

Registered number 935048

**BAYER PLC
ANNUAL REPORT FOR YEAR ENDED
31 DECEMBER 2002**



BAYER PLC

ANNUAL REPORT FOR THE YEAR
ENDED 31ST DECEMBER 2002

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DIRECTORS

Mr L Courth (Managing)

Dr F-J Berners

BANKERS

Barclays Bank plc

National Westminster Bank plc

Deutsche Bank AG

West Deutsche Landesbank

Allied Irish Bank

AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

SOLICITORS

Nabarro Nathanson
Simmons & Simmons
Bristows

SECRETARY

M D Newson F.C.C.A.

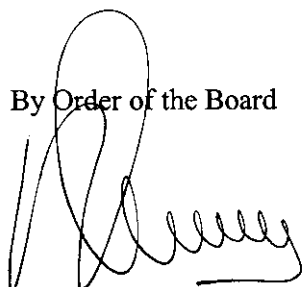
REGISTERED OFFICE

Bayer House
Strawberry Hill
Newbury
Berkshire
RG14 1JA

N O T I C E is hereby given that the Thirty Fourth Annual General Meeting of the Members of the Company will be held at Stoke Court, Stoke Poges, Buckinghamshire, on 9th May 2003 at 12:00 midday for the purpose of transacting the following business:

1. To receive the Directors' Report, the Balance Sheet and Accounts and the Auditors' Report for the Year Ended 31st December 2002.
2. To appoint PricewaterhouseCoopers LLP as Auditors to the Company for the ensuing year and authorise the Directors to fix their remuneration.
3. To transact any other business of an Annual General Meeting.

By Order of the Board

A handwritten signature in black ink, appearing to be 'M D Newson', written over a horizontal line.

M D Newson
Secretary

9th May 2003

A Member entitled to attend and vote may appoint one or more proxies to attend, and on a poll to vote instead of him/her. A proxy need not be a Member of the Company.

REPORT OF THE DIRECTORS

The directors present their Annual Report and the audited Financial Statements for the year ended 31st December 2002.

PRINCIPAL ACTIVITY

The Company's principal activity continues to be the marketing of own manufactured chemicals and those manufactured by Bayer AG, the German parent company, and its subsidiaries.

REVIEW OF BUSINESS

The profit and loss account for the year is set out on page nine. During the course of the year the company disposed of the Agrochemical business in the UK. See note 2B for further details.

The business results have been adversely affected by the write-down of the investment in Microbial Developments Limited.

FUTURE DEVELOPMENTS

Subsequent to events noted above, the Company intends to consolidate its position by establishing the basis for continued business growth in the United Kingdom.

RESEARCH AND DEVELOPMENT

The Company is committed to product improvement and does so through extensive research and development. Research in the United Kingdom is carried out primarily by the Pharmaceutical Business Group. Considerable other research is carried out world-wide by other group companies.

CHARITABLE DONATIONS

During the year, the sum of £62,595 (2001: £133,266) was donated to United Kingdom charitable organisations. No payments were made for political purposes.

FIXED ASSETS

In the opinion of the directors the market value of the Company's freehold properties is in excess of their book value.

DIVIDEND

The directors do not recommend payment of a dividend.

EMPLOYEES

Employment of 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 promotion of disabled employees.

Employee Communications

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

Meetings are held regularly at all sites where the views of staff members are sought and management has an opportunity to inform staff of developments within the Company and its financial standing and prospects. All staff are kept informed by way of published minutes of these meetings and also by way of the in-house magazine containing articles on the Company's performance and plans.

CREDITORS PAYMENT POLICY

It is the Company's policy to pay liabilities to creditors within credit terms agreed with suppliers. The Company follows the CBI's Prompt Payers Code. (Copies are available from the CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DU).

The number of days represented by trade creditors is 29 days (2001: 34 days).

DIRECTORS

A list of directors as at 31st December 2002 is shown on page three.

Dr G Zaby resigned 7th March 2002, Mr L Aberg resigned 31st December 2002, and Mr L Courth was appointed 5th December 2002.

No director has any disclosable interest, as defined by the Companies Act 1985 in Shares, Debentures or Unsecured Loan Stock of any Group Company.

By Order of the Board



M D Newson F.C.C.A.
Secretary

9th May 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adopting of new accounting standards in the year as explained on page 12 under Note 1 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31st December 2002, and that applicable accounting standards have been followed.

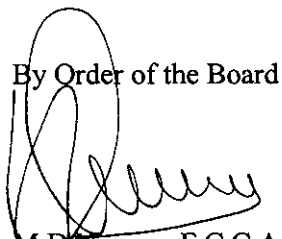
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Bayer Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

Following the conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 24 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP to fill the casual vacancy. A resolution to reappoint PricewaterhouseCoopers LLP, as auditors to the company will be proposed at the annual general meeting.

By Order of the Board

M D Newson F.C.C.A
Secretary

9th May 2003

BAYER PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BAYER PLC

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

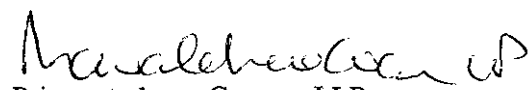
Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
READING

9 May 2003

BAYER PLC
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2002

	Note	£'000	2002 £'000	£'000	£'000	2001 £'000	£'000
		Continued	Discontinued	Total	restated Continued	restated Discontinued	restated Total
Turnover	2A	236,953	37,265	274,218	254,875	46,238	301,113
Change in Stocks of Finished Goods and Work in Progress		613	(12,949)	(12,336)	(3,214)	3,721	507
Other Operating Income		<u>81</u>	<u>-</u>	<u>81</u>	<u>83</u>	<u>-</u>	<u>83</u>
		237,647	24,316	261,963	251,744	49,959	301,703
Raw Materials and Consumables		(140,477)	(13,356)	(153,833)	(159,888)	(35,766)	(195,654)
Other External Charges		(13,377)	(362)	(13,739)	(9,731)	(503)	(10,234)
Staff Costs	2B	(52,404)	(6,404)	(58,808)	(60,712)	(4,229)	(64,941)
Depreciation		(3,444)	(187)	(3,631)	(4,050)	(217)	(4,267)
Other Operating Charges		<u>(3,797)</u>	<u>(6,827)</u>	<u>(10,624)</u>	<u>(8,492)</u>	<u>(8,547)</u>	<u>(17,039)</u>
Operating Profit/(Loss)		24,148	(2,820)	21,328	8,871	697	9,568
Income from shares in group undertakings				-			5,000
Profit on Sale of Investments	5			3,900			-
Loss on Sale of Fixed Assets				(1,028)			(22)
Interest Receivable and Similar Income	2F			1,850			1,539
Amount written off investment	5			(3,700)			(11,049)
Interest Payable and similar charges	2G			(3,449)			(5,539)
Profit/(loss) on Ordinary Activities before Taxation	2H			<u>18,901</u>			<u>(481)</u>
Tax on profit/(loss) on Ordinary Activities	2I			(8,054)			(3,144)
Profit/(loss) for the Financial Year				<u>10,847</u>			<u>(3,625)</u>

The movements on reserves are set out in note 12. The results for the year ended 31 December 2002 are derived from continuing activities and the discontinued Crop Protection business, see note 2B. Other acquisitions and disposals did not have a material effect. There is no difference between the profit/(loss) on ordinary activities before taxation and the retained profit/(loss) for the years above and their historical cost equivalents.

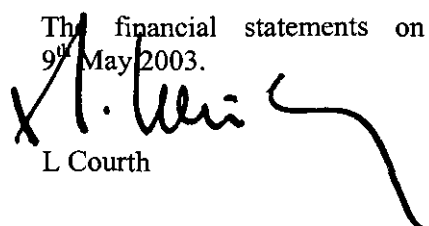
BAYER PLC
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<u>Note</u>	<u>2002</u> £'000	<u>2001</u> restated £'000
For the year ended 31 December			
Profit/(loss) for the financial year		10,847	(3,625)
Total recognised gains/(losses) for the year		<u>10,847</u>	<u>(3,625)</u>
Prior year adjustment	13	<u>541</u>	<u> </u>
Total gains recognised since last annual report		<u>11,388</u>	

BAYER PLC
BALANCE SHEET
AS AT 31ST DECEMBER 2002

		<u>2002</u>		<u>2001</u> restated	
	<u>Note</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
FIXED ASSETS					
Intangible Assets	3		9,705		26,706
Tangible Assets	4		16,618		18,340
Investments	5		17,419		29,819
			<u>43,742</u>		<u>74,865</u>
CURRENT ASSETS					
Stocks	6	14,916		27,252	
Debtors	7	134,878		91,970	
Cash at Bank and in Hand		9		79	
		<u>149,803</u>		<u>119,301</u>	
CREDITORS: Amounts falling due within one year	8	(117,806)		(131,039)	
NET CURRENT ASSETS/(LIABILITIES)			<u>31,997</u>		<u>(11,738)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>75,739</u>		<u>63,127</u>
PROVISIONS FOR LIABILITIES AND CHARGES	9		(2,103)		(338)
NET ASSETS			<u>73,636</u>		<u>62,789</u>
CAPITAL AND RESERVES					
Called Up Share Capital	10		25,062		25,062
Share Premium Account	11	10,655		10,655	
Reserves	12	37,919		27,072	
			<u>48,574</u>		<u>37,727</u>
EQUITY SHAREHOLDERS' FUNDS	13		<u>73,636</u>		<u>62,789</u>

The financial statements on pages nine to twenty nine were approved by the directors on 9th May 2003.


L Courth

Director

BAYER PLC**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2002****1. ACCOUNTING POLICIES****1A Basis of Accounting**

The Financial Statements have been prepared under the historical cost convention, and in accordance with applicable Accounting Standards in the United Kingdom. They contain information about Bayer Plc as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent Bayer AG, a company incorporated in The Federal Republic of Germany. A summary of the more important accounting policies is set out below.

1B Changes in accounting policy

In December 2000, the Accounting Standards Board issued FRS 19, 'Deferred tax', effective from 23 January 2002.

FRS 19, 'Deferred Tax', has been adopted in this year's financial statements. The effect of the change in accounting policy to adopt FRS 19 was to decrease tax on profit on ordinary activities by £128,000 (2001: decrease by £148,000) and to increase profit for the financial year by £128,000 (2001: decrease loss by £148,000), see note twelve for further details.

1C Presentation of Financial Information

The Company has taken advantage of the exemption in Financial Reporting Standard 1 'Cash Flow Statements' from producing a cash flow statement, as it is a 100% subsidiary of Bayer AG whose consolidated accounts are publicly available.

Financial Reporting Standard 8 'Related Party Disclosures' requires the disclosure of the details of material transactions between the reporting entity and any related parties. The company has not disclosed transactions with other Group Companies including their associates and joint ventures in accordance with the exemption in FRS 8 paragraph 3(c).

1D Goodwill

Purchased goodwill is capitalised and written off on a straight line basis over its estimated useful life or 20 years, whichever is the shorter.

1E Tangible Fixed Assets

Fixed Assets, which have been stated at cost, have been depreciated on a straight-line basis in such a way that they are fully depreciated over their estimated useful lives at the following annual rates:

Freehold Buildings	20 - 40 years
Short Leasehold Properties	20 - 40 years, dependent on lease term
Long Leasehold Buildings	40 - 50 years, dependent on lease term
Furniture & Office Equipment	3 - 10 years
Plant & Machinery	2 - 15 years
Motor Vehicles	4 years
Rental Equipment	3 - 5 years

Freehold land is not depreciated.

1F Fixed Asset Investments

Fixed asset investments are held at cost less provision for impairment in value.

1G Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value after provisions for obsolescence, on a basis consistent with previous years. In general, cost is determined on a first in first out basis. In the case of manufactured goods, cost includes all direct expenditure and production overheads based on a normal level of activity. Stocks on consignment and their related obligations are recognised when the risk and rewards of ownership pass to the Company.

1H Deferred Taxation

The Company has adopted Financial Reporting Standard 19, 'Deferred Taxation' (FRS19) during the 2002 financial year. Full provision is made where required by FRS 19 for deferred taxation on all timing differences at the balance sheet date. Prior to the adoption of FRS 19, the company provided for deferred taxation only to the extent that timing differences were expected to reverse in the foreseeable future.

1I Foreign Currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities are translated into Sterling at the rates of exchange ruling at the Balance Sheet date, except for those liabilities covered by forward exchange contracts which are translated at contract rates. The resulting exchange differences are dealt with in the profit and loss account.

1J Leases

As Lessees

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Leasing agreements which transfer to the Company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

As Lessors

Income in respect of operating leases is taken on a straight line basis over the lease term.

Income from finance leasing contracts is taken to profit in accordance with the investment period method of accounting in direct relationship to the reducing capital invested during the primary leasing period. The net investment in finance leases is included in debtors.

1K Research and Development

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

NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2002

ACCOUNTING POLICIES - continued**1L Pension Costs**

The expected cost of pensions in respect of the Group's defined benefit schemes is charged so as to spread the cost of pensions over the average expected service lives of employees in the schemes. Variations from the regular cost arising from periodic actuarial valuations are spread over the expected remaining service lives of current employees in the schemes. The pension cost is assessed in accordance with the advice of independent qualified actuaries.

2. NOTES ON THE PROFIT AND LOSS ACCOUNT**2A Turnover**

Company turnover, which excludes value added tax, represents goods and services provided and includes commissions receivable from indent sales. The geographical analysis of turnover by destination is given below. All turnover is derived from third party sales. Segmental information is given in note 16.

	<u>2002</u>	<u>2001</u>
	£'000	£'000
United Kingdom	254,043	278,076
Continental Europe	19,970	22,155
Other	205	882
	<u>274,218</u>	<u>301,113</u>

2B Disposal of operations

On 1 September 2002 the crop protection division of Bayer Plc was purchased by a fellow subsidiary, Bayer Crop Sciences Limited for consideration of £36.1 million.

The net assets and liabilities sold are set out below:

	Book value
	£m
Fixed assets	
Intangible assets	14.3
Tangible assets	0.6
Investments	8.6
Current assets	
Stocks	14.9
Debtors	<u>3.5</u>
Total assets	41.9
Liabilities	
Creditors	<u>(5.8)</u>
Net assets	<u>36.1</u>
Consideration	<u>36.1</u>
Profit on sale	<u>-</u>

2C Staff Costs

	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Wages and Salaries	51,315	54,656
Social Security Costs	3,745	4,579
Pension Costs	3,748	5,706
	<u>58,808</u>	<u>64,941</u>

Pension costs include contributions to the Bayer Group Pension Scheme, Bayer Diagnostics Manufacturing Limited Pension Plan and Bayer AG Pension Scheme, in respect of employees of the Company.

<u>Directors' Emoluments</u>	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Aggregate Emoluments	<u>515</u>	<u>272</u>

Retirement benefits are accruing to two Directors (2001: one Director) under the company's defined benefit scheme.

	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Highest paid Director		
Aggregate Emoluments	<u>464</u>	<u>272</u>
Defined benefit pension schemes:-		
Accrued pension at end of year	<u>95</u>	<u>110</u>

During the year the company granted an option to Mr Aberg to sell its interest in a freehold dwelling for £350,000. The directors believe, based on external advice, that the dwelling was valued at £500,000 at the time of grant. Consequently £150,000 has been included in Mr Aberg's emoluments for the year. The option was not exercised in 2002 and has not been exercised to date.

Average Number of Employees

The average monthly number of employees during the year was as follows:

	<u>2002</u> <u>Number</u>	<u>2001</u> <u>Number</u>
Manufacturing, Warehousing & Logistics	75	86
Sales & Marketing	448	706
Research and Development	135	187
General Administration	210	246
	<u>868</u>	<u>1,225</u>

BAYER PLC**NOTES TO THE ANNUAL REPORT**
FOR THE YEAR ENDED 31ST DECEMBER 2002**NOTES ON THE PROFIT AND LOSS ACCOUNT- continued****2D Pension Costs**

The disclosures and figures reported relate to the Bayer Group Pension Plan, and do not incorporate assets and liabilities arising from any other of the Company's retirement benefit arrangements. Details of the other Plan can be found in Bayer Diagnostics Manufacturing (Sudbury) Ltd's Financial Statements.

The Company participates in defined benefit pension arrangements. The assets of the schemes are held separately from those of the Company in a separate trustee administered fund.

The majority of employees are members of the Bayer Group Pension Plan, which provides benefits for employees of Bayer Plc, some employees of Bayer Diagnostics Manufacturing (Sudbury) Limited, Bayer Diagnostics Manufacturing Limited, Bayer Crop Science, Haarmann and Reimer Limited, Polymerlatex Limited and Pbi Home and Garden Limited, all UK subsidiaries of the ultimate parent, Bayer AG. The assets and liabilities held in respect of present and former employees of the Bayer and Miles Companies are separately identified (i.e. excluding assets and liabilities for the Agfa members) and a separate contribution rate is calculated in respect of them.

The contribution rate required is assessed by an independent qualified actuary on the basis of triennial valuations. The last valuation was carried out as at 31 December 2001 using the projected unit method.

The main assumptions used were:

Rate of return on investments	6.25% pa
Salary inflation	4.5% pa
Pension increases on excess over GMPs	3.25% pa
Price inflation	2.5%

The market value of the assets relating to the relevant category of employees of Bayer Plc including employees of other Bayer companies, but excluding Agfa companies as at 31 December 2001 was £204.3m. The actuarial value of these assets represented some 105% of the liabilities.

The company continues to follow SSAP24 'Accounting for Pension Costs', the charge for the year, after allowing for the benefit of spreading the scheme surplus over the members' average working lifetimes was £3.7m (2001: £4.9m). Disclosures required by FRS17 'Retirement Benefits' can be found in note 2E below.

2E FRS17 RETIREMENT BENEFITS**Bayer Group Pension Plan**

The disclosures and figures reported relate to the Bayer Group Pension Plan, and do not incorporate assets and liabilities arising from any other of the Company's retirement benefit arrangements. Details of the other Plan can be found in Bayer Diagnostics Manufacturing (Sudbury) Ltd's Financial Statements.

BAYER PLC**NOTES TO THE ANNUAL REPORT**
FOR THE YEAR ENDED 31ST DECEMBER 2002**NOTES ON THE PROFIT AND LOSS ACCOUNT- continued****FRS 17**

FRS 17 has not been adopted. The following information is the relevant disclosure requirements of FRS 17. The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 December 2001 and updated to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2002. Scheme assets are stated at their market value at 31 December 2002.

The financial assumptions used to calculate scheme liabilities under FRS17 are:

Valuation method

	Major assumptions at 31 December 2002	Major assumptions at 31 December 2001
	%pa	%pa
Discount rate	5.75	5.75
Inflation rate	2.25	2.5
Rate of increase in deferred pensions	2.25	2.5
Rate of increase in pensions in payment	3.25	3.25
Salary increases	4.25	4.5

	<u>2002</u>
	£m
Analysis of return on pension scheme	
Expected return on pension scheme assets	(15.0)
Experience gains and losses arising on the scheme liabilities	13.3
Net return	(1.7)

	<u>2002</u>
	£m
Analysis of amount recognised in statement of total recognised gains and losses (STRGL)	
Actual return less expected return on pension scheme assets	46.6
Experience gains and losses arising on the scheme liabilities	(18.1)
Changes in assumptions underlying the present value of the scheme liabilities	(9.6)
Actuarial loss recognised in STRGL	18.9

	<u>2002</u>
History of experience of gains and losses	
Actual versus expected return on scheme assets (£m)	46.6
Percentage of scheme assets	27.0%
Total amount recognised in statement of total recognised gains and losses (£m)	18.9
Percentage of present value of scheme liabilities	8.7%

BAYER PLC

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2002**

NOTES ON THE PROFIT AND LOSS ACCOUNT- continued

**2002
£m**

Movement in deficit during the year

Shortfall in scheme at beginning of the year	(23.4)
Movement in year:	
Current service cost	(9.4)
Contributions	3.5
Past service costs	-
Curtailment gain	1.7
Other finance income	1.7
Actuarial loss	(18.9)
Shortfall in scheme at end of the year	(44.8)

	Long-term rate of return expected at 31 December 2002	Value at 31 December 2002 £m	Long-term rate of return expected at 31 December 2001	Value at 31 December 2001 £m
Equities	8.7%	131.3	8.0%	148.1
Bonds	5.4%	37.2	5.4%	41.5
Other	4.2%	4.0	5.4%	14.7
Total market value of assets		172.5		204.3
Present value of scheme liabilities		(217.3)		(227.7)
Shortfall in the scheme		(44.8)		(23.4)
Related deferred tax asset		13.4		7.0
Net pension liability		(31.4)		(16.4)

	2002 Group £m	2001 Group £m
Net assets		
Net assets excluding pension liability	73.6	62.2
Pension liability	(31.4)	(16.4)
Net assets including pension liability	42.2	45.8

	2002 Group £m	2001 Group £m
Reserves		
Profit and loss reserve excluding pension liability	37.9	26.5
Pension liability	(31.4)	(16.4)
Profit and loss reserve including pension liabilities	6.5	10.1

	<u>2002</u> Group £m
Analysis of the amount charged to operating profit	
Current service costs	9.4
Past service cost	-
Total operating charge	9.4

The rate of employer contributions payable during the year ended 2002 was 10.2% pa of Contribution Salaries. The rate has been agreed with the trustees, until the results of the valuation due as at 1 April 2003 have been considered.

In addition to the above the group has a small unapproved benefit arrangement. £2.2 million has been provided.

2F Interest Receivable and Similar Income

	<u>2002</u> £'000	<u>2001</u> £'000
Bank Interest Receivable	89	37
Interest Receivable on Finance Leases	199	125
Group Interest Receivable	1,562	1377
	<u>1,850</u>	<u>1,539</u>

2G Interest Payable and Similar Charges

	<u>2002</u> £'000	<u>2001</u> £'000
Interest Payable on Bank Loans and Overdrafts	3,133	4,942
Interest Payable on Other Loans	316	597
	<u>3,449</u>	<u>5,539</u>

2H Profit/(Loss) on Ordinary Activities Before Taxation

	<u>2002</u> £'000	<u>2001</u> £'000
Is stated after charging/(crediting):		
Loss on Sale of Fixed Assets	1,028	22
Depreciation of owned Fixed Assets	3,631	4,267
Amortisation of goodwill	2,655	3,285
Operating Leases		
- Other Assets	6,308	7,378
Auditors' Remuneration:		
- Audit Services	197	145
- Non Audit Services	82	61
Net Research and Development income	(969)	(985)
Exchange (gains)/losses in the year	<u>(385)</u>	<u>305</u>

2I Tax on profit/(loss) on ordinary activities

	<u>2002</u>	<u>2001</u> restated
	<u>£'000</u>	<u>£'000</u>
Current tax		
UK corporation tax at 30% (2001: 30%)	7,288	3,292
Adjustment in respect of prior periods	894	-
Total current tax	<u>8,182</u>	<u>3,292</u>
Deferred tax:		
Origination and reversal of timing differences (see note 9)	<u>(128)</u>	<u>(148)</u>
	<u>8,054</u>	<u>3,144</u>

The tax charge for the year was higher than the standard rate for corporation tax in the UK (30%), the differences are explained below:

	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Profit/(loss) on ordinary activities before tax	<u>18,901</u>	<u>(481)</u>
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	5,670	(144)
Effects of:		
Permanent differences	1,618	3,843
Adjustments in respect of prior periods	894	(407)
Total current tax charge	<u>8,182</u>	<u>3,292</u>

BAYER PLC**NOTES TO THE ANNUAL REPORT**
FOR THE YEAR ENDED 31ST DECEMBER 20023. **Intangible Fixed Assets**

Cost	£'000
At 1 January 2002	34,366
Disposals (See note below)	20,410
	<hr/>
At 31 December 2002	13,956
	<hr/>
 Aggregate Amortisation	
At 1 January 2002	7,660
Charge for Year	2,655
Disposals	(6,064)
	<hr/>
At 31 December 2002	4,251
	<hr/>
 Net book value	
At 31 December 2002	<u>9,705</u>
At 31 December 2001	<u>26,706</u>

Goodwill brought forward arose on the purchase of unincorporated businesses and is being written off over its estimated useful life of 10 years.

The goodwill disposals were in relation to the Flint and Zeneca product lines, both sold to Bayer Crop Science, see note 2B.

BAYER PLC
NOTES TO THE ANNUAL REPORT FOR THE YEAR ENDED 31ST DECEMBER 2002

4. TANGIBLE FIXED ASSETS

	CONSTRUCTION IN PROGRESS	FREEHOLD PROPERTIES	PREMISES HELD ON LONG LEASE	PREMISES HELD ON SHORT LEASE	IMPROVEMENTS TO RENTED & LEASEHOLD PREMISES	PLANT & MACHINERY	OFFICE FURNITURE & EQUIPMENT	MOTOR VEHICLES	RENTAL EQUIPMENT	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1.1.2002										
Additions	138	9,570	9	180	1,100	6,856	17,230	280	8,374	43,737
Transfers	772 (753)	130 -	- -	- -	1,006 1	72 -	1,765 (2)	- -	496 754	4,241 -
	157	9,700	9	180	2,107	6,928	18,993	280	8,870	47,978
Disposals	(87)	(38)	-	-	-	(2,867)	(3,758)	(273)	(995)	(8,018)
At 31.12.2002	70	9,662	9	180	2,107	4,061	15,235	7	8,629	39,960

DEPRECIATION

At 1.1.2002	-	(2,745)	(8)	(165)	(299)	(4,024)	(12,983)	(214)	(4,959)	(25,397)
Provision for the year	-	(282)	(1)	(9)	(92)	(448)	(1,614)	(12)	(1,175)	(3,633)
	-	(3,027)	(9)	(174)	(391)	(4,472)	(14,597)	(226)	(6,134)	(29,030)
Elimination on Disposals	-	11	-	-	-	1,981	2,768	219	709	5,688
At 31.12.2002	-	(3,016)	(9)	(174)	(391)	(2,491)	(11,829)	(7)	(5,425)	(23,342)

Net Book Value 31.12.02

	70	6,646	-	6	1,716	1,570	3,406	-	3,204	16,618
--	----	-------	---	---	-------	-------	-------	---	-------	--------

Net Book Value 31.12.01

	138	6,825	1	15	801	2,832	4,247	66	3,415	18,340
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The cost of land which is not depreciated amounts to £1,178,000 included in the cost of Freehold Properties.

BAYER PLC**NOTES TO THE ANNUAL REPORT**
FOR THE YEAR ENDED 31ST DECEMBER 2002**5. INVESTMENTS**

	Subsidiaries £'000
Cost	
As at 1st January 2002	40,868
Disposals	(8,700)
As at 31st December 2002	32,168
Provision for impairment	
As at 1st January 2002	11,049
Impairment of Microbial Developments (see below)	3,700
As at 31st December 2002	14,749
Net book value	
31 December 2002	<u>17,419</u>
31 December 2001	<u>29,819</u>

Name of Undertaking	Shares Held	Holding
Microbial Developments Limited	Ordinary £1 shares	100%
Magnampace Limited *	Ordinary £1 shares	100%
W. Hawley & Son Limited	Ordinary £1 shares	100%
Bayer Diagnostics Manufacturing (Sudbury) Ltd	Ordinary & Preference £1 shares	100%
Sybron Chemicals UK Limited*	Ordinary £1 shares	100%

* Dormant company

All of the above companies are registered in England and Wales.

The entire share capital of Haarman & Reimer Limited was sold during the period to a fellow group company, Haarman & Reimer AG for consideration of £4 million. Accordingly a profit of £3.9 million was recognised on this transaction. The entire share capital of PBI Home & Garden Limited was sold during the period to a fellow group company, Bayer Crop Science Limited for consideration of £8.6m. This was equal to the amount at which the investment was held by Bayer Plc.

Microbial Developments Limited manufactures natural gut flora and silage additive products. During the year the Directors reassessed the valuation of this company as part of a review of the strategic fit within the Bayer group of companies. As a result of this review the Directors believe that the written down value of £5,000,000 (original cost £16,049,000) is impaired and have revised its valuation to £1,300,000.

W. Hawley & Son Ltd manufactures specialty powder and liquid pigments and associated handling systems.

Bayer Diagnostics Manufacturing (Sudbury) Ltd manufactures automated immunoassay systems and reagents, blood-gas & blood electrolyte instrumentation, quality control reagents and diagnostic reagents and kits.

BAYER PLC**NOTES TO THE ANNUAL REPORT**
FOR THE YEAR ENDED 31ST DECEMBER 2002

Sybron Chemicals UK Limited marketed & sold chemicals used in the textile processing industry. The trade and assets of this company were transferred to Bayer PLC on 1 August 2001.

The aggregate net assets of the Company's share of its subsidiary undertakings was £23,402,000 (2001 £28,147,050).

In the opinion of the Directors the value of the Company's investment in subsidiaries is not less than the amounts at which those investments are stated in the Balance Sheet.

6. STOCKS

	<u>2002</u> £'000	<u>2001</u> £'000
Raw materials and consumables	69	319
Finished goods and goods for Resale	14,847	26,933
	<u>14,916</u>	<u>27,252</u>

At 31st December 2002, the Company held £22.65 million (2001: £14.09 million) of consignment stocks on a sale or return basis from the parent company, Bayer AG. Since these stocks remain the property of the parent company until sold to third parties, they are included on the balance sheet of that company and not included in Bayer Plc's assets.

7. DEBTORS

	<u>2002</u> £'000	<u>2001</u> restated £'000
Amounts Falling Due Within One Year:		
Net Investment in Finance Leases	704	1,411
Trade Debtors	36,542	41,013
Amounts owed by Group Undertakings	90,549	40,744
Other Debtors	2,188	1,712
Prepayments	1,169	6,150
	<u>131,152</u>	<u>91,030</u>
Amounts Falling Due After More Than One Year:		
Net Investment in Finance Leases	3,726	940
	<u>134,878</u>	<u>91,970</u>

BAYER PLC**NOTES TO THE ANNUAL REPORT**
FOR THE YEAR ENDED 31ST DECEMBER 2002**8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<u>2002</u> £'000	<u>2001</u> £'000
Bank Loans and Overdrafts	8,979	11,226
Trade Creditors	9,670	11,254
Amounts due to Group Undertakings	64,403	79,087
Corporation Tax	4,464	1,760
Other Taxes & Social Security Costs	3,492	4,901
Other Creditors	1,109	428
Accruals and Deferred Income	25,689	22,383
	<u>117,806</u>	<u>131,039</u>

9. PROVISIONS FOR LIABILITIES AND CHARGES

	<u>2002</u> £'000 Amount Provided	£'000 Amount Unprovided	<u>2001</u> £'000 Amount Provided restated	£'000 Amount Unprovided
<u>Deferred Taxation</u>				
Accelerated Capital Allowance	(298)	-	(1,108)	
Short Term Timing Differences	(1,008)	-	(977)	
Leased Assets	637		1,544	
	<u>(669)</u>	<u>-</u>	<u>(541)</u>	<u>-</u>
<u>Other Provisions</u>	2,103	-	338	-
	<u>2,103</u>	<u>-</u>	<u>338</u>	<u>-</u>

The potential asset for deferred taxation has been recognised, and is disclosed within other debtors, see note 7.

The movements on the Company's provisions are:

	<u>Other</u> £'000
At 1st January 2002	338
Charged to the Profit and Loss Account	3,867
Utilised During Year	(2,102)
At 31st December 2002	<u>2,103</u>

The other provisions relate to contractual obligations on properties, cars and personnel. These are expected to crystallise over the next two years.

BAYER PLC**NOTES TO THE ANNUAL REPORT**
FOR THE YEAR ENDED 31ST DECEMBER 2002**10. CALLED UP SHARE CAPITAL**

	<u>2002</u> £'000	<u>2001</u> £'000
<u>Authorised</u>		
30,000,000 Ordinary Shares of £1 each	30,000	30,000
	<u> </u>	<u> </u>
<u>Allotted, Called Up and Fully Paid</u>		
25,062,356 (2001: 25,062,356) Ordinary Shares of £1 each	25,062	25,062
	<u> </u>	<u> </u>

Bayer AG (incorporated in the Federal Republic of Germany) is Bayer plc's major shareholder and ultimate Parent Company and ultimate controlling party. Bayer AG prepares group financial statements and copies can be obtained from: Bayer AG, D-51368 Leverkusen, Bayerwerk, Germany.

11. SHARE PREMIUM ACCOUNT

	<u>2002</u> £'000	<u>2001</u> £'000
Premium on Shares Issued	10,655	10,655
	<u> </u>	<u> </u>

12. RESERVES

	<u>Profit & Loss Account</u> £'000	<u>General Reserve</u> £'000	<u>Total</u> £'000
At 1st January 2002 as previously reported	19,158	7,373	26,531
Prior year adjustment – FRS 19	<u>541</u>	<u>-</u>	<u>541</u>
	19,699	7,373	27,072
Retained Profit for the Year	10,847	-	10,847
	<u> </u>	<u> </u>	<u> </u>
At 31st December 2002	30,546	7,373	37,919
	<u> </u>	<u> </u>	<u> </u>

The directors regard all of the above reserves as distributable.

The prior year adjustment relates to the implementation of FRS 19 2 "Deferred Tax".

Analysis of prior year adjustment:

	£'000
Adjustment to opening reserve to 1 January 2001	393
Adjustment to profit and loss for the year ended 31 December 2001	<u>148</u>
	<u>541</u>

BAYER PLC**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2002****13. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS**

	<u>2002</u> £'000	<u>2001</u> £'000
Opening Shareholders' Funds as previously reported	62,248	66,021
Prior year adjustment	<u>541</u>	<u>393</u>
	62,787	66,414
Profit/(loss) for the Financial Year	10,847	(3,625)
Closing Shareholders' Funds	<u>73,636</u>	<u>62,789</u>

14. FUTURE CAPITAL EXPENDITURE

	<u>2002</u> £'000	<u>2001</u> £'000
Contracted but not provided for	1,971	1,020

15. FINANCIAL COMMITMENTS

At 31st December 2002 the company has annual commitments under non-cancellable operating leases expiring as follows:

	<u>2002</u> Land & <u>Buildings</u> £'000	<u>Other</u> £'000	<u>2001</u> Land & <u>Buildings</u> £'000	<u>Other</u> £'000
Within one year	17	-	41	246
Within two to five years	60	929	83	1,196
After five years	2185	-	2,185	-
	<u>2,262</u>	<u>929</u>	<u>2,309</u>	<u>1,442</u>

The Company enters into a number of forward foreign currency contracts. These are to hedge its normal operational cashflows and consequently no commitment is disclosed above.

BAYER PLC

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2002**

16. SEGMENT INFORMATION

The analysis of turnover, profit/(loss) before tax and net assets is as follows:

<u>Classes of Business</u>	<u>PF Segment</u>		<u>Industrial Segment</u>		<u>Healthcare Segment</u>		<u>Total Company</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Turnover	37,265	46,609	26,870	46,691	210,083	207,813	274,218	301,113
	(Discontinued)							
PROFIT/(LOSS) BEFORE TAX	(2,835)	(2,602)	912	2,005	20,824	115	18,901	(482)
Segment Net Assets								
Unallocated Assets	(3,763)	14,461	29,195	4,243	30,785	13,725	56,217	32,429
Total Net Assets							17,419	29,819
							<u>73,636</u>	<u>62,248</u>

Geographical segment analysis included in Note 2A : Turnover.

BAYER PLC

NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2002

17. CONTINGENT LIABILITIES

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 31st December 2002 (2001 : £nil).