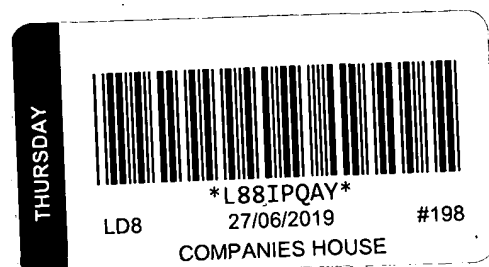


Bayer Public Limited Company

Annual Report and Financial Statements

For the year ended 31 December 2018



Company Registration No. 00935048 (England and Wales)

Bayer Public Limited Company

Company Information

Directors

V Hahn
L F Bruening
S A Kurdikar (Appointed 19 July 2018)

Company secretary

C A Barker

Company number

00935048

Registered office

400 South Oak Way
Green Park
Reading
Berkshire
RG2 6AD

Independent auditor

Deloitte LLP
Abbots House
Abbey Street
Reading
RG1 3BD

Bayer Public Limited Company

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Bayer Public Limited Company

Strategic Report

For the year ended 31 December 2018

The directors present the strategic report for the company for the year ended 31 December 2018.

Review of the business

The company's principal activity is the marketing of pharmaceutical, consumer health and animal healthcare products. In addition, the company also markets and distributes radiology contrast media and devices. The portfolio of products are principally manufactured by Bayer Group companies and supplied to the company. The company provides administration support to other Bayer Group companies.

The company continued to trade successfully during the year and consolidate its position within its markets.

Key financial changes

On 2 January 2018, the company acquired the trade, assets and liabilities of Medrad UK Limited, a wholly owned subsidiary of the company. Following this acquisition, Medrad UK Limited ceased to trade and was dissolved on 2 October 2018.

On 7 June 2018, Bayer AG acquired 100% ownership of the US company Monsanto Incorporated, a seed and agrochemical company. On 9 November 2018, Bayer CropScience Limited, a wholly owned subsidiary of the company, acquired 100% of the shares in Monsanto UK Limited, a company registered in England and Wales, for consideration of £36.1 million. These shares were previously owned by Bayer New UK M3939 Limited Liability Company, a company incorporated in the United States.

Impairment testing was performed by the company on its investments in subsidiaries. For Bayer CropScience Limited, there was a reversal of impairment of £24.1 million as a consequence of the reduction of the pension deficit. For Bayer Agriculture Limited, an impairment was recognised of £1.1 million due to changes in royalty agreements and lower demand for the product.

In November 2018, Bayer AG announced its intention to divest its Animal Health business in the mid-term.

The goodwill held for the legacy Merck Consumer Health business has been fully impaired in 2018 with an impairment of £817,000.

On 2 January 2018, the last direct paying member to the Bayer Group Pension Fund in Bayer CropScience Limited (100% owned subsidiary of the company) retired. This triggered a Section 75 debt which was the transfer of all plan assets and defined benefit obligations to the company from Bayer CropScience Limited. The total net liability transferred was £3.8 million. This was recognised as a loss in the income statement (see note 4 and 21).

During the year there was a legal judgement made related to the guaranteed minimum payment for defined pension plans (GMP). The court ruled that the pension schemes discriminated against women between 1990 to 1997, where women were guaranteed a lower pension than men. In the income statement an additional £7.8 million (see note 4 and 21) was recognised as a past service cost to equalise the pensions.

In 2019 the Department of Health has launched the Voluntary Pricing and Access Scheme 2019. This will replace the current Pharmaceutical Price Regulation Scheme (PPRS) 2014 - 2019.

Bayer Public Limited Company

Strategic Report (Continued)

For the year ended 31 December 2018

Business environment

Below is a brief overview of how the divisions have performed during the year.

Pharmaceutical

The pharmaceutical division showed turnover growth of £34.5 million (6.6%) above the previous year.

Bayer Pharmaceutical ranked 5th (source: IQVIA Xponent (British Pharmaceutical Industry and Hospital Pharmacy Audit National Overview)) in the UK for December 2018 year to date sales values, up from 6th in 2017.

The strong performance of the UK pharmaceutical division is mainly due to its brands; Xarelto and Eylea remaining the key growth drivers.

Radiology

Radiology is a market-leading diagnostic imaging provider delivering contrast media, medical devices and IT products and services to the imaging suite.

Radiology showed turnover growth of £11.2 million (83.8%) to £24.7 million in comparison to 2017. The growth is attributable to the acquisition of the Medrad UK Limited (radiology devices and consumables) business.

The UK radiology market is continuing to grow. This is driven by the ever increasing demand for diagnostic, contrast-enhanced, CT- and MRI- scans as well as an increased focus on patient safety. Demand is fuelled by patient demographic changes in the UK, coupled with a shift from interventional diagnostic techniques to enhanced imaging. Furthermore, impending legislative changes have fuelled the requirement for increased capabilities for record keeping and efficiency within hospitals.

Bayer is well positioned in radiology with a strong product portfolio and commitment to innovation.

Consumer Health

This business unit has a focus on marketing Over the Counter (OTC) medicines, nutritionals and dermatology products in the pharmacy and grocery retail environment.

The consumer health business performance showed turnover decline of £9.7 million (9.7%) to £90.3 million in 2018 compared to a 4.8% growth in 2017. The decline is attributable primarily to declines in prescribed dermatology products, and nutritionals due to generic competition.

Consumer Health continues to face pressure from the retail market in the UK as the retail landscape is still developing quickly. Growth continues in discounters, convenience and online channels as consumers strive for greater convenience or lower prices. Consequently the core grocery and pharmacy channels are facing further pressure.

The Consumer Health team are implementing a focussed strategy to compete in this pressured environment in 2019, and challenge for market share growth.

The Consumer Health division is divesting some of its dermatological product portfolio to a third party with the estimated date for completion being 30 June 2019.

Bayer Public Limited Company

Strategic Report (Continued)

For the year ended 31 December 2018

Animal Health

This business unit has a predominant focus on the Companion Animal Market within Animal Health. The business has shown strong growth over the past few years driven by our endectoparasiticide, Advocate.

Turnover reduced by £19.2 million (28.9%) to £47.1 million in 2018. The decline in turnover is due mainly to a change in commercial strategy in response to competitive pressure and generic competition.

Development and performance of the company based on key performance indicators

Working capital continues to be a focus area for the company.

Net assets for 2018 were £109.4 million (2017: £57.3 million). This change in the net position is mainly due to the decrease of the pension deficit and the impairment loss reversal of investments in subsidiaries.

Trade and other receivables increased by £34.5 million to £154.4 million (2017: £119.9 million). The higher receivables are in line with the higher sales made during the year. Additionally the intercompany balance increased as a result of cost reimbursements and there was a transfer pricing adjustment for £13.0 million.

Local stock levels have increased by £5.3 million to £109.1 million. The driver for the increase in inventory is the stock piling of essential drugs due to the uncertainties surrounding Brexit.

The company did not suffer any significant bad debt write offs during the current or prior year.

The trade and other payables have increased by £20.2 million. This is mainly due to the increase in other payables.

The average number of staff employed by the company during 2018 was 770 (2017: 739) (note 6).

Administrative expenses increased by 3.77% from 2017 due to the increases in advertising cost for Xarelto and Eylea; and logistic costs which are in line with increased inventory and turnover. Additionally there were one off pension expenses in respect of a Section 75 debt expense and GMP equalisation expense.

Operating profit before tax and interest for 2018 was £30.6 million, which is £12.2 million lower than 2017. The decline is due to low growth in revenue, other operating costs increasing and lower other operating income.

Analysis based on key performance indicators

The growth in the revenue for 2018 remained relatively flat. The growth in the pharmaceutical business was offset by the lower turnover in the animal and consumer health business. The divestment of the Diabetes Care business contributed a decrease of £14.4 million for revenue.

The gross profit margin of the company in 2018 was 26.3% (2017: 26.5%).

The operating profit margin declined by 1.7% from 5.9% in 2017 to 4.2% for 2018.

Bayer Public Limited Company

Strategic Report (Continued)

For the year ended 31 December 2018

Principal risks and uncertainties

The company has put in place internal controls to deter fraud and regularly revises these fraud prevention controls as part of its COSO Internal Controls Systems management process. The company also monitors external fraud threats and internal threats via its risk management system and takes appropriate risk reduction actions.

The company has put in place a Fraud Response Plan which has been operated consistently since 2006. This consists of a Fraud Investigation Protocol, which strictly controls how fraud investigations are to be conducted and what admissible evidence is required. Fraud investigations are carried out independently, under the terms of the Protocol, by appropriately experienced and qualified persons within the company, who are not members of the Finance department, and by Internal Audit staff of the ultimate Parent.

The company carries out market research to ensure that its products are sold at competitive prices. In the case of pharmaceutical products, the prices are regulated by the Pharmaceutical Price Regulation Scheme (PPRS). Bayer is fully complying with The Department of Health PPRS 2014 – 2019.

The company maintains good Corporate Governance practices in educating its staff, such as providing training on the Bribery Act and the avoiding of anti-competitive practices.

Supply Chain risks (including price risks) are regularly monitored as part of the company's risk management practices.

With respect to the risks associated with Brexit, the company has a Brexit project established which is monitoring the external developments and assessing the potential risks, impacts and appropriate mitigation. Areas identified as being of specific focus are supply chain, regulatory and European Citizen employees employed in the United Kingdom.

The company recognises that its employees are important to its continued success. Development programmes are in place to train and to ensure effective succession planning. Performance is measured against objectives and rewarded accordingly through schemes linked to the group's results that are designed to retain high performing staff.

The company has obligations to current and former employees related to pensions and other post-employment benefits. A large proportion of these obligations are covered by plan assets including equity, real estate and fixed income investments. Investment risks are monitored in regard of pension obligations and deficit contributions form part of a recovery plan agreed with the trustees of the pension plan as required at each actuarial valuation. The triennial valuation as required by pensions law was carried out and completed in 2018, 31 March 2017 was used as the base line. The next valuation is due as at 31 March 2020. The UK pension liabilities are also secured by a Parent Company Guarantee from the ultimate holding company, Bayer AG.

Financial risk management

The company's operations expose it to financial risks that include price risk, credit risk, liquidity risk, interest rate, cash flow risk and foreign exchange risk. Financial guidelines are in place and responsibilities aligned to ensure these are adhered to. Reviews with Senior Management also take place to assess credit risk and foreign exchange risk. Where necessary steps are taken and changes implemented to reduce the level of risk in these areas. Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

Bayer Public Limited Company

Strategic Report (Continued)

For the year ended 31 December 2018

Price risk

The company is exposed to commodity price risk as a result of its operations. Due consideration is given to forward provisioning of key commodities when market conditions dictate. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits.

The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

Credit risk

The company makes sales based on credit terms thereby introducing credit risk if counterparties fail to meet obligations in accordance with agreed terms and adversely affecting the company's revenue and cash flow.

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. Credit insurance is taken at a global level by Bayer AG.

Liquidity risk

Liquidity risk is the risk that the company may be unable to meet short term financial demands.

When the need arises, the company actively maintains a mixture of short-term inter-company and debt finance that is designed to ensure the company has sufficient available funds for operations.

Interest rate cash flow risk

The company pays interest on its internal debt at a variable rate. The debt is not considered significant enough to warrant hedging. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

Foreign exchange risk

Foreign exchange risk arises as a result of foreign currency transactions that the company is party to. Due consideration is given to forward provisioning of foreign currencies when market conditions dictate. However, given the size of the company's operations, the costs of managing exposure to foreign exchange risk exceed any potential benefits.

The directors will revisit the appropriateness of this policy should the company's operations change in size or nature and will consider the use of forward exchange rate contracts to reduce its exposure to the fluctuations on foreign exchange rates by fixing the rate of any material payments in foreign currency.

Future Developments

The company continues to invest in the development of new pharmaceutical, consumer health and animal health products, and will continue to introduce new products into the UK market.

By order of the board



C A Barker
Company secretary

Date **21 JUNE 2019**

Bayer Public Limited Company

Directors' Report

For the year ended 31 December 2018

The directors present their annual report and audited financial statements for the year ended 31 December 2018.

Results and dividends

The results for the year are set out on page 12. The assets and liabilities and financial position of the company at the end of the financial year are set out on page 14.

A final dividend has not been proposed by the directors (2017: £nil). No interim dividends were paid during 2018 (2017: £nil).

In accordance with section 414C(11) of the Companies Act 2006, the information relating to future developments and financial risk management are included in the Strategic Report, and form part of this report by cross-reference.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

U Bockstegers

(Resigned 19 July 2018)

V Hahn

L F Bruening

S A Kurdikar

(Appointed 19 July 2018)

Going concern

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for 12 months from the date of approval of the financial statements based on the profitability and net assets of the company. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Research and development

The company is committed to product improvement and does so through extensive product development. Development in the United Kingdom is carried out primarily by the Pharmaceutical Business Group. Considerable other research and development is carried out worldwide by other group companies. During the year the company spent £28.9m (2017: £26.1m) on research and development.

Corporate social responsibilities

During the year the company spent £479,000 (2017: £187,000) on various corporate social responsibility programmes. The increase is due to the alignment with the Bayer Global Policy on corporate social responsibility.

Bayer Public Limited Company

Directors' Report (Continued)

For the year ended 31 December 2018

Employee involvement

The company actively continues its policy of employee consultation by way of a voluntary staff association elected by all employees on a democratic basis.

Employee forum meetings are held regularly where the views of staff members are sought and management has an opportunity to inform staff of developments within the company and its financial standing and prospects.

All staff are kept informed by way of published minutes of these meetings and also by way of the in-house magazine containing articles on the company's performance and plans.

Information on current issues and events within the local and global Bayer community is also provided to employees through an extensive range of news articles on the intranet and using the Bayer internal social media platforms.

Regular meetings are also held where information from the Bayer Country Council and Leadership teams is shared with all the employees. The employees are actively encouraged to participate and give feedback or request additional information.

The company also encourages the involvement of employees in its performance through the operation of a share scheme. Each year training and development needs analysis is undertaken across all sites. In addition to training and development, the UK undertakes an assessment of individuals to identify candidates with potential for senior management. This information is forwarded via various parts of the UK organisation into the Bayer Personnel and Organizational Conferences (POCs) which take place on a regional and functional basis.

The company also participates in the national Great Places to Work Survey and was ranked 16th in 2017.

Disabled persons

It is the company's policy to give full and fair consideration to applications for employment made by disabled persons, to continue wherever possible the employment of staff who become disabled and to provide equal opportunities for the training, career development and promotions of disabled employees.

Independent Auditor

The auditor, Deloitte LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Bayer Public Limited Company

Directors' Report (Continued)

For the year ended 31 December 2018

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditor

So far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the board



C A Barker
Company secretary

Date 21 JUNE 2019

Independent Auditor's Report to the Members of Bayer Public Limited Company

Report on the audit of the financial statements

Our opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Bayer Public Limited Company (the 'company') which comprise:

- the Income statement;
- the Statement of comprehensive income;
- the Statement of financial position;
- the Statement of changes in equity; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards 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 ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of Bayer Public Limited Company (Continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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, the directors are 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 unless the directors either intend to liquidate the company or to cease operations, or have 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 (UK) 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report to the Members of Bayer Public Limited Company (Continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Andrew Hornby, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom

24/06/19

Bayer Public Limited Company

Income Statement

For the year ended 31 December 2018

	Note	2018 £ 000s	2017 £ 000s
Revenue	3	721,798	720,354
Cost of sales		(531,671)	(529,415)
Gross profit		190,127	190,939
Distribution costs		(10,055)	(9,311)
Administrative expenses		(187,739)	(180,914)
Other operating income	3	38,268	42,073
Operating profit	4	30,601	42,787
Interest receivable and similar income	8	1,527	853
Finance costs	9	(4,233)	(4,601)
Impairment losses	10	(3,552)	(2,884)
Impairment loss reversals	11	24,122	50,521
Profit before taxation		48,465	86,676
Tax on profit	12	(5,110)	(6,907)
Profit for the financial year		43,355	79,769

The income statement has been prepared on the basis that all operations are continuing operations.

There are no material differences between the profit before taxation and the profit for the financial years stated above and their historical cost equivalents.

Bayer Public Limited Company

Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 £ 000s	2017 £ 000s
Profit for the financial year		<u>43,355</u>	<u>79,769</u>
Other comprehensive income			
Actuarial gains on defined benefit pension scheme	21	10,469	30,651
Movement on deferred tax relating to pension scheme	20	(1,693)	(5,318)
Other comprehensive income for the financial year, net of tax		<u>8,776</u>	<u>25,333</u>
Total comprehensive income for the financial year		<u>52,131</u>	<u>105,102</u>

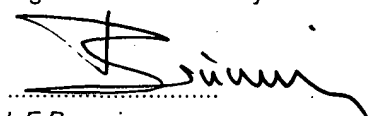
Bayer Public Limited Company

Statement of Financial Position

As at 31 December 2018

		2018	2017
	Note	£ 000s	£ 000s
Non current assets			
Intangible assets	13	-	2,775
Property, plant and equipment	14	9,343	10,203
Investments	15	125,820	105,250
		<u>135,163</u>	<u>118,228</u>
Current assets			
Inventories	16	109,067	103,835
Trade and other receivables: amounts falling due after more than one year	17	7,496	8,624
Trade and other receivables: amounts falling due within one year	17	154,413	119,874
Cash at bank and in hand		162	392
		<u>271,138</u>	<u>232,725</u>
Trade and other payables: amounts falling due within one year	18	<u>(262,693)</u>	<u>(242,524)</u>
Net current assets/(liabilities)		8,445	(9,799)
Total assets less current liabilities		<u>143,608</u>	<u>108,429</u>
Provisions for liabilities	19	<u>(34,213)</u>	<u>(51,165)</u>
Net assets		<u><u>109,395</u></u>	<u><u>57,264</u></u>
Capital and reserves			
Called up share capital	22	25,062	25,062
Share premium account		10,655	10,655
Retained earnings		73,678	21,547
Total shareholders' funds		<u><u>109,395</u></u>	<u><u>57,264</u></u>

The financial statements were approved by the Board of directors and authorised for issue on 21 June 2019
Signed on its behalf by:



L F Bruening
Director

Company Registration No. 00935048

Bayer Public Limited Company

Statement of Changes in Equity

For the year ended 31 December 2018

	Called up share capital	Share premium account	Retained earnings/ (Accumulated losses)	Total shareholders' funds/(deficit)
	£ 000s	£ 000s	£ 000s	£ 000s
Balance at 1 January 2017	25,062	10,655	(83,555)	(47,838)
Profit for the financial year	-	-	79,769	79,769
Other comprehensive income for the financial year	-	-	25,333	25,333
Total comprehensive income for the financial year	-	-	105,102	105,102
Balance at 31 December 2017	25,062	10,655	21,547	57,264
Profit for the financial year	-	-	43,355	43,355
Other comprehensive income for the financial year	-	-	8,776	8,776
Total comprehensive income for the financial year	-	-	52,131	52,131
Balance at 31 December 2018	25,062	10,655	73,678	109,395

Bayer Public Limited Company

Notes to the Financial Statements

For the year ended 31 December 2018

1 Accounting policies

Company Information

Bayer Public Limited Company sells and markets pharmaceutical, consumer health and animal health products and provides administration services to group companies within the United Kingdom and Ireland.

The company is a public limited company, domiciled and incorporated in the United Kingdom and registered in England and Wales. The registered office is 400 South Oak Way, Green Park, Reading, Berkshire, RG2 6AD.

1.1 Accounting convention

These financial statements have been prepared in accordance with United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

1.2 Accounting basis of preparation

These financial statements are prepared under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The financial statements are prepared in pound sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest thousand pounds.

The principal accounting policies adopted, which have been applied consistently, are set out below.

1.3 Going concern

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for 12 months from the date of approval of the financial statements based on the profitability and net assets of the company. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

1.4 Consolidated Financial Statements

The company is a wholly owned subsidiary of Bayer Global Investments B.V. and is included in the consolidated financial statements of Bayer AG, which are publicly available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

1 Accounting policies

(Continued)

1.5 Exemptions for qualifying entities under FRS 102

The company has taken advantage of the following exemptions under the provisions of FRS 102:

- (i) The requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv) to prepare a reconciliation of the number of equity shares outstanding at the beginning and at the end of the financial year;
- (ii) The requirements of Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17 (d) to prepare a statement of cash flows;
- (iii) The requirements of Section 11 paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) and Section 12 paragraphs 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27, 12.29(a), 12.29(b), and 12.29A providing disclosures equivalent to those required by this FRS are included in the consolidated statements of the group in which the entity is consolidated.
- (iv) From disclosing the company key management personnel compensation, as required by paragraph 33.7; and
- (v) The requirement of Section 33 Related Party Disclosures paragraph 33.9 to disclose related party transactions within other members of the Bayer AG group.

1.6 Revenue recognition

Revenue, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied, and includes commission receivable from indent sales.

Revenue is recognised once the goods have been dispatched.

Reimbursements from group companies are recognised as other operating income.

1.7 Goodwill

Purchased goodwill is determined by comparing the amount paid on the acquisition of a business and the aggregate fair value of its separable net assets. It is capitalised and written off in equal annual instalments over its estimated useful economic life or 10 years, whichever is shorter. Goodwill is assessed for impairment when there are indications of impairment.

1.8 Intangible assets - Marketing rights

Marketing rights are capitalised and stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful lives, which are estimated to be between 4-10 years.

1.9 Intangible assets - Computer software

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Computer software is amortised over its estimated useful life of between 3-10 years, on a straight line basis.

1.10 Research and development

Expenditure on research and development and clinical trials is written off to the income statement in the year in which it is incurred.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

1 Accounting policies

(Continued)

1.11 Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost, net of accumulated depreciation and any impairment losses.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life on a straight line basis, as follows:

Long leasehold land and buildings	5 - 15 years dependent on lease term
Fixtures, fittings & equipment	3 - 10 years
Plant and machinery	2 - 15 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period.

Interest costs on major additions are capitalised during the year and are depreciated as part of the total cost of the asset.

No depreciation is provided in respect of freehold land or assets in the course of construction until they have been completed and transferred to the relevant asset class.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the income statement.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

1 Accounting policies

(Continued)

1.12 Impairment of tangible and intangible assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value of the asset less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.13 Investments in subsidiaries

Investments in subsidiaries are stated at historical cost less any accumulated provision for impairment.

1.14 Inventories

Inventories are stated at the lower of cost and net realisable value after provisions for obsolescence. In general, cost is determined on a weighted average basis and includes appropriate overhead expenses. Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Inventories on consignment and their related obligations are recognised when the risk and rewards of ownership pass to the company. Provision is made for slow moving and defective inventory.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

1 Accounting policies

(Continued)

1.15 Financial instruments

Notwithstanding the exemptions taken as disclosed in note 1.5, the company has elected to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, amounts due from group undertakings, cash and bank balances and accrued income, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the income statement.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the income statement.

Other financial assets are initially measured at fair value, which is normally the transaction price.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

1 Accounting policies

(Continued)

1.15 Financial instruments (continued)

Financial liabilities

Basic financial liabilities, including trade and other payables, amounts due to group undertakings and accruals, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.16 Equity instruments

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Distributions to equity holders

Dividends and other distributions to the company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's directors or shareholders. These amounts are recognised in the statement of changes in equity.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

1 Accounting policies

(Continued)

1.17 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax is recognised in respect of all timing differences at the reporting date that are differences between taxable profit and total comprehensive income as stated in the financial statements. These timing differences relate to transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future, which have occurred at the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting end date and only recognised as recoverable, on the basis of all available evidence, if it can be regarded as more likely than not that they will be recovered against the reversal of deferred tax liabilities or future taxable profits.

Deferred tax is measured using tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the period end. Deferred tax is measured on an undiscounted basis.

1.18 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event; it is probable that the company will be required to settle that obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in the income statement in the period it arises.

Restructuring provisions are recognised when the company has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

1 Accounting policies

(Continued)

1.19 Employee benefits

The company operates a defined benefit pension scheme for the benefit of its employees, the assets of which are held separately from those of the company in independently administered funds.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability.

The liability recognised in the statement of financial position in respect of the defined benefit scheme is the present value of the defined benefit obligation at the end of the reporting date, less the fair value of the scheme assets at the reporting date.

The increase in the present value of the liabilities of the company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on scheme assets, less amounts included in net interest, are stated as 'Actuarial gains/(losses) on defined benefit pension scheme'.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of scheme assets. This cost is recognised in the income statement as 'Finance costs'.

Amounts recognised in respect of GMP equalisation and Section 75 debt obligations (see note 21) are recognised in the income statement as 'Administrative expenses'.

Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented within provisions. The related deferred tax asset is included within 'Trade and other receivables: amounts falling due after more than one year'.

The company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge disclosed in note 21 represents contributions payable to the Defined Contribution Section of the pension scheme.

1.20 Leases

Rentals payable under operating leases, less any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

1.21 Foreign currency

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction or at an average rate for the relevant month where that provides a close approximation.

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year. All exchange differences are dealt with in the income statement.

Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

2 Critical accounting judgements and estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2.1 Critical accounting judgements

The key judgements which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial period are outlined below.

Retirement benefit obligations

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends.

During the year there was a plan amendment to the Bayer Group Pension Plan as a result of the GMP equalisation court ruling issued on 26 October 2018. This estimate is based on high level data and general scheme information and does not consider any other element of the benefits that might be discovered as part of the individual member exercise that will be completed in due course.

See note 21 for the disclosures relating to the defined benefit pension scheme.

2.2 Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are outlined below.

Inventory provision

The company sells pharmaceutical, consumer health, animal health products and radiology devices and contrast media products and is subject to changing market demands. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 16 for the net carrying amount of the inventory.

Impairment of investments

The company performs annual impairment reviews on the carrying value of investments. The impairment review is based on the net present value of discounted cash flows over a five year period with a terminal cash flow in perpetuity. This requires an estimation of the future cash flows expected to arise for the investment and a suitable discount rate to calculate present value. See note 15 for the carrying value of investments, note 10 for the impairment losses recognised and note 11 for the impairment loss reversals.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3 Revenue

An analysis of the company's revenue is as follows:

	2018 £ 000s	2017 £ 000s
Revenue		
Sale of goods	718,837	716,310
Manufacturing services	2,082	3,119
Commission revenues	879	925
	<u>721,798</u>	<u>720,354</u>

Revenue analysed by geographical market

United Kingdom	716,129	713,498
Rest of Europe	5,015	6,246
Rest of the World	654	610
	<u>721,798</u>	<u>720,354</u>

The company has not disclosed the revenue attributable to different business classes as in the opinion of the directors this disclosure of information would be prejudicial to the interests of the company.

Other operating income

Reimbursements from group companies	36,814	39,266
Profit on sale of Diabetes Care division	-	1,990
Research and Development expenditure tax credit	997	800
Other income	457	17
	<u></u>	<u></u>

The company's revenue and profit originates entirely in the UK from its principal trading activities as discussed in the Strategic Report. The company's net assets are entirely based in the UK.

Reimbursements from group companies are recognised as other operating income.

In the year ended 31 December 2016, the company received consideration for the divestment of its Diabetes Care business, resulting in a profit on disposal of £4.0 million. This was recognised over a 27 month transition period, ending 31 December 2017, throughout which Bayer had the obligation to provide manufacturing services to Ascensia Diabetes Care UK Limited.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4 Operating profit	2018	2017
	£ 000s	£ 000s
Operating profit is stated after charging/(crediting):		
Foreign exchange losses	198	38
Research and development costs	28,908	26,111
Depreciation of property, plant and equipment	1,058	1,024
Amortisation of intangible assets	1,958	2,295
Impairment of intangible assets	817	-
Profit on sale of Diabetes Care division	-	1,990
Cost of inventories recognised as an expense	548,029	517,011
Impairment in inventories	2,304	1,820
Operating lease charges	3,900	4,072
Reorganisation expense	658	472
Employee related expense provisions	1,482	1,561
Onerous lease provisions	(36)	(186)
Regulatory fees provisions	474	-
Building retirement obligations provisions	(736)	592
GMP equalisation cost (see note 21)	7,847	-
Section 75 transfer (see note 21)	3,848	-

The total research and development costs incurred by the company were £28,908,000 (2017: £26,111,000). Amounts reimbursed by group companies in respect of these costs were £27,452,000 (2017: £24,505,000). The gross research and development costs incurred in the company is shown above for both years, with reimbursements included in Other operating income.

Amortisation and impairment in inventories are recognised in cost of sales.

During the year ended 31 December 2018 there was a plan amendment to the Bayer Group Pension Plan, of which the company is a member, as a result of the GMP equalisation court ruling issued on 26 October 2018. Past service costs include an amendment to the defined benefit obligation of £7,847,000 in respect of GMP equalisation which is recognised in administrative expenses (see note 21).

On 2 January 2018, the last active member of the Bayer CropScience Limited defined benefit scheme retired leading to a Section 75 debt being triggered as the plan is now closed to new entrants. There has been a formal apportionment of the debt obligation to the company resulting in a transfer of the pension deficit of £3,848,000, comprising assets of £131,896,000 and liabilities £135,744,000 from Bayer CropScience Limited to the company (see note 21).

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

5 Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2018 £ 000s	2017 £ 000s
Fees payable to the company's auditor for the audit of the company's annual financial statements	102	102
Audit-related assurance services	18	18

6 Employees

The average monthly number of employees (including directors) were:

	2018 Number	2017 Number
Sales and marketing	432	419
Research and development	150	147
General administration	188	173
	770	739

Their aggregate remuneration comprised:

Employment costs	2018 £ 000s	2017 £ 000s
Wages and salaries	64,334	59,186
Social security costs	8,495	7,406
Other pension costs	8,052	6,982
	80,881	73,574

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

7 Directors' remuneration	2018	2017
	£ 000s	£ 000s
Aggregate emoluments for qualifying services	1,540	1,230
Amounts receivable under long term incentive schemes	12	136
Company pension contributions	25	22
	<u>1,577</u>	<u>1,388</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 3 (2017: 3).

The number of directors who are entitled to receive emoluments under long term incentive schemes during the year was 3 (2017: 2).

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2018	2017
	£ 000s	£ 000s
Aggregate emoluments	643	662
Long term incentive schemes	7	93
Company pension contributions	6	6
	<u> </u>	<u> </u>

Retirement benefits are accruing under a defined contribution scheme for the highest paid director. Contributions for the year amounted to £6,000 (2017: £6,000). Of this amount, £nil remains payable at the year end (2017: £nil).

The emoluments of the other directors during the current and prior year were paid by other group companies for services to the group as a whole, and the directors received no separate emoluments for their services to this company.

No recharge for any of these services was made to the company and no apportionment of their total remuneration for these services is practicable. Where required by local legislation, their remuneration is disclosed in the financial statements of their employer.

8 Interest receivable and similar income	2018	2017
	£ 000s	£ 000s
Interest income		
Interest receivable from group companies	115	53
Income from fixed asset investments		
Dividend income	1,412	800
Total income	<u>1,527</u>	<u>853</u>

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

9 Finance costs	2018	2017
	£ 000s	£ 000s
Interest on financial liabilities measured at amortised cost:		
On amounts payable to group companies	3,029	2,574
Interest on other financial liabilities:		
Net interest on defined benefit obligations (note 21)	1,204	2,027
Total interest expense	4,233	4,601

10 Impairment losses	2018	2017
	£ 000s	£ 000s
Impairment losses on investments (note 15)	3,552	2,884

	2018	2017
	£ 000s	£ 000s
The impairment on investments comprises:		
Bayer Agriculture Limited	1,093	2,884
Medrad UK Limited	2,459	-
	3,552	2,884

11 Impairment loss reversals	2018	2017
	£ 000s	£ 000s
Impairment loss reversals on investments (note 15)	24,122	50,521

Due to actuarial gains on its defined benefit pension scheme, the impairment loss on the investment in Bayer CropScience Limited has been reversed by £24,122,000 (2017: £50,521,000).

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

12 Tax on profit

	2018 £ 000s	2017 £ 000s
Current tax		
UK Corporation tax	5,599	7,068
Adjustments in respect of prior periods	76	(1,430)
Total current tax	<u>5,675</u>	<u>5,638</u>
Deferred tax		
Origination and reversal of timing differences	(27)	623
Impact of change in tax rates	(12)	(12)
Adjustments in respect of prior periods	(526)	658
Total deferred tax	<u>(565)</u>	<u>1,269</u>
Tax on profit	<u>5,110</u>	<u>6,907</u>

The tax for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%).

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2018 £ 000s	2017 £ 000s
Profit before taxation	<u>48,465</u>	<u>86,676</u>
<i>Profit before taxation multiplied by standard rate of corporation tax of 19.00% (2017: 19.25%)</i>	<u>9,208</u>	<u>16,685</u>
Taxation impact of factors affecting tax charge:		
Tax effect of expenses that are not deductible in determining taxable profit	540	330
Tax effect of income not taxable in determining taxable profit	(4,176)	(9,324)
Adjustments in respect of prior periods	(450)	(772)
Effect of change in corporation tax rate	(12)	(12)
Total adjustments	<u>(4,098)</u>	<u>(9,778)</u>
Tax expense for the year	<u>5,110</u>	<u>6,907</u>

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

12 Tax on profit

(Continued)

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2018 £ 000s	2017 £ 000s
Deferred tax arising on:		
Actuarial gains on defined benefit pension schemes recognised as other comprehensive income	1,693	5,318

Factors that may affect future tax charges:

The standard rate of corporation tax in the UK will decrease from 19% to 17% with effect from 1 April 2020. Accordingly the company's deferred tax balances at the reporting date are taxed at an effective rate of 17% (2017: 17%).

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

13 Intangible fixed assets

	Goodwill	Marketing rights	Computer software	Total
	£ 000s	£ 000s	£ 000s	£ 000s
Cost				
At 1 January 2018	39,229	17,208	640	57,077
Disposals	-	-	(169)	(169)
At 31 December 2018	39,229	17,208	471	56,908
Amortisation and impairment				
At 1 January 2018	36,464	17,208	630	54,302
Amortisation charged for the year	1,948	-	10	1,958
Impairment losses	817	-	-	817
Disposals	-	-	(169)	(169)
At 31 December 2018	39,229	17,208	471	56,908
Carrying amount				
At 31 December 2018	-	-	-	-
At 31 December 2017	2,765	-	10	2,775

Goodwill of £29,524,000 and marketing rights of £3,079,000 arose on the purchase of the UK and Irish Over the Counter business of Roche in 2005 and is now fully amortised.

Goodwill of £9,379,000 arose in 2014 on the acquisition of the Over the Counter Consumer Care business of Merck Co., Inc. This was being amortised over its estimated useful life of 5 years and was fully impaired at the year end.

Included within Marketing rights are trademarks of £13,956,000 (2017: £13,956,000) which were fully amortised in prior years.

Computer software is made up of various license fees for a range of enterprise software. These were fully amortised in the year.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

14 Property, plant and equipment

	Long leasehold land and buildings	Fixtures, fittings & equipment	Plant and machinery	Assets under construction	Total
	£ 000s	£ 000s	£ 000s	£ 000s	£ 000s
Cost					
At 1 January 2018	9,404	3,977	18	139	13,538
Additions	-	19	-	207	226
Disposals	(2,491)	(83)	(35)	-	(2,609)
Transfers	232	20	94	(346)	-
At 31 December 2018	7,145	3,933	77	-	11,155
Accumulated depreciation					
At 1 January 2018	2,483	834	18	-	3,335
Charge for the year	524	524	10	-	1,058
Eliminated on disposal	(2,491)	(71)	(19)	-	(2,581)
At 31 December 2018	516	1,287	9	-	1,812
Carrying amount					
At 31 December 2018	6,629	2,646	68	-	9,343
At 31 December 2017	6,921	3,143	-	139	10,203

Disposals of long leasehold land and buildings represent the release of a building retirement obligation provision following the termination of the lease of the Newbury office.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

15 Investments

	Shares in subsidiary undertakings £ 000s
Cost	
At 1 January 2018	140,273
Disposals	(2,459)
At 31 December 2018	<u>137,814</u>
Impairment	
At 1 January 2018	35,023
Impairment losses	3,552
Impairment loss reversals	(24,122)
Disposals	(2,459)
At 31 December 2018	<u>11,994</u>
Net book value	
At 31 December 2018	<u>125,820</u>
At 31 December 2017	<u>105,250</u>

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

15 Investments

(Continued)

Significant shareholdings

Company	Country of registration or incorporation	Shares Held Class	%
Subsidiary undertakings			
Directly held			
Bayer Agriculture Limited*	England and Wales	Ordinary	100.00
Bayer CropScience Limited*	England and Wales	Ordinary	100.00
Silver Birch Trustees Limited***	England and Wales	Ordinary	100.00
Schering Health Care Limited***	England and Wales	Ordinary	100.00
Schering Agrochemicals Holdings***	England and Wales	Ordinary	100.00
Indirectly held			
Bayer AEH Limited*	England and Wales	Ordinary	100.00
Bayer CropScience Norwich Limited*	England and Wales	Ordinary	100.00
Monsanto UK Limited*	England and Wales	Ordinary	100.00
Plant Breeding International Cambridge Limited**	England and Wales	Ordinary	100.00

*The registered office of these companies is 230 Cambridge Science Park, Milton Road, Cambridge, CB4 0WB

**The registered office of this company is Office 130-131, 1010 Cambourne Business Centre, Cambridge, CB23 6DP

***The registered office of these companies is the same as the company.

The investment in Bayer Agriculture Limited has been further impaired in the year, since it is the Directors' opinion that the value of the investment has fallen below its carrying amount.

The investment in Medrad UK Limited was fully impaired in the year and disposed of as the company was dissolved on 2 October 2018. The cost of the investment was £2,459,000.

The investment in Bayer CropScience Limited has increased in the year, since it is the Directors' opinion that there has been a reversal of the impairment loss provided in 2016 based on the decrease in the pension deficit at the year end (note 11).

Plant Breeding International Cambridge Limited was dissolved on 26 March 2019.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

16 Inventories

	2018 £ 000s	2017 £ 000s
Raw materials	1,881	400
Work in progress	3,307	-
Finished goods and goods for resale	103,879	103,435
	<u>109,067</u>	<u>103,835</u>

The replacement value of inventories is not materially different from the value above.

17 Trade and other receivables

	Amounts falling due within one year		Amounts falling due after more than one year	
	2018 £ 000s	2017 £ 000s	2018 £ 000s	2017 £ 000s
Trade receivables	118,151	101,673	-	-
Amounts owed by group undertakings	33,186	15,870	-	-
Other receivables	186	170	-	-
Prepayments and accrued income	2,890	2,161	-	-
	<u>154,413</u>	<u>119,874</u>	<u>-</u>	<u>-</u>
Deferred tax asset (note 20)	-	-	7,496	8,624
	<u>154,413</u>	<u>119,874</u>	<u>7,496</u>	<u>8,624</u>

Amounts owed by the parent and fellow subsidiary undertakings are repayable on demand, unsecured and non-interest bearing.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

18 Trade and other payables: amounts falling due within one year

	2018 £ 000s	2017 £ 000s
Trade payables	11,692	11,441
Amounts owed to group undertakings	148,996	160,546
Corporation tax	1,628	1,947
Taxation and social security	24,933	24,836
Other payables	27,694	4,199
Accruals and deferred revenue	47,750	39,555
	<u>262,693</u>	<u>242,524</u>

Included within amounts owed to group undertakings is an amount of £111,352,000 (2017: £nil) owed to Bayer Limited, a company registered in Cyprus. This loan accrued interest at a rate of 2.30% and was repayable in full on 18 January 2019. On 18 January 2019 the loan was rolled over for one month and has continued to be rolled over each following month.

Included within amounts owed to group undertakings is an amount of £nil (2017: £130,110,000) owed to Bayer Antwerpen NV. This loan accrued interest at a rate of 2.38% and was repaid in full during the year.

All other amounts owed to the parent and fellow subsidiary undertakings are unsecured, repayable on demand and non-interest bearing.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

19 Provisions for liabilities	2018 £ 000s	2017 £ 000s
Restructuring costs	204	370
Employee related	1,955	1,620
Onerous lease	-	1,277
Regulatory fees	474	-
Building retirement obligations	647	3,792
	<u>3,280</u>	<u>7,059</u>
Retirement benefit obligations (note 21)	30,933	44,106
	<u>34,213</u>	<u>51,165</u>

	Restructuring costs £ 000s	Employee related £ 000s	Onerous lease £ 000s	Regulatory fees £ 000s	Building retirement obligations £ 000s	Total £ 000s
At 1 January 2018	370	1,620	1,277	-	3,792	7,059
Additional provisions in the year	658	2,552	403	474	-	4,087
Reversal of provision	-	(1,070)	(439)	-	(736)	(2,245)
Utilisation of provision	(824)	(1,147)	(1,241)	-	(2,409)	(5,621)
At 31 December 2018	<u>204</u>	<u>1,955</u>	<u>-</u>	<u>474</u>	<u>647</u>	<u>3,280</u>

The restructuring costs are predominantly related to the re-organisation of the business, which is mainly made up of severance payments usually paid within 12 months.

Employee related provisions are contractual obligations for Long Service awards and Long Term Initiatives. The timing of the expected utilisation is uncertain being between 4 – 30 years, and are adjusted for time value of money.

The onerous lease provision relates to the Newbury office lease which expired in 2018.

The regulatory fees provision relates to subscriptions and licence fees due to regulatory bodies.

Building retirement obligations relate to the dilapidations provision made for restoring the Reading office building to its original state on termination of the lease. The provision is adjusted for the time value of money.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

20 Deferred taxation

The following are the major deferred tax assets and liabilities recognised by the company and movements thereon during the current and prior reporting year.

	(Accelerated)/ decelerated capital allowances £ 000s	Other timing differences £ 000s	Defined benefit pension deficit £ 000s	Total £ 000s
Deferred tax asset at 1 January 2017	527	1,034	13,650	15,211
Deferred tax movements in prior year				
Charge to the income statement	(569)	(105)	(595)	(1,269)
Charge to other comprehensive income	-	-	(5,318)	(5,318)
Deferred tax (liability)/asset at 1 January 2018	(42)	929	7,737	8,624
Deferred tax movements in current year				
Charge to the income statement	(155)	1,122	(402)	565
Charge to other comprehensive income	-	-	(1,693)	(1,693)
Deferred tax (liability)/asset at 31 December 2018	(197)	2,051	5,642	7,496

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018 £ 000s	2017 £ 000s
Deferred tax assets	7,496	8,624

The timing of the expected reversal of the net deferred tax asset is uncertain, but is expected to be in more than one year.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

21 Retirement benefit schemes

The company participates in the Bayer Group Pension Plan (BGPP), which is a funded occupational pension scheme where the assets of the Plan are held separately from those of the company in separate trustee administered funds. The BGPP is a sectionalised scheme and the company has employees in two sections providing defined benefits and also in the defined contribution section.

Defined Benefit - BGPP (Group DB Section and SHCL Section)

These sections are funded defined benefit arrangements where benefits are provided by reference to final salary. Both sections are closed to new members. Contributions to the Plan are charged to the income statement so as to spread the cost of pensions over members' future working lives. The contributions are determined with the advice of an independent qualified actuary on the basis of regular valuations. The most recent valuation of the Plan was carried out as at 31 March 2017.

Up to 31 March 2018, normal company contributions were 25.6% (2017: 25.6%) of members' pensionable salaries for the Group DB Section and 27.4% (2017: 27.4%) of members' pensionable salaries for the SHCL Section. From 1 April 2018, normal company contributions were 36.0% of members' pensionable salaries for the Group DB Section and 36.1% of members' pensionable salaries for the SHCL Section.

In addition to the normal company contributions, the company has agreed to make annual payments to the Group DB Section and the SHCL Section under a Recovery Plan dated 19 March 2018. The additional company contributions during 2018 to the Group DB Section and SHCL Section were £12.8m (2017: £4.7m) and £2.5m (2017: £nil) respectively and further additional contributions are set out in the Recovery Plan of £12.8m and £2.5m respectively annually in the years 2019, 2020, 2021 and 2022.

The actuarial valuations of the BGPP were updated to 31 December 2018 by an independent qualified actuary in accordance with Section 28 of FRS 102. As required by Section 28 of FRS 102, the defined benefit liabilities have been measured using the projected unit method.

The policies for charging the cost of the Group DB Plan to the company and the contributions payable by the company are based upon the contributing active members on the company's payroll as a percentage of the combined active members of the Group payroll.

On 2 January 2018, all contributing active members of the plan were on the company's payroll.

Defined Contribution - BGPP (DC Section)

Since 1 April 2004 new employees have been eligible to join the DC Section of BGPP. With effect from 1 May 2007, members of the defined benefit sections of the BGPP who were under age 50 ceased future accrual under the defined benefits sections and joined the DC section in respect of pensionable service from that date.

Members of the DC Section of BGPP can contribute between 2% and 9% of pensionable pay with the company matching the employees' contributions plus 3%. In addition, members who switched from the defined benefit sections to the DC Section with effect from 1 May 2007 have additional employer contributions, based on the members' age as at 1 April 2007.

The cost of the company contributions to the Plan amounted to £7,645,000 (2017: £7,103,000).

There were no prepaid or outstanding contributions to the Plan at the current or prior year end.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

21 Retirement benefit schemes

(Continued)

Amounts recognised in the income statement in respect of defined benefit schemes are as follows:

	2018 £ 000s	2017 £ 000s
Current service cost	262	371
Past service cost	7,847	-
Net interest cost on defined benefit liability	1,204	2,027
The effect of curtailments and settlements	123	116
	<u>9,436</u>	<u>2,514</u>

During the year ended 31 December 2018 there was a plan amendment to the BGPP as a result of the GMP equalisation court ruling issued on 26 October 2018. Past service costs include an amendment to the defined benefit obligation of £7,847,000 in respect of GMP equalisation which is recognised in administrative expenses.

Amounts recognised in other comprehensive income in respect of defined benefit schemes are as follows:

	2018 £ 000s	2017 £ 000s
Actuarial changes relating to obligations	(53,956)	15,597
Actuarial changes relating to plan assets	43,487	(46,248)
Total actuarial gain recognised in other comprehensive income	<u>(10,469)</u>	<u>(30,651)</u>
Total gain relating to defined benefit scheme	<u>(1,033)</u>	<u>(28,137)</u>

Key assumptions

	2018 %	2017 %
Rate of increase in salaries	2.95	3.25
Rate of increase in pensions payment:		
LPI maximum 5%	3.05	3.30
LPI minimum 3% maximum 5%	3.70	3.80
LPI maximum 2.5%	2.10	2.15
Rate of increase for deferred pensioners		
CPI maximum 2.5%	2.20	2.50
CPI minimum 3%	3.00	3.00
Discount rate	2.80	2.50
Inflation assumption (RPI)	3.20	3.50

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

21 Retirement benefit schemes

(Continued)

Significant demographic assumptions

The mortality assumption at 31 December 2018 is based on an experience investigation prior to the previous funding valuation. The current assumption uses 95% (2017: 95%) of mortality rates included in the standard tables known as "S1NXA". Allowance for future longevity improvements is made in line with the CMI 2011 projections with a long term improvement rate of 1.25% (2017: 1.25%) for males and 0.75% (2017: 0.75%) for females.

Under the current assumption a person aged 65 is assumed to live for a further 23 years (male) and 25 years (female) and a person reaching age 65 in 2032 is assumed to live for a further 25 years (male) and 26 years (female).

The amounts included in the statement of financial position arising from the company's obligations in respect of its defined benefit plans are as follows:

	2018 £ 000s	2017 £ 000s
Present value of defined benefit obligations	(779,126)	(703,022)
Fair value of plan assets	748,193	658,916
Net liability recognised in the statement of financial position	<u>(30,933)</u>	<u>(44,106)</u>

Movements in the present value of defined benefit obligations

	2018 £ 000s	2017 £ 000s
At 1 January	703,022	692,941
Current service cost	262	371
Past service cost	7,847	-
Curtailments	123	116
Benefits paid by the employer	(33,905)	(24,154)
Benefits paid from the scheme	4	4
Actuarial losses	(53,956)	15,597
Interest cost	19,985	18,147
Section 75 transfer	135,744	-
At 31 December	<u>779,126</u>	<u>703,022</u>

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

21 Retirement benefit schemes

(Continued)

Movements in the fair value of plan assets

	2018 £ 000s	2017 £ 000s
At 1 January	658,916	614,540
Interest income	18,781	16,120
Return on plan assets (excluding amounts included in net interest)	(43,487)	46,248
Benefits paid	(33,905)	(24,154)
Contributions by the employer	15,988	6,158
Contributions by scheme members	4	4
Section 75 transfer	131,896	-
At 31 December	748,193	658,916

On 2 January 2018, the last active member of the Bayer CropScience Limited defined benefit scheme retired leading to a Section 75 debt being triggered as the plan is now closed to new entrants. There has been a formal apportionment of the debt obligation to the company resulting in a transfer of the pension deficit of £3,848,000, comprising assets of £131,896,000 and liabilities £135,744,000 from Bayer CropScience Limited to the company.

The actual loss on plan assets was £24,706,000 (2017: £62,368,000 gain).

There were no amounts recognised in the income statement or statement of comprehensive income for the unfunded unapproved arrangement in the current or prior year. There was no net pension deficit at 1 January 2018 and 31 December 2018 and there were no plan assets or plan liabilities for the unfunded unapproved arrangement in the current or prior year.

Expected contributions for the year ended 31 December 2019:

	£ 000s
Defined benefit pension plans	
Employer	15,524

The fair value of plan assets at the reporting year end was as follows:

	2018 £ 000s	2017 £ 000s
Equity instruments	281,409	335,286
Debt instruments	380,955	286,952
Property	78,503	32,478
Other	7,326	4,200
	748,193	658,916

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

22 Called up share capital	2018	2017
	£ 000s	£ 000s

Allotted and fully paid

25,062,356 (2017: 25,062,356) Ordinary shares of £1 each

25,062

25,062

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

23 Operating lease commitments

At the reporting end date the company had the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018	2017
	£ 000s	£ 000s
Within one year	2,154	1,447
Between one and five years	8,602	7,964
In over five years	16,462	24,264
	<u>27,218</u>	<u>33,675</u>

24 Contingent liabilities

Cross-guarantees

The company has, in respect of certain UK bank facilities, entered into a cross-guarantee arrangement with fellow UK subsidiaries of Bayer AG. There was no contingent liability arising from this arrangement at 31 December 2018 (2017: £nil).

25 Controlling party

At 31 December 2018, the company's immediate parent company was Bayer Global Investments B.V., a company incorporated in the Netherlands.

The ultimate parent undertaking and controlling party is Bayer AG, a company incorporated in Germany, which is the parent undertaking of the smallest and largest group to consolidate these financial statements.

Copies of the financial statements of Bayer AG may be obtained from the registered address of the group:

Investor Relations
Bayer AG
Kaiser-Wilhelm Allee
51368 Leverkusen
Germany