

Registered number 935048

**BAYER PLC  
ANNUAL REPORT FOR YEAR ENDED  
31<sup>ST</sup> DECEMBER 2005**



**BAYER PLC**

**ANNUAL REPORT FOR THE YEAR**  
**ENDED 31<sup>st</sup> DECEMBER 2005**

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**BAYER PLC**

**DIRECTORS AND ADVISERS**

**DIRECTORS**

Mr L Courth  
Dr W Plischke

**BANKERS**

Barclays Bank plc  
Allied Irish Bank  
HSBC

**AUDITORS**

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors

**SOLICITORS**

Bristows  
CMS Cameron McKenna

**SECRETARY**

T J Dickson (resigned 07.11.2005)  
M A Wilkinson (appointed 07.11.2005)

**REGISTERED OFFICE**

Bayer House  
Strawberry Hill  
Newbury  
Berkshire  
RG14 1JA

## BAYER PLC

### REPORT OF THE DIRECTORS

The directors present their Annual Report and the audited Financial Statements of the company for the year ended 31<sup>st</sup> December 2005.

#### PRINCIPAL ACTIVITY

The Company's principal activity is the marketing of healthcare products manufactured by Bayer Group companies.

#### REVIEW OF BUSINESS

The Profit and Loss Account for the year is set out on page 6. The company continued to trade successfully during the year and consolidate its position in its chosen healthcare markets. Effective from 1<sup>st</sup> January 2005 Bayer PLC bought the UK and Irish OTC business of Roche.

#### RESULTS AND DIVIDEND

The company's profit for the financial year is £6,036,000 (2004 restated: £13,599,000). An interim dividend of 43.89p (2004: 119.7p) per ordinary share, amounting to £11,000,000 (2004: £30,000,000) was paid in 2005.

A final dividend of 39.90p (2004: nil) per ordinary share amounting to £10,000,000 (2004: nil) was proposed and paid in 2006. See note 2i.

#### 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 in the healthcare business area.

On 1 April 2006, the operations that form part of Bayer UK Ltd will transfer to become part of Bayer PLC, and the business and assets of Bayer UK Limited were transferred to Bayer PLC. The transfer was made at book value.

#### 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 world-wide by other group companies.

#### CHARITABLE DONATIONS

During the year, the sum of £3,354 (2004: £3,371) was donated to United Kingdom charitable organisations. No payments were made for political purposes.

## BAYER PLC

### **REPORT OF THE DIRECTORS (continued)**

#### 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.

#### CREDITOR 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 21 days (2004: 28 days).

#### DIRECTORS

A list of directors as at 31 December 2005 is shown on page one.

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

#### FINANCIAL RISK MANAGEMENT

The company's operations expose it to limited financial risks that include credit risk, liquidity risk and interest rate risk.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

##### *Price risk*

The company is exposed to commodity price risk as a result of its operations. Due consideration is given to forward provisioning of key commodities when market conditions dictate. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

##### *Credit risk*

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. Credit insurance is taken out where available.

*Liquidity risk*

The company actively maintains a mixture of short-term inter-company and debt finance that is designed to ensure the company has sufficient available funds for operations and planned expansions.

*Interest rate cash flow risk*

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

## 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.

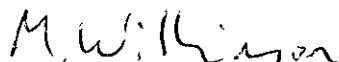
The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained under Note 1 'Accounting Policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005 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.

## AUDITORS

The company has passed the necessary Elective Resolution in accordance with Section 379A of the Companies Act 1985 to dispense with the obligation to appoint auditors annually. PricewaterhouseCoopers LLP will continue to hold office as provided by Section 386 of the Companies Act 1985.

By Order of the Board



M A Wilkinson  
Secretary

Date            08 MAY 2006

**BAYER PLC**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAYER PLC**

We have audited the financial statements of Bayer PLC for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Reading

*8 May 2006*

**BAYER PLC**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2005**

	Note	2005 £'000	As Restated 2004 £'000
Turnover	2A	233,817	177,204
Change in Stocks of Finished Goods and Work in Progress		(838)	(815)
Other Operating Income		67	-
		233,046	176,389
Raw Materials and Consumables		(126,380)	(98,382)
Other External Charges		(5,393)	(6,659)
Staff Costs	2B	(43,535)	(34,315)
Depreciation		(334)	(870)
Other Operating Charges		(51,813)	(22,509)
Operating Profit	2G	5,591	13,654
Income from shares in group undertakings	2J	5,500	-
Profit on sale of fixed assets		49	2,570
Interest Receivable and similar income	2E	4,808	6,012
Interest Payable and similar charges	2F	(5,377)	(3,479)
Profit on Ordinary Activities before Taxation		<b>10,571</b>	<b>18,757</b>
Tax on Profit on Ordinary Activities	2H	(4,535)	(5,158)
Profit for the Financial Year		<b>6,036</b>	<b>13,599</b>
Dividends	2I	(11,000)	(30,000)
Loss for the Financial Year		<b>(4,964)</b>	<b>(16,401)</b>

The movements on reserves are set out in note 12. The results for the year ended 31 December 2005 are derived from continuing operations of the Healthcare division. There is no difference between the profit on ordinary activities before taxation and the loss for the years above and their historical cost equivalents.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2005**

	2005 £'000	As restated 2004 £'000
Profit for the financial year	6,036	13,599
Total recognised gains and losses relating to the year	6,036	13,599
Prior Year Adjustment – see note 13	(4,445)	-
Total gains and losses recognised since the last annual report	1,591	



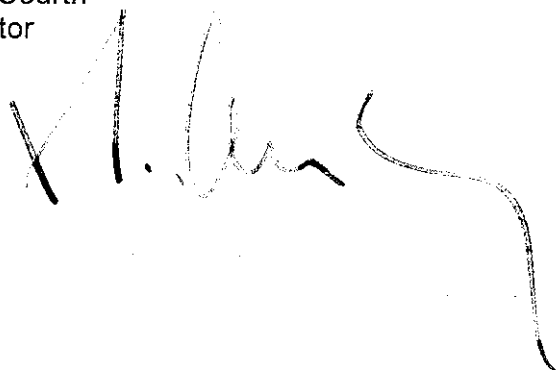
**BAYER PLC**  
**BALANCE SHEET**  
**AS AT 31<sup>st</sup> DECEMBER 2005**

	Note	2005 £'000	£'000	As restated 2004 £'000	£'000
<b>FIXED ASSETS</b>					
Intangible Assets	3		37,113		7,208
Tangible Assets	4		4,855		3,734
Investments	5		9,706		9,706
			51,674		20,648
<b>CURRENT ASSETS</b>					
Stocks	6	7,958		4,622	
Debtors	7	201,769		196,252	
Cash at Bank and in Hand		6,069		4,949	
		215,796		205,823	
CREDITORS: Amounts falling due within one year	8	(205,782)		(162,958)	
<b>NET CURRENT ASSETS</b>			10,014		42,865
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			61,688		
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	9		(3,597)		(458)
<b>NET ASSETS</b>			58,091		63,055
<b>CAPITAL AND RESERVES</b>					
Called Up Share Capital	10		25,062		25,062
Share Premium Account	11	10,655		10,655	
Reserves	12	22,374		27,338	
			33,029		37,993
<b>EQUITY SHAREHOLDERS' FUNDS</b>	13		58,091		63,055

The financial statements on pages 6 to 24 were approved by the directors on

08 MAY 2006

Mr L Courth  
Director



**BAYER PLC****NOTES TO THE ANNUAL REPORT  
FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2005****1. ACCOUNTING POLICIES****1A Basis of Accounting**

The Financial Statements have been prepared under the historical cost convention, and in accordance with the Companies Act 1985 and 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 Policies**

The company has adopted the full provisions of FRS 17 "Retirement benefits", and FRS 21 "Events after the balance sheet date" in these financial statements. The adoption of these standards represents a change in accounting policies and the comparative figures have been restated accordingly (see note 12 for details).

The effect of the change in accounting policy to adopt FRS 17 was the reversal of the SSAP 24 pension prepayment and the related deferred tax liability resulting in a decrease in net assets of £4,445,000. There has also been an increase in the charge in the current year, although this cannot be quantified. This has been accounted for as a prior year adjustment in the financial statements.

The effect of the change in accounting policy to adopt FRS 21 was £nil in relation to prior years as only dividends proposed and paid by the balance sheet date have been accounted for in the financial statements. However it has reduced income from shares in group undertakings by £4,000,000 in the current year, see note 2J for further details, and reduce dividends payable by £10,000,000 see note 2I.

**1C Presentation of Financial Information**

The Company has taken advantage of the exemption in FRS 1 (revised) "Cash Flow Statements" from producing a cash flow statement, as it is a 100% subsidiary of Bayer AG whose consolidated accounts are publicly available.

FRS 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 Turnover**

Company turnover, which excludes value added tax, represents goods and services provided, and includes commission receivable from indent sales. Revenue is recognized when the risk and rewards of the ownership of the goods are transferred to the customer, it can be measured reliably and it is probable that the economic benefits of the transaction will flow to the company.

**1E Intangibles****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.

Marketing rights

Marketing rights are capitalised and written off on a straight line basis over their estimated useful life.

1F 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 as follows:

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
Rental Equipment	3 - 5 years

Freehold land is not depreciated.

1G Fixed Asset Investments

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

1H 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.

1I Deferred Taxation

Provision is made for deferred tax liabilities and assets only to the extent that the directors consider it more likely than not that there will be suitable profits from which the future reversal of the timing differences can be deducted, in accordance with FRS 19.

Deferred tax is measured at the average tax rates that are expected to apply in the periods to which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

1J 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.

1K LeasesAs 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.

## 1L Research and Development

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

## 1M Pension Costs

The company participates in defined benefit pension arrangements, the Bayer Diagnostics Pension Plan and the Bayer Group Pension Plan. The assets of the schemes are held separately from those of the company in separate trustee administered funds.

The Bayer Diagnostics Pension Plan and the Bayer Group Pension Plan are defined benefit schemes where the membership is spread across the United Kingdom subsidiaries of the ultimate parent undertaking, Bayer AG. As a result of the membership profile, no individual company within the Bayer AG group in the United Kingdom has a significant share of either the Bayer Diagnostics Pension Plan or the Bayer Group Pension Plan membership.

The schemes are multi-employer schemes in which it is not possible to separately identify the underlying scheme assets and liabilities that relate to each employer. In accordance with FRS 17, the schemes are accounted for as defined contribution schemes. Refer to note 2C.

## 2. **NOTES ON THE PROFIT AND LOSS ACCOUNT**

### 2A Turnover

The geographical analysis of turnover by destination is given below.

	2005 £'000	2004 £'000
United Kingdom	189,452	160,153
Continental Europe	44,365	17,051
	233,817	177,204

### 2B Staff Costs

	2005 £'000	As Restated 2004 £'000
Wages and salaries	31,491	27,262
Social Security Costs	2,646	2,424
Pension Costs	9,398	4,629
	43,535	34,315

Pension costs include contributions to the Bayer Group Pension Plan, Bayer Diagnostics Pension Plan, and Bayer AG Pension Scheme, in respect of employees of the Company. Refer to note 2C.

**BAYER PLC****NOTES TO THE ANNUAL REPORT  
FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2005****NOTES ON THE PROFIT AND LOSS ACCOUNT- continued**

<u>Directors' Emoluments</u>	2005	2004
	£'000	£'000
Aggregate Emoluments	397	292

No retirement benefits have been accrued for the Directors (2004: Nil)  
under the Bayer Group Pension Plan

	2005	2004
	£'000	£'000
Highest paid Director		
Aggregate Emoluments	397	292

**Average Number of Employees**

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

	2005	2004
	Number	Number
Sales & Marketing	383	328
Research and Development	68	63
General Administration	2	39
	453	430

**BAYER PLC**

**NOTES TO THE ANNUAL REPORT  
FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2005**

**NOTES ON THE PROFIT AND LOSS ACCOUNT- continued**

**2C Pension Costs**

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, Bayer UK Limited and some employees of Bayer Diagnostics Manufacturing (Sudbury) Limited, Bayer Diagnostics Manufacturing Limited, Bayer Crop Science 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 and a separate contribution rate is calculated in respect of them.

In addition some employees who were previously employed by Chiron Diagnostics UK Limited are members of the Bayer Diagnostics Pension Plan and the details of this scheme are disclosed in the financial statements of Bayer Diagnostic Manufacturing (Sudbury) Limited.

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<sup>st</sup> March 2003 using the projected unit method.

The main assumptions used were:

Rate of return on investments	6.50% pa
Salary inflation	4.00% pa
Pension increases on excess over GMPs	3.25% pa
Price inflation	2.50% pa

The market value of the assets of the Bayer Group Pension Plan relating to the relevant category of employees of Bayer Plc including employees of other companies as at 31<sup>st</sup> March 2003 was £170.1m. The actuarial value of these assets represented some 80% of the liabilities.

**BAYER PLC****NOTES TO THE ANNUAL REPORT  
FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2005****NOTES ON THE PROFIT AND LOSS ACCOUNT- continued****2D FRS17 Retirement Benefits**

The requirements of FRS17 'Retirement benefits' in terms of disclosures is noted below:

**Bayer Group Pension Plan**

The Bayer Group Pension Plan is a defined benefit scheme and the membership is spread across the UK subsidiaries as noted in note 2C. As a result of the membership profile no individual company within the Bayer AG group in the United Kingdom has a significant share of the Bayer Group Pension Plan membership.

Therefore the company is unable to identify its share of the underlying assets and liabilities in the scheme and as a result the detailed disclosures of FRS17 have not been presented.

The cash contributions to the Bayer group pension scheme amount to £8.4m (2004: £3.0m), being 21.3% of pensionable salary (15.7% borne by the Company, and an average 5.6% borne by the members, plus the company's share of the deficiency contribution to the plan payable from 1/1/2004 to 31/12/2008) and are based on pension costs across the group as a whole. An actuarial valuation of the Bayer Group Pension Plan was undertaken on 31st March 2003 and a deficit of £41.4m was identified. It was agreed with the trustees that contributions to the scheme would be increased to 15.7% with effect from 1 January 2004 (previously 12.7%) In addition, employees were given the option of making contributions of either 4% or 6% of pensionable salaries with effect from 1 April 2004.

In addition there were contributions of £897,000 (2004: £957,000) to the Bayer Diagnostics Pension Plan.

**Bayer Diagnostics Pension Plan**

Results of the Bayer Diagnostics Pension Plan can be found in the financial statements of Bayer Diagnostics Manufacturing (Sudbury) Limited.

2E <u>Interest Receivable and Similar Income</u>	2005	2004
	£'000	£'000
Bank interest receivable	276	512
Group interest receivable	4,532	5,500
	4,808	6,012

**BAYER PLC**

**NOTES TO THE ANNUAL REPORT  
FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2005**

**NOTES ON THE PROFIT AND LOSS ACCOUNT- continued**

2F	<u>Interest Payable and Similar Charges</u>	2005	2004
		£'000	£'000
	Interest payable on bank loans and overdrafts	5,372	2,965
	Interest payable on group loans	5	514
		5,377	3,479
<hr/>			
2G	<u>Operating Profit</u>	2005	2004
		£'000	£'000
	Is stated after charging/(crediting):		
	Profit on sale of fixed assets	(49)	(2,570)
	Depreciation of owned fixed assets	954	870
	Amortisation of goodwill	4,913	1,457
	Operating leases		
	- Others	3,042	2,675
	Auditors' remuneration:		
	- Audit services	148	146
	- Non audit services	2	7
	Net research and development expense	33	130
	Exchange gains	(72)	(103)

Depreciation of owned fixed assets is stated net of depreciation recharged to Bayer UK Ltd.

2H	<u>Tax charge on Profit on Ordinary Activities</u>	2005	2004
		£'000	Restated £'000
	Current tax:		
	UK corporation tax at 30% (2004: 30%)	2,524	5,400
	Adjustment in respect of prior periods	5	(375)
	Total current tax	2,529	5,025
	Deferred tax:		
	Origination and reversal of timing differences (note 9)	2,006	133
		4,535	5,158

The impact of the prior year adjustment on the prior year comparatives has been to reduce the deferred tax charge by £1,389,000 from £1,522,000 to £133,000.



**BAYER PLC**

**NOTES TO THE ANNUAL REPORT  
FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2005**

**NOTES ON THE PROFIT AND LOSS ACCOUNT- continued**

The tax charge for the year was lower (2004: lower) than the standard rate for corporation tax in the UK (30%), the differences are explained below:

	2005 £'000	2004 Restated £'000
Profit on ordinary activities before tax	10,571	18,757
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	3,171	5,627
Effects of:		
Unrecognised capital losses	-	(781)
Non-taxable income	(1,650)	-
Expenses not allowable for tax purposes	3,009	681
Adjustment in respect of prior periods	5	(375)
Accelerated capital allowances and other timing differences	(2,006)	(127)
Total current tax charge	2,529	5,025

2I	<u>Dividends Payable</u>	2005 £'000	2004 £'000
	Equity – ordinary shares		
	Interim paid : 43.89p (2004: 119.7) per £1 share	11,000	30,000
		11,000	30,000

The directors have proposed an interim dividend for the year ended 31 December 2005 of £10,000,000 (2004: nil). This dividend has not been accounted for within the current year financial statements as it has yet to be approved.

2J	<u>Income from shares and group undertakings</u>	2005 £'000	2004 £'000
	Dividends received in the year	5,500	-
		5,500	-

Dividends received on 11 May 2005 from Bayer Diagnostics Manufacturing (Sudbury) Limited (BDMSL Sudbury), a subsidiary company of Bayer Plc (see Note 5).

The directors of BDMSL Sudbury have proposed an interim dividend for the year ended 31 December 2005 of £4,000,000. This dividend has not been accounted for within the current financial year financial statements as it has yet to be approved.

**BAYER PLC****NOTES TO THE ANNUAL REPORT  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2005****3. Intangible Fixed Assets**

<b>Cost</b>	<b>Intangible assets</b>	<b>Goodwill</b>	<b><u>Total</u></b>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At 1 <sup>st</sup> January 2005	14,311	-	14,311
Additions	3,079	31,758	34,837
At 31 December 2005	17,390	31,758	49,148

**Aggregate Amortisation**

At 1 January 2005	7,103	-	7,103
Charge for the year	1,756	3,176	4,932
At 31 December 2005	8,859	3,176	12,035

**Net book amount**

At 31 December 2005	8,531	28,582	37,113
At 31 December 2004	7,208	-	7,208

The additions in 2005 relates to the goodwill and marketing rights arising on the purchase of the UK and Irish OTC business of Roche and is being written off over 10 years. Other Goodwill brought forward arose on the purchase of various customer lists and marketing rights and is being written off over its estimated useful life of 10 years.

**BAYER PLC****NOTES TO THE ANNUAL REPORT FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2005****4. TANGIBLE FIXED ASSETS**

	FREEHOLD PROPERTIES £'000	IMPROVEMENTS TO RENTED & LEASEHOLD PREMISES £'000	PLANT & MACHINERY £'000	OFFICE FURNITURE & EQUIPMENT £'000	RENTAL EQUIPMENT £'000	TOTAL £'000
<b>Cost</b>						
<b>At 1 January 2005</b>	30	3,224	801	4,704	150	8,909
Additions	-	1,855	50	237	-	2,142
Disposals	-	-	(730)	(1,375)	-	(2,105)
<b>At 31 December 2005</b>	30	5,079	121	3,566	150	8,946
<b>Accumulated depreciation</b>						
<b>At 1 January 2005</b>	(14)	(74)	(705)	(4,256)	(126)	(5,175)
Charge for the year	(1)	(645)	(23)	(265)	(20)	(954)
Disposals			674	1,364	-	2,038
<b>At 31 December 2005</b>	(15)	(719)	(54)	(3,157)	(146)	(4,091)
<b>Net book amount</b>						
<b>At 31 December 2005</b>	15	4,360	67	409	4	4,855
<b>At 31 December 2004</b>	16	3,150	96	448	24	3,734

The cost of land that is not depreciated amounts to £Nil (2004: £Nil) and was included in the cost of Freehold Properties.

**BAYER PLC****NOTES TO THE ANNUAL REPORT  
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	<i>Subsidiaries £'000</i>
<b>Cost</b>	
As at 1 January 2005 and 31 December 2005	9,706
<b>Provision for impairment:</b>	
As at 1 January 2005 and 31 December 2005	-
<b>Net book amount:</b>	
As at 31 December 2005	9,706
As at 31 December 2004	9,706

<b>Name of Undertaking</b>	<b>Shares Held</b>	<b>Holding</b>
Magnampace Limited *	Ordinary £1 shares	100%
Bayer Diagnostics Manufacturing (Sudbury) Limited	Ordinary & Preference	100%

\* Dormant company

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

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

The aggregate net assets of the Company's share of its subsidiary undertakings was £19,970,000 (2004: £23,448,000).

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**

	2005 £'000	2004 £'000
Finished goods and goods for resale	7,958	4,622
	7,958	4,622

At 31 December 2005, the Company held £16.4 million (2004: £20.26 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.

**BAYER PLC****NOTES TO THE ANNUAL REPORT  
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	2005	2004
		Restated
	£'000	£'000
Amounts falling due within one year:		
Net investment in finance leases	-	18
Trade debtors	35,391	21,214
Amounts owed by group undertakings	160,252	168,464
Corporation tax recoverable	610	-
Deferred tax asset	-	511
Other debtors	4,779	4,898
Prepayments	737	1,147
	201,769	196,252

Included in amounts owed by Group undertakings are loans due from Bayer AG, Bayer UK Limited, Bayer ACSH Limited, Bayer AGCO Limited and HC Starck Limited of £135,500,000 (2004: £151,071,000) which are unsecured, bear interest at a rate linked to bank base rates and have no fixed repayment dates. All other amounts are unsecured, interest free, and are repayable on demand.

The impact of the prior year adjustment was to reduce prepayments by £6,776,000 from £7,923,000 to £1,147,000, and to increase the deferred tax asset from £nil to £511,000.

**8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2005	2004
		Restated
	£'000	£'000
Trade creditors	7,440	5,056
Amounts due to group undertakings	184,680	143,182
Corporation tax	-	1,203
Other taxes & social security costs	2,006	1,905
Other creditors	98	320
Accruals and deferred income	11,558	11,292
	205,782	162,958

Included in amounts due to Group undertakings are loans due to Bayer Diagnostics Manufacturing (Sudbury) Limited, Bayer Diagnostics Manufacturing Limited, Bayer CropScience Limited, Bayer Agriculture Limited, Bayer Nufarm Ltd, Bayer CropScience Holdings Ltd and HC Starck (West Horndon) Limited of £124,731,000 (2004: £99,474,000) which are unsecured, bear interest at a rate linked to bank base rates and have no fixed repayment dates. All other amounts are unsecured, interest free, and are repayable on demand.

The impact of the prior year adjustment was to reduce other creditors by £298,000 from £618,000 to £320,000.

**BAYER PLC****NOTES TO THE ANNUAL REPORT  
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	2005		2004 Restated	
	£'000 Amount Provided	£'000 Amount Unprovided	£'000 Amount Provided	£'000 Amount Unprovided
<b>Deferred Taxation</b>				
Depreciation above capital allowance	1,592	-	(768)	-
Short term timing differences	(159)	-	(155)	-
Leased assets	62	-	268	-
Chargeable gains	-	-	144	-
Deferred tax liability/(asset)	1,495	-	(511)	-
Other provisions	2,102	-	458	-
	3,597	-	(53)	-

The impact of the prior year adjustment was to change the deferred liability of £1,522,000 to an asset of £511,000 which has now been included in debtors.

The movements on the Company's provisions are:

	Deferred tax £'000	Other £'000
At 1 January 2005 as previously reported	1,522	458
Prior year adjustment – FRS 17	(2,033)	-
At 1 January 2005 as restated	(511)	458
Charged to the profit and loss account	2,006	2,102
At 31 December 2005	1,495	2,560

The other provisions relate to contractual obligations on properties, cars and personnel.

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	2005 £'000	2004 £'000
<u>Authorised</u>		
30,000,000 (2004: 30,000,000) Ordinary shares of £1 each	30,000	30,000
<u>Allotted, Called Up and Fully Paid</u>		
25,062,356 (2004: 25,062,356) Ordinary shares of £1 each	25,062	25,062

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**

	2005 £'000	2004 £'000
Premium on shares issued	10,655	10,655

**12. RESERVES**

	Profit & Loss Account £'000	General Reserve £'000	Total £'000
At 1 January 2005 as previously reported	24,410	7,373	31,783
Prior year adjustment FRS17	(4,445)	-	(4,445)
At 1 January 2005 restated	19,965	7,373	27,338
Profit for the year	6,036	-	6,036
Dividend	(11,000)	-	(11,000)
At 31 December 2005	15,001	7,373	22,374

Further details of the prior year adjustment are provided below.

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	Pension asset £	Related deferred tax liability £	Impact on net assets £
At 1 January 2004	(1,849)	644	(1,205)
During the year	(4,629)	1,389	(3,240)
At 31 January 2004	(6,478)	2,033	(4,445)

Set out above is the impact of the prior year adjustment in relation to FRS 17 on the prior year profit and loss account and brought forward reserves.

The impact on the prior period was to increase the employee costs by £4,629,000, and the related tax credit by £1,389,000.

**13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	2005 £'000	As restated 2004 £'000
Opening shareholders' funds as previously reported	67,500	80,661
Prior year adjustment FRS17 – see note 1	(4,445)	-
Opening shareholders' funds restated	63,055	-
Profit for the financial year	6,036	16,839
Dividends	(11,000)	(30,000)
Closing shareholders' funds	58,091	67,500

**14. FUTURE CAPITAL EXPENDITURE**

	2005 £'000	2004 £'000
Contracted but not provided for	-	593



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Bayer Plc purchased 2 companies, Roche Pharma Welwyn and Roche Products Ireland, on 1 January 2005 for a total consideration of £47.8m.

	<u>Total</u>
	<u>£'000</u>
Intangible fixed assets	3,079
Tangible fixed assets	-
Net assets	12,968
Long term liabilities	-
<b>Net assets acquired</b>	<b>16,047</b>
Goodwill	31,758
<b>Consideration</b>	<b>47,805</b>
<b>Consideration satisfied by:</b>	
Cash	47,805

**16. FINANCIAL COMMITMENTS**

At 31 December 2005 the company has annual commitments under non-cancellable operating leases expiring as follows:

	2005		2004	
	Land & Buildings	Other	Land & Buildings	Other
	£'000	£'000	£'000	£'000
Within one year	-	86	58	96
Within two to five years	200	241	200	313
After five years	2,578	-	2,563	-
	<b>2,778</b>	<b>327</b>	<b>2,821</b>	<b>409</b>

**BAYER PLC**

**NOTES TO THE ANNUAL REPORT  
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**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 31 December 2005 (2004: £nil).

**18. POST BALANCE SHEET EVENTS**

From April 1<sup>st</sup> 2006, the operations that form part of Bayer UK Limited will transfer to become part of Bayer PLC.

This change is being made as part of a global legal entity project affecting 80 Bayer Companies Worldwide and is intended to simplify the company structure thereby reducing administration effort and also cost.