Bayer Public Limited Company

Annual Report and Financial Statements

For the year ended 31 December 2019

Company Registration No. 00935048 (England and Wales)

Bayer Public Limited Company

Company Information

Directors	L F Bruening	
	S A Kurdikar	
	T Gerdau	(Appointed 30 September 2019)
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

Contents

The directors present the strategic report for the company for the year ended 31 December 2019.

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 is 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.

During the financial year ending 31 December 2019, the company took advantage of the European Courts of Justice (EUJ) ruling. The EUJ ruled in favour of Boehringer-Ingram that VAT could be claimed from the authorities on rebates charged to the government. The company has recognised the amount owed by HMRC in the VAT account and recognised a corresponding liability. The company has not recognised this as revenue as it is not certain what HMRC will allow as a refund. The company will only recognise the amount as revenue when HMRC have fully concluded their investigation and provided final guidance on the correct VAT treatment of government rebates. HMRC are expected to finalise this in the latter part of 2020.

As part of Bayer AG's strategic review in 2018, Bayer AG announced that it was undertaking a restructuring of its service departments. The project has started in 2019 and will gain momentum during 2020 as more service departments transition. Provisions for restructuring costs have been included in the provisions of the company.

Impairment testing was performed by the company on its investments in subsidiaries. For Bayer CropScience Limited and Bayer Agriculture Limited, no impairments were required. However, a subsidiary not directly owned by the company, Monsanto UK Limited was impaired in the 100% owned subsidiary Bayer CropScience Limited. The value impaired on the investment was £13.4m. The reason for the impairment was expected loss of revenues due to loss of registration on products.

Business environment

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

Pharmaceutical

The pharmaceutical division showed turnover growth of £37.7 million (6.7%) above the previous year sales of £559.8 million.

Bayer Pharmaceutical ranked 6th (source: IQVIA Xponent (British Pharmaceutical Industry and Hospital Pharmacy Audit National Overview)) in the UK for December 2019 year to date sales values, down from 5th in 2018. Eylea moves to become the number 1 branded medicine in the UK following strong continued growth.

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 £0.2 million (0.9%) to £25.6 million in comparison to 2018. This growth was restricted by supply constraints which have now been resolved.

The UK Radiology market is growing, which 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.

The company 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 £2.0 million (2.2%) to £88.5 million in 2019 compared to a 9.7% decline in 2018. In 2018, Consumer Health recognised a one-off VAT benefit of £1.0 million which has not been replicated in 2019.

Consumer Health has had a continued in-market growth versus our key competitors and the overall market, particularly in the women's intimate health and digestive health categories. Consumer confidence remains high despite the risk of a hard Brexit.

Consumer Health continues to face pressure from the retail market in the UK as the retail landscape is still developing and changing at pace. 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 continuing a focused strategy to compete in this pressured environment in 2020, and challenge for market share growth and profitability.

As part of Bayer AG's strategic review which was announced in 2018, the Consumer Health division also divested part of its medicated skin care brands to Leo Pharmaceuticals. The sale of the business and transfer of assets was successfully concluded on 1 July 2019.

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 Droncit, Seresto and Advocate brands.

Turnover increased by £4.7 million (10.2%) to £50.9 million in 2019. The growth in turnover is a combination of strong in-market performance on key brands and the implementation of a new commercial strategy in response to competitive pressure and generic competition.

In November 2018 Bayer AG announced that it was to divest its Animal Health portfolio as part of its strategic review. During 2019 an agreement was reached with Elanco (a company incorporated in the United States of America). The sale and transfer of assets, services and employees is expected to be completed during 2020. As such, the Animal Health division is presented as a discontinued operation in these financial statements.

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 2019 were £125.7 million (2018 as restated: £106.6 million). This change in the net position is mainly due to the decrease of the pension deficit of £25.6 million.

Trade and other receivables decreased by £8.5 million to £145.9 million (2018: £154.4 million) due to a decrease in amounts owed by group undertakings.

Local stock levels have increased by £40.9 million to £150.0 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.

Trade and other payables increased by £25.4 million to £286.4 million (2018 as restated: £261.0 million) as a result of increased trade.

The average number of staff employed by the company during 2019 was 748 (2018: 770) (note 6).

Turnover increased by £40.6 million (5.6%) to £762.4 million due to growth in the pharmaceutical division.

Administrative expenses declined by £3.7 million from 2018 (as restated). Included in the 2018 costs were one-off pension costs of £11.7 million.

Operating profit before tax and interest for 2019 was £41.1 million, which is £9.9 million higher than 2018 (as restated). The increase is due to growth in revenue and lower operating costs.

The gross profit margin of the company remained flat in 2019 at 26.3% (2018: 26.3%).

The operating profit margin increased by 0.9% from 4.3% in 2018 (as restated) to 5.4% in 2019.

Carbon and Energy Reporting
During the year the company's carbon foot print was 2,454 tonnes (2018: 2,260 tonnes). Included in the number is the energy usage for the office building, business travel and deliveries to customers. The methods used are:

- The actual kilowatt hours of energy used x DEFRA tables as supplied by the United Kingdom government for the respective years.
- Business miles travelled x DEFRA tables as supplied by the United Kingdom government for the respective years.
- Deliveries by customers (this is undertaken by a third party): actual miles travelled for the third party business x DEFRA tables as supplied by the United Kingdom government for the respective years x prorate of orders filled related to the company.

Currently for every £1,000 of revenue generated, the company generates 3.2Kgs of Co2 emissions (2018: 3.1Kgs).

Principal risks and uncertainties
The principal risks and uncertainties for the company are derived from the development, performance and position of its ultimate parent company Bayer AG. During the year the principal factors that could cause risks to the company are listed below.

Fraud risk
The company faces threats from parties who are trying to damage the reputation of the business. Some examples (not exhaustive) are phishing emails to change bank account details, setting up fraudulent companies and employees submitting expenses claims for personal use.

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 2019 Voluntary Scheme for Branded Medicines Pricing and Access (VPAS). The company is fully complying with The Department of Health VPAS which came into effect in 2019.

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

Supply chain risk
Supply Chain risks (including price and quality risks) are regularly monitored as part of the company's risk management practices. The potential risks are:
- Products being out of stock
- Fake products using Bayer branding
- Contaminated products
- Incorrect labelling of products

Brexit risk
With respect to the risks associated with Brexit, such as key employees being expelled or shortage of stock, 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.

Investment risk
The company has obligations to current and former employees to ensure the sustainability relating to pensions and other post-employment benefits. Factors that could impact the sustainability of the post-employment benefits are regulatory pressures, market pressure and interest rates.

A large proportion of these obligations are covered by plan assets including equity and fixed income investments.

Investment risks are monitored with regards to pension obligations. 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 with 31 March 2017 being 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.

External economic factors caused by global events

During times where global events such as the Covid-19 pandemic have significantly impacted the economy of the country, there is an increased risk of insolvency due to lower revenues, liquidity and profitability. The directors are closely monitoring this on a regular basis and taking the necessary actions where required. Bayer AG, the ultimate parent company, has issued assurances that it will continue to support its local businesses during such events.

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.

Credit risk

To avoid the risk of customers not able to meet their obligation to the company or going into administration, the company has implemented policies that require appropriate credit checks on potential customers. Credit insurance is taken at a global level by Bayer AG for customers. This is to mitigate any material write off of customer accounts due to bankruptcy.

Liquidity risk

The company may not effectively manage its funds to meet its obligations to its stakeholders. The company ensures that it actively maintains a mixture of short-term intercompany and debt finance that is designed to ensure the company has sufficient available funds for operations to meet its obligations.

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.

Significant changes in interest rates could impact the company's ability to repay its intercompany loans.

High interest repayments could impact the tax effectiveness and planning of the business.

Foreign exchange risk

The company could be exposed to material fluctuations in foreign exchange rates which could impact the business. When the need arises, the company uses forward exchange rate contracts in conjunction with Bayer AG group treasury 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: 9 JULY 2020

The directors present their annual report and audited financial statements for the year ended 31 December 2019.

The company confirms that it has notified its shareholder, Bayer Global Investments B.V, that effective for 2019 reporting it has adopted FRS 101 for its financial statements as well as the exemptions applicable which can be found in note 1. The effects of adopting FRS 101 are detailed in note 31.

Results and dividends

The results for the year are set out on page 16.

The assets and liabilities and financial position of the company at the end of the financial year are set out on pages 18 - 19.

A final dividend has not been proposed by the directors (2018: £nil). An interim dividend was paid during 2019 of £50 million to its parent company, Bayer Global Investments B.V. (2018: £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 who held office during the year and up to the date of signature of the financial statements were as follows:

V Hahn	(Resigned 12 August 2019)
L F Bruening	
S A Kurdikar	
T Gerdau	(Appointed 30 September 2019)

Going Concern

In light of the Covid-19 pandemic, the directors of the company have assessed its impact on the ability of the entity to continue as a going concern. The directors are satisfied that it is appropriate to present the financial statements on the going concern assumption based on a detailed assessment of future forecasts and assurances of the continued support from the Bayer group.

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 the 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.

Covid-19 Pandemic

The Covid-19 pandemic is considered to be a non-adjusting post balance sheet event. The directors have confirmed that there has been little disruption to the supply chain, and the company is able to fulfil its obligations to its customers.

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 £29.9m (2018: £28.9m) on research and development.

Independent Auditor

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

Statement of Directors' Duties
The directors' of the company, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006, which is summarised as follows:

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
(a) the likely consequences of any decision in the long term,
(b) the interests of the company's employees,
(c) the need to foster the company's business relationships with suppliers, customers and others,
(d) the impact of the company's operations on the community and the environment,
(e) the desirability of the company maintaining a reputation for high standards of business conduct, and
(f) the need to act fairly as between members of the company.

As part of their induction, a director is briefed on their duties and they can access professional advice on these, either from the company secretary or, if they judge it necessary from an independent adviser. It is important to recognise that in a complex organisation such as the company, the directors fulfil their duties partly through governance framework that delegates day-to-day decision making to employees of the company and the details of this can be found in our Statement of Corporate Governance.

The following paragraphs summarise how the directors fulfil their duties:

In line with our corporate purpose "Science for a better life," we are driving the development of better medicines and the production of high-quality food through innovative solutions. Our focus on economic success goes hand in hand with substantial contributions to sustainable development and to attaining the Sustainable Development Goals (SDGs) set by the United Nations, particularly those aimed at combating hunger (SDG 2) and promoting health care (SDG 3).

We strive to meet our responsibility to the environment and society, and to continuously develop our businesses such that they assume leadership positions in their respective industries and segments to achieve long-term success for our company. We invest in a diversified portfolio of strong businesses that create value. Our efforts are sustained by our employees and our core competencies of innovation, customer focus, quality, process excellence and portfolio management.

Our Strategic Priorities
- Positioning businesses to mega-trends: health and nutrition: - we provide solutions for two of the most pressing challenges of our times.
- Steering a leading portfolio: leadership in our relevant markets: - we invest in a portfolio of strong, value-generating businesses and form close working partnerships with leading researchers.
- Driving value: profitable growth: - we increase the value of our businesses in the long-term.
- Focusing on our strength: innovation: - we address unmet societal challenges through innovation.

Our diversified portfolio of Life Science businesses delivers profitable growth. We continuously strive to develop our businesses such that they assume leading positions in their respective industries and segments.

Bayer's Core Strengths

Innovation

Our innovations are driven by deep scientific expertise and know-how, developed across boundaries of organizations and supported by new digital technologies and business models

The board encourages investment in time and resource into new products that will improve the lives of the general public.

In Pharmaceuticals, new product innovations help to alleviate pain and suffering, halt or slow down the rate of deterioration of health, prolong life and generally increase the quality of life for their users.

In Consumer Care, new product innovations alleviate irritation, discomfort, pain and suffering, help maintain a healthy body and alleviate allergy symptoms.

In Animal Health, our innovations for companion and farm animals help to alleviate pain and suffering, halt or slow down the rate of deterioration of health, prolong life and generally increase the quality of life for their users, help to control parasites and give confidence to pet owners and animal producers in respect of their animals' wellbeing.

In Crop Protection, our innovations enable farmers to have the appropriate herbicides, insecticides and fungicides available to them to maximize crop yields, enabling them to continue to meet an ever-increasing demand for food arising from a growing population.

Quality

Stringent, enterprise-wide quality management enabling us to consistently develop, process and handle our products to the highest standards.

The company maintains strict Quality Assurance controls and also operates processes whereby end users can raise any product complaint or suspected adverse event with the company, 24 hours per day, 365 days per year.

Process Excellence

Global and local platforms of support functions and a global supply network provide efficiencies and enable our businesses to focus on their core value drivers

In 2019, the company began enacting the first stages of the Global "Bayer 2022" project. This is a Global initiative aimed at streamlining administrative processes, locally and globally, to bring about operating efficiencies within its administrative and support functions.

The directors have overall oversight of the "Bayer 2022" project implementation within the UK and Ireland region and monitor the project to ensure that process changes are efficient and practical.

Portfolio Management

Continuously evolving our business portfolio supported by strong ability to execute

The board periodically review its activities to ensure that those ongoing activities undertaken by the company generate a level of financial performance that meets shareholder's expectations and the needs of society.

Risk Management

We provide life enhancing drugs to our customers, which operate in very regulated environments. To ensure that the company remains compliant in this complex environment, it is vital that we effectively identify, evaluate, manage and mitigate the risks we face, and ensure that our approach to risk management evolves to meet these challenges.

For additional information on our approach to risk management, refer to the strategic report.

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.

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.

Business Relationships

The directors enable and empower the business to understand and successfully engage with a wide range of customers and consumers, with the emphasis on the value of long-term customer relationships.

The company maintains a broad spectrum of customers that encompasses warehousers, distributors, veterinary practices, pharmacies, grocers, and a wide range of National Health Service customers ranging from individual hospitals and clinics to hospital trusts and clinical commissioning groups.

The board during the year made a decision to reduce the number of wholesalers from 4 to 1. The project was to strengthen the relationship between the business and the wholesaler leveraging services and costs to the benefits of the customers.

Corporate social responsibilites
During the year the company spent £641,000 (2018 as restated: £655,000) on various corporate social responsibility programmes. Included in the amounts are costs for 2019 of £159,000 (2018: £175,000) relating to Baylab, which is a service the company provides to primary and secondary schools, promoting and providing hands on experiences for science.

Statement of Corporate Governance
Directors of companies usually delegate day to day management and decision making to its employees. The directors should maintain oversight of the company's performance and ensure that the company is acting in accordance with the strategy and plans as agreed with different divisions of the company and its delegated authority.

The culture, values and standards that underpin this delegation should help ensure that when decisions are made their wider impact has been considered.

The directors require assurance that a companies financial reporting, risk management, governance and internal control processes, including policies maintaining procedural requirements and standards are operating effectively.

An overview of how the directors discharged their duties:

- Quarterly review with the group finance teams to go through the legal entity financial statements.
- Independent internal audit reviews on the HR, IT and business process for the pharmaceutical and commercial health business.
- Regular risk review with risk management.

Corporate governance is aligned with the ultimate parent company, Bayer AG.

Statement of directors' responsibilities
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, comprising FRS 101 *Reduced Disclosure Framework*, and applicable law). 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, comprising FRS 101, 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 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.

Authorised for issue by the Board of Directors

C A Barker
Company secretary

Date: 9 JULY 2020

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 2019 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 101 "Reduced Disclosure Framework"; 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 31.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (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 Financial Reporting Council's (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.

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.

Responsibilties 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.

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

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

14 July 2020

Bayer Public Limited Company

Income Statement

For the year ended 31 December 2019

	Note	2019 Continuing operations £000s	2019 Discontinued operations £000s	2019 Total £000s	2018 Continuing operations as restated £000s	2018 Discontinued operations as restated £000s	2018 Total as restated £000s
Revenue	3	710,711	51,735	762,446	674,760	47,038	721,798
Cost of sales		(530,456)	(31,602)	(562,058)	(502,736)	(28,935)	(531,671)
Gross profit		180,255	20,133	200,388	172,024	18,103	190,127
Distribution costs		(8,582)	(1,093)	(9,675)	(8,895)	(1,160)	(10,055)
Administrative expenses		(166,780)	(16,713)	(183,493)	(171,365)	(15,784)	(187,149)
Other operating income		33,188	692	33,880	38,264	4	38,268
Operating profit	4	38,081	3,019	41,100	30,028	1,163	31,191
Interest receivable and similar income	8	31,185	-	31,185	1,527	-	1,527
Finance costs	9	(4,731)	(70)	(4,801)	(5,387)	(131)	(5,518)
Impairment losses	10	-	-	-	(3,552)	-	(3,552)
Impairment loss reversals	11	-	-	-	24,122	-	24,122
Profit before taxation		64,535	2,949	67,484	46,738	1,032	47,770
Tax on profit	12	(6,642)	(560)	(7,202)	(4,914)	(196)	(5,110)
Profit for the financial year		57,893	2,389	60,282	41,824	836	42,660

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

Discontinued operations relate to the company's disposal of the animal health business (note 13).

Bayer Public Limited Company

Statement of Comprehensive Income
For the year ended 31 December 2019

	Notes	2019 £000s	2018 £000s
Profit for the financial year		60,282	42,660
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains on defined benefit pension scheme	**25**	10,693	10,469
Movement on deferred tax relating to pension scheme	**24**	(1,950)	(1,693)
Other comprehensive income for the financial year, net of tax		8,743	8,776
Total comprehensive income for the financial year		69,025	51,436

Bayer Public Limited Company

Statement of Financial Position

As at 31 December 2019

	Note	2019 £000s	2019 £000s	2018 £000s	2018 as restated £000s
Non current assets					
Intangible assets	**15**		376		-
Property, plant and equipment	**16**		25,928		29,236
Investments	**17**		125,820		125,820
			152,124		155,056
Current assets					
Inventories	**19**	149,966		109,067	
Trade and other receivables: amounts falling due after more than one year	**20**	2,327		7,496	
Trade and other receivables: amounts falling due within one year	**20**	145,881		154,413	
Cash at bank and in hand		197		162	
Assets held for sale	**26**	10,826		-	
		309,197		271,138	
Current liabilities					
Trade and other payables: amounts falling due within one year	**21**	(265,467)		(238,532)	
Net current assets			43,730		32,606
Total assets less current liabilities			195,854		187,662
Non current liabilities					
Trade and other payables	**21**		(20,904)		(22,445)
Provisions for liabilities					
Other provisions for liabilities	**23**		(36,221)		(27,644)
Retirement benefit obligations	**25**		(5,346)		(30,933)
Provisions directly associated with assets classified as held for sale	**26**		(7,718)		-
			(49,285)		(58,577)
Net assets			125,665		106,640
Capital and reserves					
Called up share capital presented as equity	**27**		25,062		25,062
Share premium account			10,655		10,655
Retained earnings			89,948		70,923
Total equity			125,665		106,640

The financial statements were approved by the board of directors and authorised for issue on 9 JULY 2020 and are signed on its behalf by:

....

S A Kurdikar
Director

Company Registration No. 00935048

Bayer Public Limited Company

Statement of Changes in Equity

For the year ended 31 December 2019

	Note	Share capital £000s	Share premium account £000s	Retained earnings £000s	Total £000s
Balance at 1 January 2018 (as restated)		25,062	10,655	19,487	55,204
Profit for the financial year		-	-	42,660	42,660
Actuarial gains on defined benefit pension plans		-	-	10,469	10,469
Movement on deferred tax relating to pension scheme		-	-	(1,693)	(1,693)
Total comprehensive income for the financial year		-	-	51,436	51,436
Balance at 31 December 2018 (as restated)		25,062	10,655	70,923	106,640
Profit for the financial year		-	-	60,282	60,282
Actuarial gains on defined benefit pension schemes		-	-	10,693	10,693
Movements in deferred tax relating to pension scheme		-	-	(1,950)	(1,950)
Total comprehensive income for the financial year		-	-	69,025	69,025
Dividends	**14**	-	-	(50,000)	(50,000)
Balance at 31 December 2019		25,062	10,655	89,948	125,665

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 company limited by shares, domiciled and incorporated in the United Kingdom and registered in England and Wales, under the Companies Act 2006. The registered office is 400 South Oak Way, Green Park, Reading, Berkshire, RG2 6AD.

1.1 Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") and in accordance with the Companies Act 2006.

These financial statements for the year ended 31 December 2019 are the first financial statements of Bayer Public Limited Company prepared in accordance with FRS 101. The date of transition to FRS 101 was 1 January 2018. Details of the restatement for material adjustments on adoption of FRS 101 are disclosed in note 31.

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 101 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.

The following new and revised Standards and Interpretations have been issued and are effective for the current financial period of the company.

- IFRS 16 'Leases' took effect from 1 January 2019 and has been adopted for the year ended 31 December 2019. The company has used the full retrospective approach with restatement of comparative information. Leases which the company was party to were previously classified as operating leases or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership to the lessee. Following the adoption of IFRS 16, the company recognises right-of-use assets and lease liabilities for leases other than those for low value assets or for short term leases of 12 months or less.

  Further details of the right-of-use assets and lease liabilities are included in notes 16, 22 and 31.

Other new and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the company as they are either not relevant to the company's activities or require accounting which is consistent with the company's current accounting policies.

1 Accounting policies **(Continued)**

The following IFRS and IFRIC Interpretations have been issued but have not been applied by the company in preparing these financial statements as they are not as yet effective and in some cases had not yet been adopted by the EU. The company intends to adopt these Standards and Interpretations when they become effective, rather than adopt them early.

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business) and IAS 28 (amendments) 'Investments in Associates and Joint Ventures'
- Revised Conceptual Framework for Financial Reporting

The directors do not expect that the adoption of the Standards listed above will have a material impact on the company in future periods.

A number of IFRS and IFRIC interpretations are also currently in issue which are not relevant for the company's activities and which have not therefore been adopted in preparing these financial statements.

1.3 Going concern

In light of the Covid-19 pandemic, the directors of the company have assessed its impact on the ability of the entity to continue as a going concern. The directors are satisfied that it is appropriate to present the financial statements on the going concern assumption based on a detailed assessment of future forecasts and assurances of the continued support from the Bayer group.

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 the 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.

1 Accounting policies **(Continued)**

1.5 Exemptions for qualifying entities under FRS 101

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS101:

- Paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64 (q)(ii), B66 and B67 of IFRS 3 'Business Combinations';
- paragraph 33(c) of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations';
- IFRS 7, 'Financial Instruments: Disclosures';
- paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- The second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers';
- paragraphs 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 'Leases';
- paragraph 38 of IAS 1 'Presentation of Financial Statements' comparative information requirements in respect of:
  (i) paragraph 79(a) (iv) of IAS 1;
  (ii) paragraph 73(e) of IAS 16 'Property Plant and Equipment'; and
  (iii) paragraph 118 (e) of IAS 38 'Intangible Assets'
  (reconciliations between the carrying amount at the beginning and end of the period)
- the following paragraphs of IAS1, 'Presentation of financial statements':
  (i) paragraphs 10(d) (statement of cash flows);
  (ii) 16 (statement of compliance with all IFRS);
  (iii) 38A (requirement for minimum of two primary statements, including cash flow statements);
  (iv) 38B-D (additional comparative information);
  (v) 40A-D (requirements for a third statement of financial position);
  (vi) 111 (cash flow statement information; and
  (vii) 134-136 (capital management disclosures).
- IAS 7 'Statement of Cash Flows';
- paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation);
- the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group;
- paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets'.

Where required, equivalent disclosures are given in the group financial statements of Bayer AG. The group financial statements of Bayer AG are available to the public and can be obtained as set out in note 30.

1.6 Revenue recognition

Revenue for Pharmaceutical, Radiology, Consumer Health and Animal Health divisions comprises the fair value of consideration receivable in respect of sales of goods after deductions of discounts and sales taxes. Discounts include rebates, price reductions and incentives given to customers in cash or company products. At each reporting date any such expenditure incurred but not yet invoiced is estimated and accrued.

Revenue is recognised once the goods have been dispatched.

Reimbursements from group companies are recognised as other operating income.

1 Accounting policies **(Continued)**

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 initially recognised as an asset with an indefinite useful life at cost and 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 investments over their 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 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.

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.

1 *Accounting policies* ***(Continued)***

1.12 Impairment of tangible and intangible assets

At each reporting 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.

1 Accounting policies **(Continued)**

1.15 Financial instruments

Financial assets

In this reporting period the company only had financial assets classified as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise trade and other receivables, amounts due from group undertakings, accrued income and cash.

Purchases and sales of financial assets are recognised on the trade date - the date on which the company commits to purchase or sell the asset.

Financial assets are derecognised when the company has transferred substantially all risks and rewards of ownership.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Financial liabilities

The company's financial liabilities including trade and other payables, amounts due to group undertakings and accruals are initially recognised at transaction price.

Trade and other payables are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They are included in current and non current liabilities.

Purchases and sales of financial liabilities are recognised on the trade date.
Financial liabilities are derecognised when the company has transferred substantially all risks and rewards of ownership.

Loans and payables are subsequently carried at amortised cost.

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.

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 the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

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.

Refund liabilities relating to deferred sales discounts are recognised at the date of any transaction in line with IFRS 15, 'Revenue from Contracts with Customers'.

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.

Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented within provisions. Related deferred tax assets or liabilities are shown within trade and other receivables or provisions for liabilities respectively.

The liability recognised in the statement of financial position in respect of the defined benefit scheme is the fair value of the scheme assets at the reporting date, less the present value of the defined benefit obligation at the end of 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 disclosed as 'Actuarial gains on defined benefit pension schemes'.

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'.

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 25 represents contributions payable to the defined contribution section of the pension scheme.

1.20 Leases

For any new contracts entered into, the company assesses whether a contract is, or contains, a lease within the scope of IFRS 16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Where a tangible asset is acquired through a lease, the company recognises a right-of-use asset and a lease liability at the lease commencement date. Right-of-use assets are included within property, plant and equipment, apart from those that meet the definition of investment property.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any initial direct costs and an estimate of the cost of obligations to dismantle, remove, refurbish or restore the underlying asset and the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of other property, plant and equipment. The right-of-use asset is also assessed for impairment, of such indicators exist, and adjusted for certain remeasurements of the lease liability.

1 Accounting policies **(Continued)**

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, and the cost of any options that the company is reasonably certain to exercise, such as the exercise price under a purchase option, lease payments in an optional renewal period, or penalties for early termination of a lease. Lease liabilities have been included in trade and other payables in the statement of financial position.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in: future lease payments arising from a change in an index or rate; the company's estimate of the amount expected to be payable under a residual value guarantee; or the company's assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

The company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less, or for leases of low-value assets including IT equipment. The payments associated with these leases are recognised in the income statement on a straight-line basis over the lease term.

1.21 Foreign exchange

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.

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 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 19 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 17 for the carrying value of investments, note 10 for the impairment losses recognised and note 11 for the impairment loss reversals.

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.

See note 25 for the disclosures relating to the defined benefit pension scheme.

3 Revenue

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

	2019 £000s	2018 £000s
Sale of goods	758,131	718,837
Manufacturing services	3,454	2,082
Commission revenues	861	879
	762,446	721,798
Revenue analysed by division		
Pharmaceutical	597,438	559,752
Consumer Health	88,502	90,486
Animal Health	50,874	46,159
Radiology	25,632	25,401
	762,446	721,798
Revenue analysed by geographical market		
United Kingdom	756,084	716,129
Rest of Europe	5,734	5,015
Rest of the World	628	654
	762,446	721,798
Other operating income		
Reimbursements from group companies	32,303	36,814
Research and Development expenditure tax credit	1,400	997
Other income	177	457

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.

4. Operating profit

	2019 £000s	2018 as restated £000s
Operating profit for the year is stated after charging/(crediting):		
Foreign exchange losses	26	198
Research and development costs	29,909	28,908
Depreciation of property, plant and equipment	1,512	1,058
Depreciation of right-of-use assets	2,784	1,342
Amortisation of intangible assets	-	1,958
Impairment of intangible assets	-	817
Cost of inventories recognised as an expense	569,779	548,029
Impairment in inventories	3,334	2,304
Reorganisation expense	3,051	658
Employee related expense provisions	6,176	1,482
Onerous lease provisions	-	(36)
Regulatory fees provisions	1,115	474
Provision for expected refunds	131,202	108,931
Legal cost provisions	2,900	-
Building retirement obligations provisions	26	(736)
GMP equalisation cost (see note 25)	-	7,847
Section 75 transfer (see note 25)	-	3,848

The total research and development costs incurred by the company were £29,909,000 (2018: £28,908,000). Amounts reimbursed by group companies in respect of these costs were £20,749,000 (2018: £27,452,000). 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 was recognised in administrative expenses (see note 25).

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 was 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 in 2018 (see note 25).

5 Auditor's remuneration

The analysis of the auditor's remuneration is as follows:	2019 £000s	2018 £000s
For audit services		
Fees payable to the company's auditor for the audit of the company's annual financial statements	102	102
For other services		
Audit-related assurance services	18	18

6 Employees

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

	2019 Number	2018 Number
Sales and marketing	427	432
Research and development	144	150
General administration	177	188
	748	770

Their aggregate remuneration comprised:

Employment Costs	2019 £000s	2018 £000s
Wages and salaries	65,732	64,334
Social security costs	8,113	8,495
Pension costs	7,954	8,052
	81,799	80,881

7 Directors' remuneration

	2019 £000s	2018 £000s
Remuneration for qualifying services	1,538	1,540
Amounts receivable under long term incentive schemes	-	12
Company pension contributions to defined contribution schemes	34	25
	1,572	1,577

7 Directors' remuneration (Continued)

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 2 (2018: 3).

The number of directors for whom retirement benefits are accruing under defined benefit schemes amounted to nil (2018: nil).

The number of directors who are entitled to receive emoluments under long term incentive schemes during the year was 2 (2018: 3).

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

Remuneration for qualifying services	879	643
Long term incentive schemes	-	7
Company pension contributions to defined contribution schemes	25	6

Retirement benefits are accruing under a defined contribution scheme for the highest paid director. Contributions for the year amounted to £25,000 (2018: £6,000). Of this amount, £nil remains payable at the year end (2018: £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

	2019 £000s	2018 £000s
Interest income		
Interest receivable from group companies	185	115
Income from fixed asset investments		
Dividend income	31,000	1,412
Total income	31,185	1,527

9 Finance costs

	2019 £000s	2018 £000s
Interest on financial liabilities measured at amortised cost:		
Interest on lease liabilities (note 22)	1,334	1,285
Interest payable to group undertakings	2,819	3,029
Interest on other financial liabilities:		
Net interest on retirement benefit obligations (note 25)	648	1,204
Total interest expense	4,801	5,518

10 Impairment losses

	2019 £000s	2018 £000s
Impairment losses on investment	-	3,552

	2019 £000s	2018 £000s
The impairment on investments comprises:		
Bayer Agriculture Limited	-	1,093
Medrad UK Limited	-	2,459
	-	3,552

11 Impairment loss reversals

	2019 £000s	2018 £000s
Impairment loss reversals on investments	-	24,122

Due to actuarial gains on its defined benefit pension scheme in 2018, the impairment loss on the investment in Bayer CropScience Limited has been reversed by £nil (2018: £24,122,000).

12 Tax on profit

	2019 £000s	2018 £000s
Current tax		
UK corporation tax	3,936	5,599
Adjustments in respect of prior periods	47	76
Total current tax charge	3,983	5,675
Deferred tax		
Origination and reversal of temporary differences	3,313	(27)
Impact of change in tax rates	(3)	(12)
Adjustments in respect of prior periods	(91)	(526)
Total deferred tax charge/(credit)	3,219	(565)
Total tax charge on profit	7,202	5,110

The tax for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%).

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:

	2019 £000s	2018 £000s
Profit before taxation	67,484	47,770
Profit before taxation multiplied by standard rate of corporation tax of 19.00% (2018: 19.00%)	12,822	9,076
Taxation impact factors affecting tax charge:		
Tax effect of expenses that are not deductible in determining taxable profit	317	549
Tax effect of income not taxable in determining taxable profit	(5,890)	(4,176)
Adjustments in respect of prior periods	(44)	(450)
Effect of change in corporation tax rate	(3)	(12)
Total adjustments	(5,620)	(4,089)
Tax expense for the year	7,202	4,987

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:

	2019 £000s	2018 £000s
Deferred tax arising on:		
Actuarial gains on defined benefit pension schemes recognised as other comprehensive income	1,950	1,693

Factors that may affect future tax charges:

The standard rate of corporation tax in the UK is expected to remain at 19%. Accordingly the company's deferred tax balances at the reporting date will be taxed at 19% (2018: 17%).

13 Discontinued operations

The discontinued operations shown on the face of the income statement relate to the disposal of the animal health business. The sale had not yet taken place as at the balance sheet date and the assets and liabilities of the animal health business have been reclassified as held for sale. Further information on the disposal is given in note 26.

14 Dividends

	2019 £ per share	2018 £ per share	2019 £000s	2018 £000s
Amounts recognised as distributions to equity holders:				
Ordinary shares				
Interim dividend paid	2.00	-	50,000	-

15 Intangible fixed assets

	Goodwill	Marketing rights	Computer software	Total
	£000s	£000s	£000s	£000s
Cost				
At 1 January 2019	39,229	17,208	471	56,908
Additions	-	376	-	376
At 31 December 2019	39,229	17,584	471	57,284
Accumulated amortisation				
At 1 January 2019	39,229	17,208	471	56,908
At 31 December 2019	39,229	17,208	471	56,908
Carrying amount				
At 31 December 2019	-	376	-	376
At 31 December 2018	-	-	-	-

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. and is now fully amortised.

Goodwill of £39,229,000 was fully amortised as at 31 December 2018 in accordance with the previously adopted accounting framework. The company transferred the goodwill at a carrying amount of £nil on the transition to FRS 101 in line with note 30.

Included within Marketing rights are trademarks of £13,956,000 (2018: £13,956,000) which were fully amortised in prior years. Trademark registrations in 2019 were £376,000.

Computer software is made up of various license fees for a range of enterprise software which were fully amortised in prior years.

16 Property, plant and equipment

	Long leasehold land and buildings	Fixtures, fittings & equipment	Plant and machinery	Total
	£000s	£000s	£000s	£000s
Cost				
At 1 January 2019 - as restated	27,300	7,172	77	34,549
Additions	959	17	22	998
Disposals	-	-	(12)	(12)
At 31 December 2019	28,259	7,189	87	35,535
Accumulated depreciation				
At 1 January 2019 - as restated	4,017	1,287	9	5,313
Charge for the year	2,534	1,748	14	4,296
Eliminated on disposal	-	-	(2)	(2)
At 31 December 2019	6,551	3,035	21	9,607
Carrying amount				
At 31 December 2019	21,708	4,154	66	25,928
At 31 December 2018 - as restated	23,283	5,885	68	29,236

Included in property, plant and equipment are right-of-use assets as follows:

Right-of-use assets	Long leasehold land and buildings	Fixtures, fittings & equipment	Total
	£000s	£000s	£000s
Carrying amount at 1 January 2019	17,171	3,239	20,410
Depreciation	(1,383)	(1,155)	(2,538)
Carrying amount at 31 December 2019	15,788	2,084	17,872

Included within long leasehold land and buildings is a right-of-use asset associated with the lease on the Reading office building.

17 Investments

	Shares in group undertakings £000s
Cost or valuation	
At 1 January 2019 & 31 December 2019	137,814
Impairment	
At 1 January 2019 & 31 December 2019	11,994
Carrying amount	
At 31 December 2019	125,820
At 31 December 2018	125,820

18 Subsidiaries

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

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

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

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

19 Inventories

	2019 £000s	2018 £000s
Raw materials	1,230	1,881
Work in progress	2,793	3,307
Finished goods	145,943	103,879
	149,966	109,067
Classified as part of a disposal group held for sale	10,826	-
	160,792	109,067

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

20 Trade and other receivables

	Amounts falling due within one year		Amounts falling due after more than one year	
	2019 £000s	2018 £000s	2019 £000s	2018 £000s
Trade receivables	136,215	118,151	-	-
Other receivables	138	186	-	-
Amounts owed by group undertakings	7,753	33,186	-	-
Prepayments and accrued income	1,775	2,890	-	-
	145,881	154,413	-	-
Deferred tax asset (note 24)	-	-	2,327	7,496
	145,881	154,413	2,327	7,496

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

21 Trade and other payables

	Amounts falling due within one year		Amounts falling due after more than one year	
	2019	2018 as restated	2019	2018 as restated
	£000s	£000s	£000s	£000s
Trade payables	18,248	11,692	-	-
Amounts owed to group undertakings	153,594	148,996	-	-
Accruals	24,987	20,227	-	-
Other payables	40,302	27,694	-	-
Taxation and social security	24,667	24,933		
Corporation tax	1,282	1,628	-	-
Lease liabilities (note 22)	2,387	3,362	20,904	22,445
	265,467	238,532	20,904	22,445

Included within amounts owed to group undertakings is an amount of £125,086,000 (2018: £111,352,000) 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.

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

22 Lease liabilities

Maturity analysis	2019 £000s	2018 £000s
Within one year	2,387	3,362
In one to five years	7,436	7,409
In over five years	13,468	15,036
Total liabilities	23,291	25,807

Lease liabilities are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	2019 £000s	2018 £000s
Current liabilities	2,387	3,362
Non current liabilities	20,904	22,445
	23,291	25,807

22 Lease liabilities **(Continued)**

Amounts recognised in profit or loss include the following:	2019 £000s	2018 £000s
Interest on lease liabilities (note 9)	1,334	1,285

Movement of lease liability	**Long leasehold land and buildings £000s**	**Fixtures, fittings & equipment £000s**	**Total £000s**
At 1 January 2019	22,568	3,239	25,807
Interest expense	1,264	70	1,334
Effect of modification to lease term	-	11	11
Lease payments	(2,576)	(1,285)	(3,861)
At 31 December 2019	21,256	2,035	23,291

The fair value of the company's lease obligations is approximately equal to their carrying amount.

Lease related expenses not included in liabilities	**2019 £000s**	**2018 £000s**
Lease with remaining term of less than 12 months	165	165

23 Provisions for liabilities

	2019	2018 as restated
	£000s	£000s
Restructuring costs	2,511	204
Employee related	3,326	1,955
Regulatory fees	602	474
Building retirement obligations	673	647
Legal costs	2,124	-
Refund liabilities	26,985	24,364
	36,221	27,644
Retirement benefit obligations (note 25)	5,346	30,933
	41,567	58,577
Classified as part of a disposal group held for sale		
Refund liabilities	7,718	-
	49,285	58,577

23 Provisions for liabilities **(Continued)**

Movements on provisions:

	Restructuring costs	Employee related	Regulatory fees	Building retirement obligations	Refund liabilities	Legal costs	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
At 1 January 2019	204	1,955	474	647	24,364	-	27,644
Additional provisions in the year	3,051	7,338	1,430	26	146,990	2,900	161,735
Reversal of provision	-	(1,162)	(315)	-	(15,788)	-	(17,265)
Utilisation of provision	(744)	(4,805)	(987)	-	(128,581)	(776)	(135,893)
At 31 December 2019	2,511	3,326	602	673	26,985	2,124	36,221

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 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.

Refund liabilities relate to deferred discounts and have been accounted for in line with IFRS 15 'Revenue from Contracts with Customers'.

The legal costs relates to solicitors fees that may arise from appeals against court rulings.

24 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	Other timing differences	Defined benefit pension deficit	Total
	£000s	£000s	£000s	£000s
Deferred tax (liability)/asset at 1 January 2018	(42)	929	7,737	8,624
Deferred tax movements in prior year				
(Charge)/credit to the income statement	(155)	1,122	(402)	565
(Charge) to other comprehensive income	-	-	(1,693)	(1,693)
Deferred tax (liability)/asset at 1 January 2019	(197)	2,051	5,642	7,496
Deferred tax movements in current year				
Credit/(charge) to the income statement	137	(600)	(2,756)	(3,219)
(Charge) to other comprehensive income	-	-	(1,950)	(1,950)
Deferred tax (liability)/asset at 31 December 2019	(60)	1,451	936	2,327

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:

	2019	2018
	£000s	£000s
Deferred tax assets	2,327	7,496

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

25 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.

From 1 April 2018 and for the year ended 31 December 2019, normal company contributions were 36.0% of members' pensionable salaries for the Group DB Section and 37.5% of members' pensionable salaries for the BCSPF Section. Up to 31 March 2018, normal company contributions were 25.6% of members' pensionable salaries for the Group DB Section and 24.6% of members' pensionable salaries for the BCSPF 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 2019 to the Group DB Section and SHCL Section were £12.8m (2018: £12.8m) and £2.5m (2018: £2.5m) respectively and further additional contributions are set out in the Recovery Plan of £12.8m and £2.5m respectively annually in the years 2020, 2021 and 2022.

The actuarial valuations of the BGPP were updated to 31 December 2019 by an independent qualified actuary. 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.

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 £7,682,000 (2018: £7,645,000).

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

25 Retirement benefit schemes **(Continued)**

The risks of the scheme are as follows:

a) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

b) Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

c) Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

d) Inflation risk

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

Key assumptions	**2019** %	**2018** %
Rate of increase in salaries	2.70	2.95
Rate of increase in pensions payment:		
LPI maximum 5%	2.85	3.05
LPI minimum 3% maximum 5%	3.60	3.70
LPI maximum 2.5%	2.00	2.10
Rate of increase for deferred pensioners:		
CPI maximum 2.5%	1.70	2.20
CPI minimum 3%	3.20	3.00
Discount rate	1.95	2.80
Inflation Assumption (RPI)	2.95	3.20

25 Retirement benefit schemes (Continued)

Mortality assumptions
Significant demographic assumptions

The mortality assumption at 31 December 2019 is based on an experience investigation prior to the previous funding valuation. The current assumption uses 95% (2018: 95%) of mortality rates included in the standard tables known as "S1NXA". Allowance for future longevity improvements is made in line with the CMI 2018 (2018: CMI 2014) projections with a long term improvement rate of 1.25% (2018: 1.25%) for males and 1.25% (2018: 0.75%) for females.

The mortality assumptions used were as follows:

	2019 Years	2018 Years
Longevity at 65 for current pensioners		
- Males	22	23
- Females	24	25
Longevity at 65 for pensioners in 20 years time		
- Males	23	25
- Females	26	26

25 Retirement benefit schemes (Continued)

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

	2019 £000s	2018 £000s
Current service cost	272	262
Net interest on defined benefit liability	648	1,204
Past service cost	-	7,847
The effect of curtailments or settlements	-	123
	920	9,436

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 was recognised in administrative expenses.

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

	2019 £000s	2018 £000s
Actuarial changes arising from changes in financial assumptions	78,217	(53,956)
Actuarial changes relating to plan assets	(88,910)	43,487
Total actuarial gain recognised in other comprehensive income	(10,693)	(10,469)

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:

	2019 £000s	2018 £000s
Present value of defined benefit obligations	849,282	779,126
Fair value of plan assets	(843,936)	(748,193)
Net liability recognised in the statement of financial position	5,346	30,933

25 Retirement benefit schemes (Continued)

Movements in the present value of defined benefit obligations

	2019 £000s	2018 £000s
At 1 January 2019	779,126	703,022
Current service cost	272	262
Past service cost	-	7,847
Curtailments	-	123
Benefits paid by the employer	(29,597)	(33,905)
Contributions from scheme members	3	4
Actuarial losses/(gains)	78,217	(53,956)
Interest cost	21,261	19,985
Section 75 transfer	-	135,744
At 31 December 2019	849,282	779,126

Movements in the fair value of plan assets:

	2019 £000s	2018 £000s
At 1 January 2019	748,193	658,916
Interest income	20,613	18,781
Return on plan assets (excluding amounts included in net interest)	88,910	(43,487)
Benefits paid by the employer	(29,597)	(33,905)
Contributions by the employer	15,814	15,988
Contributions by scheme members	3	4
Section 75 transfer	-	131,896
At 31 December 2019	843,936	748,193

The actual gain on plan assets was £109,523,000 (2018: £24,706,000 loss).

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 2019 and 31 December 2019 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 2020

Defined benefit pensions plans	£000s
Employer	15,509

25 Retirement benefit schemes (Continued)

Sensitivity of the net obligation to changes in assumptions
Scheme obligations would have been affected by changes in assumptions as follows:

	2019 £000s	2018 £000s
Discount rate		
0.5% pa increase	(82,535)	(70,219)
0.5% pa decrease	92,900	80,671
Rate of increase in pension payments		
0.5% pa increase	60,016	44,184
0.5% pa decrease	(55,779)	(44,073)
Rate of increase in salaries		
0.5% pa increase	5,116	5,343
0.5% pa decrease	(4,851)	(5,035)
Life expectancy		
1 year increase in life expectancy	32,072	29,925
1 year decrease in life expectancy	(35,253)	(28,866)

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

	Quoted 2019 £000s	Unquoted 2019 £000s	Quoted 2018 £000s	Unquoted 2018 £000s
Equity instruments	344,331	-	281,409	-
Debt instruments	412,242	-	380,955	-
Property	-	79,901	-	78,503
Other	6,489	973	7,326	-
	763,062	80,874	669,690	78,503

26 Assets and liabilities classified as held for sale

The sale of Bayer's animal health business had been announced, but not finalised as at the year end. The global value of the sale is set to be $7.6 billion, and is due to finalise in August 2020. At the time of approving these financial statements, the directors were unable to reliably estimate the items, value and timing of the sale for the company.

The carrying amount of net assets and liabilities in the disposal group is as follows:

	2019 £000s
Assets	
Inventories	10,826
Total assets of disposal group	10,826
Liabilities	
Provisions	(7,718)
Total liabilities of disposal group	(7,718)
Net assets	3,108

27 Called up share capital

	2019 £000s	2018 £000s
Allotted and fully paid		
25,062,356 Ordinary shares of £1 each	25,062	25,062
	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.

28 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 2019 (2018: £nil).

Bayer PLC as guarantor

In 2006, the company acquired Schering Health Care Limited, and included in the acquisition was a 25 year lease on a building. The lease agreement was transferred to a third party on the understanding that the company remained guarantor in the unlikely event that the third party was unable to pay the annual rental charges until the expiry of the agreement in 2031. These had a total value of £1,600,000 (2018: £1,738,000).

The extent of the potential liability arising from this agreement at 31 December 2019 is £1,600,000 (2018: £1,738,000). However, the company believes that it is unlikely for this liability to arise and therefore no provision has been made in the financial statements.

29 Events after the reporting date

The directors of the company have established a core management team, which are pro-actively managing the various topics relating to the Covid-19 pandemic. The pandemic is considered to be a non-adjusting post balance sheet event. Whilst the directors acknowledge that there is significant uncertainty as a consequence of the pandemic, to date the directors have confirmed there has been little disruption to the supply chain and the company is able to fulfil its obligations to its customers. Most of the customers for the various divisions have not requested an extension to the trade terms and have been able to meet the company's terms. The business is still achieving its turnover targets and currently forecasts that the company's earning objectives will be met for the year ending 31 December 2020.

30 Controlling party

At 31 December 2019, 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

31 Effects of transition to FRS 101

The company is preparing its financial statements in accordance with Financial Reporting Standard 101 for the first time and consequently has applied IFRS 1 First time adoption of International Financial Reporting Standards. The company's transition date was 1 January 2018.

IFRS 1 First time adoption of International Financial Reporting Standards sets out the transition rules, which must be applied, when IFRS is adopted for the first time.

Reconciliation of equity

	At 1 January 2018			At 31 December 2018		
	Previously reported	Effect of transition	As restated	Previously reported	Effect of transition	As restated
	£000s	£000s	£000s	£000s	£000s	£000s
Non current assets						
Goodwill	2,765	-	2,765	-	-	-
Other intangibles	10	-	10	-	-	-
Property, plant and equipment	10,203	21,235	31,438	9,343	19,893	29,236
Investments	105,250	-	105,250	125,820	-	125,820
	118,228	21,235	139,463	135,163	19,893	155,056
Current assets						
Inventories	103,835	-	103,835	109,067	-	109,067
Trade and other receivables: amounts falling due after more than one year	8,624	-	8,624	7,496	-	7,496
Trade and other receivables: amounts falling due within one year	119,874	-	119,874	154,413	-	154,413
Cash at bank and in hand	392	-	392	162	-	162
	232,725	-	232,725	271,138	-	271,138
Current liabilities						
Lease liabilities	-	(2,687)	(2,687)	-	(3,362)	(3,362)
Other payables	(242,524)	18,570	(223,954)	(262,693)	27,523	(235,170)
	(242,524)	15,883	(226,641)	(262,693)	24,161	(238,532)
Net current (liabilities)/assets	(9,799)	15,883	6,084	8,445	24,161	32,606
Total assets less current liabilities	108,429	37,118	145,547	143,608	44,054	187,662
Non current liabilities						
Lease liabilities	-	(22,479)	(22,479)	-	(22,445)	(22,445)

31 Effects of transition to FRS 101 **(Continued)**

	At 1 January 2018			At 31 December 2018		
	Previously reported £000s	Effect of transition £000s	As restated £000s	Previously reported £000s	Effect of transition £000s	As restated £000s
Provisions for liabilities						
Pension obligations	(44,106)	-	(44,106)	(30,933)	-	(30,933)
Other provisions	(7,059)	(16,699)	(23,758)	(3,280)	(24,364)	(27,644)
	(51,165)	(16,699)	(67,864)	(34,213)	(24,364)	(58,577)
Net assets	57,264	(2,060)	55,204	109,395	(2,755)	106,640
Equity						
Called up share capital	25,062	-	25,062	25,062	-	25,062
Share premium account	10,655	-	10,655	10,655	-	10,655
Retained earnings	21,547	(2,060)	19,487	73,678	(2,755)	70,923
Total equity	57,264	(2,060)	55,204	109,395	(2,755)	106,640

31 Effects of transition to FRS 101 **(Continued)**

Reconciliation of profit for the financial year

	Year ended 31 December 2018		
	Previously reported £000s	Effect of transition £000s	As restated £
Continuing operations			
Revenue	674,760	-	674,760
Cost of sales	(502,736)	-	(502,736)
Gross profit	172,024	-	172,024
Distribution costs	(8,895)	-	(8,895)
Administrative expenses	(171,955)	590	(171,365)
Other operating income	38,264	-	38,264
Operating profit	29,438	590	30,028
Interest receivable and similar income	1,527	-	1,527
Finance costs	(4,102)	(1,285)	(5,387)
Impairment losses	(3,552)	-	(3,552)
Impairment loss reversals	24,122	-	24,122
Profit before taxation	47,433	(695)	46,738
Tax on profit	(4,914)	-	(4,914)
Profit after taxation	42,519	(695)	41,824
Discontinued operations			
Income from discontinued activities	836	-	836
Profit for the financial year	43,355	(695)	42,660

31 Effects of transition to FRS 101 **(Continued)**

Notes to reconciliations

Goodwill
Under FRS 102, goodwill is amortised annually over its useful economic life, with the rebuttable presumption that this will not exceed 10 years.

Under FRS 101, goodwill is not amortised, but is tested annually for impairment under IAS 36 'Impairment of Assets'.

The company has taken the exemption available in Appendix C of IFRS 1 'First-time adoption of International Financial Reporting Standards' to recognise the cost and accumulated amortisation of goodwill as at 1 January 2018 as their respective values under FRS 102. The carrying value of the goodwill and the accumulated amortisation was £39,229,000.

Provisions
Under FRS 102, provisions for rebates to customers were recognised as an accrual. Under FRS 101, rebates should be accounted for as a provision in accordance with IFRS 15 'Revenue from Contracts with Customers'.

An adjustment of £16,699,000 has been made as at 1 January 2018 to reduce accruals and increase prepayments representing the rebate provision at that date. At 31 December 2018 the value of the rebate provision was £24,364,000. The movement between these two amounts of £7,665,000 was recognised as a charge in the income statement for the year ended 31 December 2018 under FRS 102. As FRS 101 also requires the movement in provisions to be recognised in the income statement there is no effect on the reported results for 2018 arising from this change.

31 Effects of transition to FRS 101 **(Continued)**

Leases

Under FRS 102, leases may be classified as either operating or finance leases. In the case of a finance lease, an asset and a liability are recognised at the present value of future minimum lease payments. For operating leases, no asset or liability is recognised and instead the payments on the lease are recognised as an expense on a straight line basis over the life of the lease. Any costs associated with restoring the lease to its original condition are recognised as a provision, discounted to the present value.

Under FRS 101, a lease that has a duration of over 12 months and is not low value is accounted for as a right-of-use asset, with a corresponding lease liability. The value of this asset and liability is the present value of future minimum lease payments, discounted at the company's average cost of borrowing. The asset is then depreciated over the course of its useful life and the discounting is unwound on the liability and recognised as finance costs. Any costs associated with restoring the lease to its original condition are included in the measurement of the liability and the asset.

The carrying values of the right-of-use assets and lease liabilities at 1 January 2018 were £21,235,000 and £25,166,000 respectively, resulting in a decrease to net assets of £3,931,000. This decrease has been recognised through retained earnings. The carrying value of the right-of-use assets and lease liabilities at 31 December 2018 were £19,893,000 and £25,807,000 respectively.

Included in property, plant and equipment were asset retirement obligations of £558,000 at 1 January 2018 and £517,000 at 31 December 2018. Included in other payables were accruals relating to rent free periods of £1,871,000 at 1 January 2018 and £3,159,000 at 31 December 2018. These amounts were derecognised on implementation of IFRS 16 and adjusted to retained earnings.

In the year ended 31 December 2018, additional depreciation and finance costs of £1,342,000 and £1,285,000 have been recognised, with a decrease in operating lease expenses of £1,932,000. This resulted in an overall decrease in the profit for the year ended 31 December 2018 of £695,000.