of profit		
Proposed dividend for the year	50.000	0
Retained earnings	<u>-20.755</u>	<u>28.567</u>
	<u>29.245</u>	<u>28.567</u>
15 Provision for deferred tax		
Intangible assets	1.045	1.374
Property, plant and equipment	-334	-422
Inventories	-417	-896
Other payables	-291	-254
Tax loss carry-forward	0	16
Transferred to deferred tax asset	<u>0</u>	<u>182</u>
	<u>3</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>182</u>
Carrying amount	<u>0</u>	<u>182</u>

Notes to the Financial Statements

16 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	2019 TDKK	2018 TDKK
Lease obligations		
Between 1 and 5 years	4.701	0
Long-term part	4.701	0
Within 1 year	8.839	0
	13.540	0
Other payables		
Between 1 and 5 years	3.180	0
Long-term part	3.180	0
Other short-term payables	148.703	96.867
	151.883	96.867

17 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

Within 1 year	0	10.901
Between 1 and 5 years	0	5.594
	0	16.495

Other contingent liabilities

A bank guarantee of TDKK 3.202 has been established to cover obligations in connection to leased offices.

Bayer A/S is the administration company for the Danish jointly taxed companies. The administration company has unlimited, joint and several liability together with the other jointly taxed companies for all corporate income taxes arising under the joint taxation scheme. Corporate income tax payable for the Danish jointly taxed companies amounted to DKK 9.2m at 31 December 2019 (2018: DKK 9.5m).

Notes to the Financial Statements

18 Related parties

	Basis
Controlling interest	
Bayer AG	Controlling shareholder, ultimate parent
Bayer Nordic SE, Finland	Controlling shareholder
Bayer Global Investments B.V.	Controlling shareholder

Transactions

The Company has chosen only to disclose transactions which have not been made on an arm's length basis in accordance with section 98(c)(7) of the Danish Financial Statements Act. However, no such transactions have taken place during the year.

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
Bayer Global Investments B.V., Netherlands

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

20 Accounting Policies

The Annual Report of Bayer A/S for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The Financial Statements for 2019 are presented in TDKK.

Changes in accounting policies

As of January, 2019, Bayer A/S applies, for the first time IFRS 16 "Leases" using the modified retrospective approach, as interpretation for its accounting for lease contracts under the Danish Financial Statements Act. Under this method the cumulative effect of initially applying the standard is recognized at January 1, 2019. Rights-of-use assets and lease liabilities have been recognized for those leases previously classified as operating leases, except for short-term leases and leases of low value assets". The right-of-use assets have been recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. The impact of the income statement in 2019 from implementing IFRS 16 is a decrease in other external expenses of TDKK 9.589 and an increase in depreciation of TDKK 9.748, financial expenses TDKK 289, result for the year TDKK 448, balance sheet TDKK 13.337 and equity TDKK 448.

Effective 1 January 2019, The Company has chosen IFRS 15 as basis for interpretation for revenue recognition in accordance with the Danish Financial Statements Act. The change has not impacted the income statement for the year, nor the equity 31.12.2018 or 31.12.2019 or the balance sheet 31.12.2019.

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 recognized in the income statement when control of the goods has transferred to the buyer, normally at delivery.

Revenue is measured at the fair value of the expected consideration and is recognized excluding VAT and net of discounts relating to sales.

Notes to the Financial Statements

20 Accounting Policies (continued)

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 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 from current replacement of fixed assets.

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.

Bayer A/S is the administration company for the Danish jointly taxed companies. 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

Acquired rights and licenses

Acquired rights and licenses 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. In both cases the residual value is set to zero.

Notes to the Financial Statements

20 Accounting Policies (continued)

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 (which is set to zero) 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

Assessment of residual value and useful life is performed annually for assets under property, plant & equipment.

Gains and losses arising from disposal of property, plant & equipment are calculated as the difference between the sales price less sales costs and the carrying amount at the time of sale. Gains and losses are recognized in the profit and loss.

Right-of-use assets

As of January 1, 2019, Bayer A/S applies, for the first time, IFRS 16 'Leases' using the modified retrospective approach. Under this method, the cumulative effect of initially applying the standard is recognized at January 1, 2019. Rights-of-use assets and lease liabilities have been recognized for those leases previously classified as operating leases, except for short-term leases and leases of low value assets. The rights-of-use assets have been recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities are recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as of January 1, 2019. The comparative information has not been restated.

For contracts which are, or contain, a lease, Bayer A/S recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, being the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The right-of-use asset is presented in property, plant & equipment and the lease liabilities in non-current liabilities or current liabilities.

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.

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.

Fixed asset investments

Fixed asset investments consist of deposits.

Inventories

Inventories are measured at the lower of cost under standard cost 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.

Equity

Dividend

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

Notes to the Financial Statements

20 Accounting Policies (continued)

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.

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