

Bayer Public Limited Company

Annual Report and Financial Statements

For the year ended 31 December 2020



Company Registration No. 00935048 (England and Wales)

Bayer Public Limited Company

Company Information

Directors	L F Bruening S A Kurdikar T Gerdau
Secretary	C A Barker
Company number	00935048
Registered office	400 South Oak Way Green Park Reading Berkshire RG2 6AD
Independent auditor	Deloitte LLP Abbots House Abbey Street Reading RG1 3BD

Bayer Public Limited Company

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Bayer Public Limited Company

Strategic Report

For the year ended 31 December 2020

The directors present the strategic report for the company for the year ended 31 December 2020.

Review of the business

The company's principal activity is the marketing of pharmaceutical and consumer health 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.

HRMC have rejected the submission to claim VAT on rebates paid to the NHS. The company are currently exploring its options.

In 2018 Bayer AG, the ultimate holding company announced that it was undertaking a restructuring of its service departments, as part of their strategic review. The project has achieved most of its milestones in 2020 with a few remaining departments to transition in 2021. Provisions for restructuring costs have been included in the provisions of the company.

In November 2020, Bayer AG made a further announcement to look at all business groups to restructure to ensure a leaner and efficient organisation by 2024, the details for the company will be made clear during 2021. The Crop Science board of management has decided to divest the Environmental Science product portfolio, to support the new initiatives.

On 31 July 2020 Bayer PLC successfully divested the Animal Health business to Elanco.

Impairment testing was performed by the company on its investments in subsidiaries.

During the year, Bayer Agriculture Limited was fully impaired. This has been reflected in the profit and loss account, the value being £4.4 million.

A subsidiary indirectly owned by the company, Monsanto UK Limited was impaired in the 100% owned subsidiary Bayer CropScience Limited. The value impaired on the investment was £5.4m. The reason for the impairment was expected loss of revenues due to loss of registration on products.

Bayer CropScience Ltd are a 100% owned subsidiary and was impaired by £12.2m due to the possible divestment of the Environmental Science business and low growth in turnover post 2025.

While assessing impairment in investment in BCS, management have made various estimates regarding profit forecasts, discounts rates and addition of new products to the revenue stream. If the profit forecasts reduce by 10% or the revenue from new products does not materialise, this could result in an additional impairment of up to £8.8m.

Business environment

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

Pharmaceutical

The pharmaceutical division showed turnover decline of £28.8 million (4.8%) below the previous year sales of £597.4 million.

COVID impacts within the year reduced the sales line by £72 million, with biggest impacts in second quarter.

Eylea, Women's Health Care and Xofigo were impacted due to the NHS capacity constraints, reprioritisation of procedures, and patient concerns of attending treatments. However, the third and fourth quarters of 2020 has seen strong recovery, coming back up to pre-COVID sales levels.

New patient starts for Xarelto were impacted, however the Company supported the switch of VKA patients to DOACs, reducing clinic attendance risks for patients.

Bayer Pharmaceutical ranked 8th (source: IQVIA Xponent (British Pharmaceutical Industry and Hospital Pharmacy Audit National Overview)) in the UK for December 2020 year to date sales values, down from 6th place in 2019.

Eylea remains number 1 branded medicine in the UK despite the COVID impacts as the full market was impacted in 2020. The UK pharmaceutical division has seen strong performance in light of COVID and this is due to its brands where Eylea and Xarelto are the key drivers, the partnerships with NHS and capacity improvements during COVID.

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Strategic Report (Continued)

For the year ended 31 December 2020

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 no growth year on year. This growth was restricted by the effects of the Covid-19 pandemic.

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 increase of £7.3 million (8.2%) to £95.8 million in 2020.

Consumer Health has had a continued in-market growth versus our key competitors and the overall market, particularly in the nutritionals and digestive health categories. Consumer confidence remains high despite ongoing COVID situation.

Consumer Health continues to face pressure from the retail market in the UK as the retail landscape is still developing and changing pace. Growth continues in discounters, convenience and online channels as consumers strive for greater convenience or lower prices. With the COVID situation retail pharmacy channels are facing further pressure due to a reduced foot fall.

The Consumer Health team are continuing a focused strategy to compete in this difficult and demanding environment in 2020, and challenge for market share growth and profitability.

As part of Bayer AG's strategic review, the Consumer Health division also divested travel sickness brand Kwells to Dexcel Pharmaceuticals. The sale of the business and transfer of assets was successfully concluded on 30 June 2020.

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 2020 were £110.3 million (2019: £125.7 million). This change in the net position is mainly due to the increase of the pension deficit of £8.0 million.

As a consequence of the Covid-19 pandemic resulting in lower turnover, trade and other receivables decreased by £2.0 million to £134.9 million (2019: £145.9 million).

Local stock levels have increased by £18.5 million to £168.4 million. The driver for the increase in inventory is a continuity planning to ensure the supply of essential drugs to ensure supply to customers as the UK prepared to leave the EU on 1 January 2021 (Brexit).

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

Trade and other payables increased by £5.3 million to £270.8 million (2019: £265.5 million) as a result of decreased trade.

The average number of staff employed by the company during 2020 was 714 (2019: 748) (note 6) where the decline is due to the ongoing restructuring of enabling functions.

Turnover decreased by £43.3 million (5.7%) to £719.1 million, the decline is due to two factors the divestment of the animal health business and impact of COVID 19.

Administrative expenses declined by £22.0 million from 2019. The decline is driven by the divestment of animal health and cost containment measures to help Bayer AG achieve its targets.

Operating profit before tax and interest for 2020 was £31.3 million, which is £9.8 million lower than 2019. The decrease is due to the COVID 19 pandemic.

The gross profit margin of the company declined in 2020 at 23.2% (2019: 26.3%).

The operating profit margin decreased by 1.0% from 5.4% in 2019 to 4.4% in 2020.

Bayer AG sold the Animal Health business to Elanco, a US company. Bayer PLC's Animal Health business was disposed off to Elanco Animal Health UK Limited on 31 July 2020 and Bayer recognised a gain of £16.6m.

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Strategic Report (Continued)

For the year ended 31 December 2020

Carbon and Energy Reporting

During the year the company's carbon foot print was 1,460 tonnes (2019: 2,454 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 2.04 Kgs of Co2 emissions (2019: 3.2Kgs).

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.

Financial Risk Management

The directors do not consider this to be a risk to the company as all finances are managed by the parent company Bayer AG.

Market and Pricing

The potential market and pricing risks are:

- The ability to launch new products to market in an effective timeframe to maximise both financial and patient benefit. Price pressure caused by the increase in tendering strategies by the NHS. The pricing governance committee reviews and monitors pricing strategies and outcomes to ensure continuous improvement in the efficiency and effectiveness of tendering processes. 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 continues to invest in the development of new pharmaceutical and Consumer health products and will continue to introduce new products into the UK market.
- The potential for reduced NHS capacity for elective procedures caused by the COVID pandemic. Innovation and partnering programmes to engage and work with the NHS to identify opportunities for alternative delivery methods for procedures impacted.

Supply Chain Risks

The potential supply chain risks are:

- Supply chain disruption caused by service interruption event at a critical supplier. These are mitigated by detailed business continuity plans developed jointly with suppliers and are regularly tested and reviewed.
- Stock outs caused by production or logistics issues. The supply chain teams monitor stock levels and delivery schedules, working with global supply chain teams to ensure that supply schedules are adjusted to ensure supply.
- Fake products using Bayer branding is subject to extensive monitoring by the global product crime group to identify and close down counterfeit product supply.

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Strategic Report (Continued)

For the year ended 31 December 2020

Information Security

The potential Information security risks are:

- Targeted cyber-attack causing interruption to critical supply chain systems. Security operations monitor the external network for potential threats and have robust security measures to detect and prevent external attacks on Bayer systems.
- Information leakage, corruption or unavailability caused by activity from malicious actors is mitigated by internal controls including data leakage prevention tools and up to date anti-virus software.
- Third party supplier's implementation of appropriate policies and controls to support information protection, operational service levels and compliance with laws and regulations. All third parties are subject to information security and data protection contracts clauses and vendor governance processes to ensure compliance with these expected measures.

Brexit

- Unclear regulatory requirements after leaving the EU regulatory frameworks. The regulatory teams continue to monitor developments and announcements by regulatory bodies, as well as engagement with industry associations to ensure consistent and accurate information is available to Bayer.
- Reduced viability of supplying some products to NI caused by restrictions on the movement of products from GB to NI is being mitigated by reviewing supply chain strategies for both routing, packaging and warehousing.

Directors' Duties

The Statement of Directors' Duties can be located within the Directors' Report on page 6.

Future Developments

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

By order of the board



C A Barker

Company secretary

Date: 23 June 2021

Bayer Public Limited Company

Directors' Report

For the year ended 31 December 2020

The directors present their annual report and audited financial statements for the year ended 31 December 2020.

Results and dividends

The results for the year are set out on page 14.

The assets and liabilities and financial position of the company at the end of the financial year are set out on pages 16 - 17.

A final dividend has not been proposed by the directors (2019: £nil). An interim dividend was paid during 2020 of £30 million to its parent company, Bayer Global Investments B.V. (2019: £50m).

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:

L F Bruening
S A Kurdikar
T Gerdau

Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report. For 2020 the directors were remunerated by the immediate parent company, Bayer Global Investments B.V.

Going Concern

The Covid-19 pandemic and the United Kingdom's exit from the European Union (Brexit) for which 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 assumptions are based on historical facts that the company has met its obligations and the directors expect to do so. Also the forecast and budgeted numbers would indicate that the directors believe that the company will continue to trade for the foreseeable future. Bayer has also issued a statement that they would continue to support its subsidiaries. There are also specific letters of support to cover vendor commitments.

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.

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 £27.8m (2019: £29.9m) on research and development.

Independent Auditor

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

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Directors' Report (Continued)

For the year ended 31 December 2020

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, which can be found at <https://www.bayer.com/en/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 current trends 'health and nutrition'. Bayer provides 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.

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Directors' Report (Continued)

For the year ended 31 December 2020

Bayer's Core Strengths

Innovation

Our innovations are driven by deep scientific expertise and know-how developed across boundaries of organisations 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 Crop Protection, our innovations enable farmers to have the appropriate herbicides, insecticides and fungicides available to them to maximise 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.

During 2020, the company has met the target state for many departments who were impacted by the Global "Bayer 2022" project. The main goal of the project was the streamlining of administrative processes, locally and globally, to bring about operating efficiencies and costs 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.

Bayer AG the ultimate parent company has announced in 2020 to bring about further efficiencies within the organisation to meet a €1.5 billion saving by 2024. The impacts to the business are not yet certain but the directors will support the initiatives outlined from this project.

Portfolio Management

Continuously evolving our business portfolio supported by strong ability to execute.

The board periodically reviews 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.

During 2020 the Board agreed to sell the travel sickness brand Kwells to a third party.

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.

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Directors' Report (Continued)

For the year ended 31 December 2020

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.

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 Organisational 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 warehouseers, distributors, pharmacies, grocers, and a wide range of National Health Service (NHS) customers ranging from individual hospitals and clinics to hospital trusts and clinical commissioning groups.

To support the NHS the board agreed that the qualified employees would volunteer and support the NHS during the ongoing COVID 19 pandemic.

Corporate social responsibilities

During the year the company spent £111,000 (2019: £641,000) on various corporate social responsibility programmes. Covid-19 pandemic has resulted in a lower CSR spend for 2020.

Bayer Public Limited Company

Directors' Report (Continued)

For the year ended 31 December 2020

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 company's 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 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Bayer Public Limited Company

Directors' Report (Continued)

For the year ended 31 December 2020

Statement of disclosure to auditor

Each of the persons who is a director at the date of approval of this report confirms that 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: 23 June 2021

Independent auditor's report to the members of Bayer Public Limited Company

Report on the audit of the financial statements

Our opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 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 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 30.

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

Independent auditor's report to the members of Bayer Public Limited Company (Continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included Medicines & Healthcare Products Regulatory Agency (MHRA), General Data Protection Regulation (GDPR) and Good Clinical Practice (GCP).

We discussed among the audit engagement team including relevant internal specialists such as tax and pensions regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of procedures above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:

- Revenue recognition in relation to gross-to-net rebate adjustments, specifically the amount outstanding at the balance sheet date represents management's estimates based on the agreements in place with customers and distributors. We assessed the accuracy and completeness of management's estimates through developing an understanding of the type of rebate agreements in place, performing detailed substantive testing including agreeing selected sample to subsequent credit notes, copies of agreements and sales invoices as appropriate and developing independent estimates based on historical information and post balance sheet activity.

Independent auditor's report to the members of Bayer Public Limited Company (Continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, in-house and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

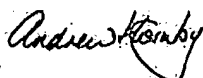
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



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

23 June 2021

Bayer Public Limited Company

Income Statement

For the year ended 31 December 2020

	Note	2020 Continuing operations £000s	2020 Discontinued operations £000s	2020 Total £000s	2019 Continuing operations £000s	2019 Discontinued operations £000s	2019 Total £000s
Revenue	3	688,967	30,133	719,100	710,711	51,735	762,446
Cost of sales		(529,103)	(22,984)	(552,087)	(530,456)	(31,602)	(562,058)
Gross profit		159,864	7,149	167,013	180,255	20,133	200,388
Distribution costs		(7,874)	(682)	(8,556)	(8,582)	(1,093)	(9,675)
Administrative expenses		(154,012)	(7,423)	(161,435)	(166,780)	(16,713)	(183,493)
Other operating income	3	34,277	39	34,316	33,188	692	33,880
Operating profit/(loss)	4	32,255	(917)	31,338	38,081	3,019	41,100
Gain recognised on measurement to fair value less cost to sell or on disposal of assets	26	-	16,591	16,591	-	-	-
Interest receivable and similar income	8	167	13	180	185	-	185
Income from shares in group undertakings	9	14,000	-	14,000	31,000	-	31,000
Finance costs	10	(4,596)	-	(4,596)	(4,731)	(70)	(4,801)
Impairment losses	11	(16,586)	-	(16,586)	-	-	-
Profit before taxation		25,240	15,687	40,927	64,535	2,949	67,484
Tax on profit	12	(5,472)	(2,277)	(7,749)	(6,642)	(560)	(7,202)
Profit for the financial year		19,768	13,410	33,178	57,893	2,389	60,282

Discontinued operations relate to the company's disposal of the animal health business and Kwells, part of consumer health business (note 13).

Bayer Public Limited Company

Statement of Comprehensive Income For the year ended 31 December 2020

	Note	2020 £000s	2019 £000s
Profit for the financial year		33,178	60,282
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on defined benefit pension scheme	25	(23,399)	10,693
Movement on deferred tax relating to pension scheme	24	4,830	(1,950)
Other comprehensive (expense)/income for the financial year, net of tax		(18,569)	8,743
Total comprehensive income for the financial year		14,609	69,025

Bayer Public Limited Company

Statement of Financial Position

As at 31 December 2020

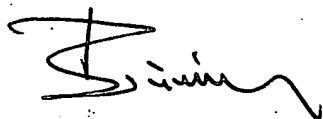
	Note	2020 £000s	2020 £000s	2019 £000s	2019 £000s
Non-current assets					
Intangible assets	15		563		376
Property, plant and equipment	16		23,382		25,928
Investments	17		109,234		125,820
Deferred tax asset			3,925		2,327
			<u>137,104</u>		<u>154,451</u>
Current assets					
Inventories	19	168,440		149,966	
Trade and other receivables: amounts falling due within one year	20	134,915		145,881	
Cash at bank and in hand		168		197	
Assets held for sale	26	-		10,826	
		<u>303,523</u>		<u>306,870</u>	
Current liabilities					
Trade and other payables: amounts falling due within one year	21	(270,826)		(265,467)	
		<u></u>		<u></u>	
Net current assets			32,697		41,403
Total assets less current liabilities			169,801		195,854
Non-current liabilities					
Trade and other payables	21		(18,983)		(20,904)
Provisions for liabilities					
Other provisions for liabilities	23		(27,214)		(36,221)
Retirement benefit obligations	25		(13,330)		(5,346)
Provisions directly associated with assets classified as held for sale	26		-		(7,718)
			<u>(40,544)</u>		<u>(49,285)</u>
Net assets			<u>110,274</u>		<u>125,665</u>
Capital and reserves					
Called up share capital presented as equity	27		25,062		25,062
Share premium account			10,655		10,655
Retained earnings			74,557		89,948
Total equity			<u>110,274</u>		<u>125,665</u>

Bayer Public Limited Company

Statement of Financial Position (Continued)

As at 31 December 2020

The financial statements were approved by the board of directors and authorised for issue on 23 June 2021 and are signed on its behalf by:



.....
L Bruening
Director

Company Registration No. 00935048

Bayer Public Limited Company

Statement of Changes in Equity

For the year ended 31 December 2020

	Note	Share capital £000s	Share premium £000s	Retained earnings £000s	Total £000s
Balance at 1 January 2019 (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 plans		-	-	10,693	10,693
Movement on deferred tax relating to pension scheme		-	-	(1,950)	(1,950)
Total comprehensive income for the financial year		-	-	69,025	69,025
Dividends		-	-	(50,000)	(50,000)
Balance at 31 December 2019		25,062	10,655	89,948	125,665
Profit for the financial year		-	-	33,178	33,178
Actuarial losses on defined benefit pension plans		-	-	(23,399)	(23,399)
Movement on deferred tax relating to pension scheme		-	-	4,830	4,830
Total comprehensive income for the financial year		-	-	14,609	14,609
Dividends	14	-	-	(30,000)	(30,000)
Balance at 31 December 2020		25,062	10,655	74,557	110,274

Bayer Public Limited Company

Notes to the Financial Statements

For the year ended 31 December 2020

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 private 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.

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 7 Financial Instrument Disclosure - Amendments regarding pre-replacement issues in the context of the IBOR reform
- IFRS 9 Financial Instrument - Amendments regarding pre-replacement issues in the context of the IBOR reform

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.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

1 Accounting policies

(Continued)

1.3 Going concern

The Covid-19 pandemic and the United Kingdom's exit from the European Union (Brexit) for which 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 assumptions are based on historical facts that the company has met its obligations and the directors expect to do so. Also the forecast and budgeted numbers would indicate that the directors believe that the company will continue to trade for the foreseeable future. Bayer has also issued a statement that they would continue to support its subsidiaries. There are also specific letters of support to cover vendor commitments.

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.

1.5 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'.
- paragraphs 52, second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 'Leases'.

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.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

1 Accounting policies

(Continued)

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.

1.7 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. Goodwill is stated at cost less any accumulated impairment losses. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen.

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.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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 when 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.

1.15 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, corporation tax receivable 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.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

1 Accounting policies

(Continued)

1.15 Financial instruments

(continued)

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.

Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

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.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

1 Accounting policies

(Continued)

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.

1.17 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.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

1 Accounting policies

(Continued)

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'.

1.19 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.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

1 Accounting policies

(Continued)

1.20 Leases

At inception of a contract, 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, if such indicators exist, and adjusted for certain remeasurements of the lease liability.

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.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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 and note 11 for the impairment losses recognised.

Refund Liabilities

The company enters into strategic alliances and agreements with distributors, wholesalers, pharmacy chains and governments where these arrangements result in recognition of deductions from gross revenue at the time the associated revenue is recognised. This requires an estimation of the closing liability and this is determined based on historical information and trends as well as specific terms in the individual agreements. The refund liability is reviewed and adjusted regularly based on historical information as well as future market conditions therefore future events within the next 2-3 months could cause the assumptions on which the liability is based on to change. See note 23 for the disclosures relating to the refund liabilities figures.

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.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

3 Revenue

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

	2020 £000s	2019 £000s
Sale of goods	714,994	758,131
Manufacturing services	3,542	3,454
Commission revenues	564	861
	<u>719,100</u>	<u>762,446</u>
Revenue analysed by division		
Pharmaceutical	568,642	597,438
Radiology	24,564	25,632
Consumer Health	95,761	88,502
Animal Health	30,133	50,874
	<u>719,100</u>	<u>762,446</u>
Revenue analysed by geographical market		
United Kingdom	716,723	756,084
Rest of Europe	1,931	5,734
Rest of the World	446	628
	<u>719,100</u>	<u>762,446</u>
Other operating income		
Reimbursements from group companies	32,528	32,303
Research and Development expenditure tax credit	1,495	1,400
Other income	293	177
	<u></u>	<u></u>

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

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

4 Operating profit

	2020 £000s	2019 £000s
Operating profit for the year is stated after charging:		
Foreign exchange (losses)/gains	(76)	26
Research and development costs	27,769	29,909
Depreciation of property, plant and equipment	1,011	1,512
Depreciation of right-of-use assets	2,555	2,784
Amortisation of intangible assets	75	-
Cost of inventories recognised as an expense	540,542	569,779
Impairment in inventories	7,632	3,334
Reorganisation expense	5,246	3,051
Employee related expense provisions	3,833	6,176
Regulatory fees provisions	631	1,115
Provision for refund liabilities	100,188	131,202
Legal cost provisions	2,747	2,900
Building retirement obligations provisions	51	26

The total research and development costs incurred by the company were £27,769,000 (2019: £29,909,000). Amounts reimbursed by group companies in respect of these costs were £24,573,000 (2019: £20,749,000). 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.

5 Auditor's remuneration

	2020 £000s	2019 £000s
The analysis of the auditor's remuneration is as follows:		
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	153	18

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

6 Employees

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

	2020 Number	2019 Number
Sales and marketing	427	427
Research and development	147	144
General administration	140	177
	<u>714</u>	<u>748</u>

Their aggregate remuneration comprised:

Employment Costs

	2020 £000s	2019 £000s
Wages and salaries	63,857	65,732
Social security costs	7,475	8,113
Pension costs	7,925	7,954
	<u>79,257</u>	<u>81,799</u>

7 Directors' remuneration

	2020 £000s	2019 £000s
Remuneration for qualifying services	1,668	1,538
Amounts receivable under long term incentive schemes	181	-
Company pension contributions to defined contribution schemes	-	34
Company contributions to money purchase pension plans	82	-
	<u>1,931</u>	<u>1,572</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to nil (2019: 2).

The number of directors for whom retirement benefits are accruing under defined benefit schemes amounted to nil (2019: nil).

The number of directors who are entitled to receive emoluments under long term incentive schemes during the year was 2 (2019: 2).

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

7 Directors' remuneration

(Continued)

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

Remuneration for qualifying services	925	879
Amounts receivable under long term incentive schemes	154	-
Company pension contributions to defined contribution schemes	-	25
Company contributions to money purchase pension plans	73	-
	<u>73</u>	<u>-</u>

Retirement benefits are no longer accruing under a defined contribution scheme for the highest paid director. Contributions for the year amounted to £nil (2019: £25,000). Of this amount, £nil remains payable at the year end (2019: £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

	2020 £000s	2019 £000s
Interest income		
Interest receivable from group companies	58	185
Net interest on retirement benefit obligations (note 25)	122	-
Total income	<u>180</u>	<u>185</u>

9 Income from shares in group undertakings

	2020 £000s	2019 £000s
Income from shares in group undertakings		
Dividend income	14,000	31,000
Total income	<u>14,000</u>	<u>31,000</u>

10 Finance costs

	2020 £000s	2019 £000s
Interest on financial liabilities measured at amortised cost:		
Interest on lease liabilities (note 22)	1,231	1,334
Interest payable to group undertakings	3,365	2,819
Interest on other financial liabilities:		
Net interest on retirement benefit obligations (note 25)	-	648
Total interest expense	<u>4,596</u>	<u>4,801</u>

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

11 Impairment losses

	2020 £000s	2019 £000s
Impairment losses on investment	16,586	-

	2020 £000s	2019 £000s
The impairment on investments comprises:		
Bayer Agriculture Limited	4,397	-
Bayer Crop Science	12,189	-
	16,586	-

12 Tax on profit

	2020 £000s	2019 £000s
Current tax		
UK corporation tax	5,219	3,936
Adjustments in respect of prior periods	(702)	47
Total current tax charge	4,517	3,983
Deferred tax		
Origination and reversal of temporary differences	3,499	3,313
Impact of change in tax rates	(73)	(3)
Adjustments in respect of prior periods	(194)	(91)
Total deferred tax charge	3,232	3,219
Total tax charge on profit	7,749	7,202

The tax for the year is lower (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%).

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

12 Tax on profit

(Continued)

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

	2020 £000s	2019 £000s
Profit before taxation	40,927	67,484
Profit before taxation multiplied by standard rate of corporation tax of 19.00% (2019: 19.00%)	7,776	12,822
Taxation impact factors affecting tax charge:		
Tax effect of expenses that are not deductible in determining taxable profit	3,602	317
Tax effect of income not taxable in determining taxable profit	(2,660)	(5,890)
Adjustments in respect of prior periods	(896)	(44)
Effect of change in corporation tax rate	(73)	(3)
Total adjustments	(27)	(5,620)
Tax income for the year	7,749	7,202

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

	2020 £000s	2019 £000s
Deferred tax arising on:		
Actuarial gains on defined benefit pension schemes recognised as other comprehensive income	(4,830)	1,950

Factors that may affect future tax charges:

The standard rate of tax applied to reported profit on ordinary activities is 19% (2019: 19%). The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. In the Finance Bill 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 11 March 2021. As the proposal to increase the rate at 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

13 Discontinued operations

The discontinued operations shown on the face of the income statement relate to the disposal of the animal health business, and Kwells, part of the consumer health business. Further information on the disposal is given in note 26.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

14 Dividends

	2020 £ per share	2019 £ per share	2020 £000s	2019 £000s
Amounts recognised as distributions to equity holders:				
Ordinary shares				
Interim dividend paid	1.20	2.00	30,000	50,000

15 Intangible fixed assets

	Goodwill £000s	Marketing rights £000s	Computer software £000s	Total £000s
Cost				
At 1 January 2020	39,229	17,584	471	57,284
Disposals	-	(233)	-	(233)
Additions	-	428	-	428
At 31 December 2020	39,229	17,779	471	57,479
Accumulated amortisation				
At 1 January 2020	39,229	17,208	471	56,908
Charge for the year	-	75	-	75
Disposals	-	(67)	-	(67)
At 31 December 2020	39,229	17,216	471	56,916
Carrying amount				
At 31 December 2020	-	563	-	563
At 31 December 2019	-	376	-	376

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.

Goodwill of £9,379,000 arose in 2014 on the acquisition of the Over the Counter Consumer Care business of Merck Co., Inc..

Goodwill is stated at cost less any accumulated impairment losses. It is not amortised, but is tested annually for impairment.

Included within Marketing rights are trademarks of £13,956,000 (2019: £13,956,000) which were fully amortised in prior years. Trademark registrations in 2020 were £428,000.

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

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

16 Property, plant and equipment

	Long, leasehold land and buildings £000s	Fixtures, fittings & equipment £000s	Plant and machinery £000s	Total £000s
Cost				
At 1 January 2020	28,259	7,189	87	35,535
Additions	-	1,051	23	1,074
Disposals	-	(516)	(10)	(526)
At 31 December 2020	28,259	7,724	100	36,083
Accumulated depreciation				
At 1 January 2020	6,551	3,035	21	9,607
Charge for the year	1,903	1,646	17	3,566
Eliminated on disposal	-	(471)	(1)	(472)
At 31 December 2020	8,454	4,210	37	12,701
Carrying amount				
At 31 December 2020	19,805	3,514	63	23,382
At 31 December 2019	21,708	4,154	66	25,928

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

Right-of-use assets	Long leasehold land and buildings £000s	Fixtures, fittings and equipment £000s	Total £000s
Cost			
At 1 January 2020	20,672	3,239	23,911
Additions	-	1,051	1,051
Disposals	-	(321)	(321)
At 31 December 2020	20,672	3,969	24,641
Accumulated depreciation			
At 1 January 2020	4,884	1,155	6,039
Charge for the year	1,386	1,169	2,555
Eliminated on disposal	-	(276)	(276)
At 31 December 2020	6,270	2,048	8,318
Carrying amount			
At 31 December 2020	14,402	1,921	16,323
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. The Company discounted lease payments using its incremental borrowing rate at 1 January 2020. The rate applied ranges from 2.27% to 4.83% depending on the period of the lease.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

17 Investments

	Shares in group undertakings £000s
Cost or valuation	
At 1 January 2020 & 31 December 2020	137,814
Impairment	
At 1 January 2020	11,994
Impairment losses	16,586
At 31 December 2020	28,580
Carrying amount	
At 31 December 2020	109,234
At 31 December 2019	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.

Bayer CropScience Norwich Limited was dissolved on 16 March 2021.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

19 Inventories

	2020 £000s	2019 £000s
Raw materials	1,017	1,230
Work in progress	1,673	2,793
Finished goods	165,750	145,943
	<u>168,440</u>	<u>149,966</u>
Classified as part of a disposal group held for sale	-	10,826
	<u>168,440</u>	<u>160,792</u>

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

20 Trade and other receivables

	Amounts falling due within one year	
	2020 £000s	2019 £000s
Trade receivables	110,355	136,215
Other receivables	16,243	138
Amounts owed by group undertakings	6,694	7,753
Prepayments and accrued income	1,004	1,775
Corporation Tax	619	-
	<u>134,915</u>	<u>145,881</u>

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

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

21 Trade and other payables

	Amounts falling due within one year		Amounts falling due after more than one year	
	2020 £000s	2019 £000s	2020 £000s	2019 £000s
Trade payables	22,300	18,248	-	-
Amounts owed to group undertakings	167,995	153,594	-	-
Accruals	5,974	24,987	-	-
Other payables	67,945	40,302	-	-
Taxation and social security	3,860	24,667	-	-
Corporation tax	-	1,282	-	-
Lease liabilities (note 22)	2,752	2,387	18,983	20,904
	<u>270,826</u>	<u>265,467</u>	<u>18,983</u>	<u>20,904</u>

Included within amounts owed to group undertakings is an amount of £85,000,000 (2019: £125,086,000) owed to Bayer Limited, a company registered in Cyprus. This loan accrued interest at a rate of 2.30% and was repaid in full 8 January 2021.

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

22 Lease liabilities

	2020 £000s	2019 £000s
Maturity analysis		
Within one year	2,752	2,387
In one to five years	8,567	7,436
In over five years	10,416	13,468
Total liabilities	<u>21,735</u>	<u>23,291</u>

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:

	2020 £000s	2019 £000s
Current liabilities	2,752	2,387
Non-current liabilities	18,983	20,904
	<u>21,735</u>	<u>23,291</u>

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

22 Lease liabilities

(Continued)

	2020 £000s	2019 £000s
Amounts recognised in profit or loss include the following:		
Interest on lease liabilities (note 10)	1,231	1,334

Movement of lease liability

	Long leasehold land and buildings £000s	Fixtures, fittings & equipment £000s	Total £000s
At 1 January 2020	21,256	2,035	23,291
Interest expense	1,188	43	1,231
Effect of modification to lease term	-	(157)	(157)
Additions	-	1,173	1,173
Lease payments	(2,577)	(1,226)	(3,803)
At 31 December 2020	19,867	1,868	21,735

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

	2020 £000s	2019 £000s
Lease related expenses not included in liabilities		
Lease with remaining term of less than 12 months	121	165

23 Provisions for liabilities

	2020 £000s	2019 £000s
Restructuring costs	2,863	2,511
Employee related	1,891	3,326
Regulatory fees	596	602
Building retirement obligations	724	673
Legal costs	1,748	2,124
Refund liabilities	19,392	26,985
	27,214	36,221
Retirement benefit obligations (note 25)	13,330	5,346
	40,544	41,567
Classified as part of a disposal group held for sale		
Refund liabilities	-	7,718
	40,544	49,285

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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 2020	2,511	3,326	602	673	26,985	2,124	36,221
Additional provisions in the year	6,554	6,184	789	51	101,030	2,747	117,355
Reversal of provision	(1,308)	(2,351)	(158)	-	(842)	-	(4,659)
Utilisation of provision	(4,894)	(5,268)	(637)	-	(107,781)	(3,123)	(121,703)
At 31 December 2020	2,863	1,891	596	724	19,392	1,748	27,214

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 dilapidation 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.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

24 Deferred taxation

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

	(Accelerated) /decelerated capital allowances £000s	Other timing differences £000s	Defined benefit pension deficit £000s	Total £000s
Deferred tax asset at 1 January 2018	(197)	2,051	5,642	7,496
Deferred tax movements in prior year				
Charge to the income statement	137	(600)	(2,756)	(3,219)
Charge to other comprehensive income	-	-	(1,950)	(1,950)
Deferred tax asset at 1 January 2019	(60)	1,451	936	2,327
Deferred tax movements in current year				
Charge to the income statement	22	(498)	(2,756)	(3,232)
Credit to other comprehensive income	-	-	4,830	4,830
Deferred tax asset at 31 December 2020	(38)	953	3,010	3,925

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:

	2020 £000s	2019 £000s
Deferred tax assets	3,925	2,327

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

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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 2020.

From 1 April 2018 and for the year ended 31 December 2020, normal company contributions were 0% of members' pensionable salaries for the Group DB Section and 0% of members' pensionable salaries for the BCSPF Section. From 1 April 2021, normal company contributions are agreed as 48.8% of members' pensionable salaries for the Group DB Section and 47.1% 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 2021. The additional company contributions during 2020 to the Group DB Section and SHCL Section were £12.8m (2019: £12.8m) and £2.5m (2019: £2.5m) respectively and further additional contributions are set out in the Recovery Plan of £25.5m in 2021, with further potential additional contributions in 2022 and 2023 of combined annual maximum of £26.5m for the Group DB Section, SHCL Section and BCSPF Section, contingent on the funding position shortly before the payment date.

The actuarial valuations of the BGPP were updated to 31 December 2020 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.

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.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

25 Retirement benefit schemes

(Continued)

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 £13,489,000 (2019: £7,682,000).

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

Key assumptions	2020 %	2019 %
Rate of increase in salaries	2.85	2.70
Rate of increase in pensions payment:		
LPI maximum 5%	2.70	2.85
LPI minimum 3% maximum 5%	3.45	3.60
LPI maximum 2.5%	2.05	2.00
Rate of increase for deferred pensioners:		
CPI maximum 2.5%	1.75	1.70
CPI minimum 3%	3.25	3.20
Discount rate	1.30	1.95
Inflation Assumption (RPI)	2.75	2.95

Mortality assumptions

Significant demographic assumptions

The mortality assumption at 31 December 2020 is based on an experience investigation prior to the previous funding valuation. The current assumption uses 100% (2019: 95%) of mortality rates included in the standard tables known as "S3NMA". Allowance for future longevity improvements is made in line with the CMI 2019 (2019: CMI 2018) projections with a long term improvement rate of 1.25% (2019: 1.25%) for males and 1.25% (2019: 1.25%) for females.

The mortality assumptions used were as follows:

	2020 Years	2019 Years
Longevity at 65 for current pensioners		
- Males	22	22
- Females	25	24
Longevity at 65 for pensioners in 20 years time		
- Males	24	23
- Females	26	26

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

25 Retirement benefit schemes

(Continued)

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

	2020 £000s	2019 £000s
Current service cost	190	272
Net interest on defined benefit liability	(122)	648
Past service cost	540	-
The effect of curtailments or settlements	28	-
	<u>636</u>	<u>920</u>

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

	2020 £000s	2019 £000s
Retirement healthcare benefits (wholly unfunded)		
Actuarial changes arising from changes in financial assumptions	119,405	78,217
Actuarial changes relating to plan assets	(96,006)	(88,910)
Total actuarial gain/(loss) recognised in other comprehensive income	<u>23,399</u>	<u>(10,693)</u>

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:

	2020 £000s	2019 £000s
Defined benefit pension plans		
Present value of defined benefit obligations	955,982	849,282
Fair value of plan assets	(942,652)	(843,936)
Net liability recognised in the statement of financial position	<u>13,330</u>	<u>5,346</u>

The GMP ruling in 2020 had no significant impact to the pension disclosures.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

25 Retirement benefit schemes

(Continued)

Movements in the present value of defined benefit obligations:

Defined benefit pension plans	2020 £000s	2019 £000s
At 1 January 2020	849,282	779,126
Current service cost	190	272
Past service cost	540	-
Curtailments	92	-
Benefits paid by the employer	(29,800)	(29,597)
Contributions from scheme members	3	3
Actuarial losses	119,405	78,217
Interest cost	16,270	21,261
At 31 December 2020	955,982	849,282

Movements in the fair value of plan assets:

	2020 £000s	2019 £000s
At 1 January 2020	843,936	748,193
Interest income	16,392	20,613
Return on plan assets (excluding amounts included in net interest)	96,006	88,910
Benefits paid by the employer	(29,800)	(29,597)
Contributions by the employer	16,115	15,814
Contributions by scheme members	3	3
At 31 December 2020	942,652	843,936

The actual gain on plan assets was £110,796,000. (2019: £109,523,000 gain).

There were no amounts recognised in the income statement or statement of comprehensive income for the unfunded unapproved arrangement in the current or prior year. There was no net pension deficit at 1 January 2020 and 31 December 2020 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 2021

Defined benefit pensions plans	£000s
Employer	15,562

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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:

	2020 £000s	2019 £000s
Discount rate		
0.5% pa increase	(74,761)	(82,535)
0.5% pa decrease	106,475	92,900
Rate of increase in pension payments		
0.5% pa increase	67,767	60,016
0.5% pa decrease	(63,310)	(55,779)
Rate of increase in salaries		
0.5% pa increase	5,811	5,116
0.5% pa decrease	(5,509)	(4,851)
Life expectancy		
1 year increase in life expectancy	38,433	32,072
1 year decrease in life expectancy	(41,608)	(35,253)

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

	Quoted 2020 £000s	Unquoted 2020 £000s	Quoted 2019 £000s	Unquoted 2019 £000s
Equity instruments	340,661	-	344,331	-
Debt instruments	517,452	-	412,242	-
Property	-	76,591	-	79,901
Other	6,375	-	6,489	973
	<u>864,488</u>	<u>76,591</u>	<u>763,062</u>	<u>80,874</u>

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

26 Assets and liabilities classified as held for sale

The sale of Bayer's Animal Health business was finalised in August 2020 and the global value of the sale was set at \$7.6 billion.

Effect of the disposals on individual assets and liabilities is as follows:

	2020 £000s
Inventories	11,791
Intangible	571
Trade creditors	(413)
Provisions	(10,470)
Net identifiable assets and liabilities	1,479
Consideration received	18,070
Net cash inflow	16,591

	2020 £000s	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

	2020 £000s	2019 £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.

Bayer Public Limited Company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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 2020 (2019: £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 £1,518,000 (2019: £1,600,000).

The extent of the potential liability arising from this agreement at 31 December 2020 is £1,518,000 (2019: £1,600,000). 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

Brexit

On 1 January 2021 the United Kingdom exited the transition period with the European Union, where a free trade agreement was agreed. The full impacts of this are still being accessed.

Bayer CropScience Norwich Limited, an indirectly held subsidiary, was dissolved on 16 March 2021.

Covid 19

Due to Covid 19 market movements in the values of underlying assets, the discount rates and potentially the assumed mortality rate will have a material impact on the value of the pension liability. However, it is not practically possible to determine or estimate the full impact on the value as the date of signing these financial statements.

30 Controlling party

At 31 December 2020, 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

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Kaiser-Wilhelm Allee
51368 Leverkusen
Germany