Company Registration No. 00935048 (England And Wales)

# BAYER PLC

## DIRECTORS' REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2008

# BAYER PLC

## COMPANY INFORMATION

| | |
|---|---|
| **Directors** | M S Dawkins<br>I Paterson (Appointed 20 February 2009) |
| **Secretary** | M A Wilkinson |
| **Company number** | 00935048 |
| **Registered office** | Bayer House<br>Strawberry Hill<br>Newbury<br>Berkshire<br>RG14 1JA |
| **Independent Auditors** | PricewaterhouseCoopers LLP<br>Chartered Accountants and Registered Auditors<br>9 Greyfriars Road<br>Reading<br>Berkshire<br>RG1 1JG |

# BAYER PLC

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# BAYER PLC

## DIRECTORS' REPORT
## FOR THE YEAR ENDED 31 DECEMBER 2008

The directors present their report and financial statements for the year ended 31 December 2008.

**Principal activities and review of the business**
The company's principal activity is the marketing of healthcare and polymer products manufactured by Bayer Group companies and the provision of administration services to group companies as well as third parties.

The company continued to trade successfully during the year and consolidate its position in its chosen healthcare markets.

On 1 July 2007 the business and assets of Schering Health Care Limited were transferred to the company, so 2008 is the first full year of this merged business.

During 2008 the turnover for the company showed an increase of £54.5 million to £345.2 million. This is largely due to this being the first full year of the integrated Bayer Schering Pharma (BSP) business.

Animal Health performed well with a 10% year on year growth. Diabetes Care continued to increase its market share, delivering an increase in sales of 31% above the previous year.

The Pharmaceutical division increased sales by £50.3 million (32%), mainly as a result of the Schering integration from 1st July 2007.

The Consumer Division sales decreased by 5% in the current year. This is primarily a result of sales to the Republic of Ireland which are now being undertaken by the Irish Bayer group company following the sale of the Roche goodwill to Bayer Consumer Care AG. UK Sales showed growth of 4%.

During 2008 the Polymer products business achieved an increasing share of the diminishing UK market, resulting in turnover remaining stable at 1% growth.

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

The company put in place a Fraud Response Plan during 2006. This consists of a Fraud Investigation Protocol, which strictly controls how fraud investigations are to be conducted and what admissible evidence is acquired. Fraud investigations are carried out independently, under the terms of the Protocol, by appropriately experienced and qualified persons within the company, who are not members of the Finance department, and by Internal Audit staff of the Ultimate Parent. No material investigations were undertaken during 2008.

The company carries out market research to ensure that its products are sold at competitive prices. In the case of pharmaceutical products, the prices are regulated by the Pharmaceutical Price Regulation Scheme (PPRS). The Department of Health have launched a new scheme commencing 1st January 2009, the effect on Bayer being a 3.9% price cut from that date.

The company also maintains good Corporate Governance practice in educating its staff about avoiding anti-competitive or cartel-type practices. During 2008, there was a global initiative to further our aims in relation to compliance. Thus the "Compliance WINS" programme was launched with the aim to educate all managers and employees on their responsibilities for "Corporate Compliance" during 2009. Supply Chain risks (including price risks) are regularly monitored as part of the company's risk management practices.

**Financial risk management**
The company's operations expose it to limited financial risks that include price risk, credit risk, liquidity risk, interest rate risk and foreign exchange 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.

Foreign exchange risk

The company uses forward exchange rate contracts to reduce its exposure to the fluctuations on foreign exchange rates by fixing the rate of any material payments in foreign currency.

**Position of the company at the year end**
Working capital has increased by £22.5 million, mainly due to loan arrangements with other Bayer Group companies (see notes 11, 12 and 13).

Despite the integration of the Schering Pharma Business into Bayer Plc, trade debtors have fallen by £7.2 million due to improved credit management within the combined business.

As a result debtor days have improved by 17 days to 48 days (2007: 65 days).

The company takes management of working capital, and, in particular, liquidity very seriously. As well as monitoring these risks within the company, liquidity and working capital management is also closely monitored by the ultimate parent, Bayer AG.

# DIRECTORS' REPORT (CONTINUED)
# FOR THE YEAR ENDED 31 DECEMBER 2008

**Analysis based on key performance indicators**

The increase in operating profit margins from £5,413,000 to £22,447,000 is mainly as a result of not having the previous year's one-off restructuring costs coupled with good growth in all areas of the business and a full year of BSP trading.

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 Potential and Organisation Conferences (POCs) which take place on a regional and functional basis.

**Results and dividends**

The results for the year are set out on page 8. The company made a pre tax profit of £33.2 million (2007: £33.5 million) and profit on continuing operations was up by £9.8 million.

After the year end the directors proposed a dividend of £40,000,000 (2007:£nil).

**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.

**Future developments**

At present there are no acquisition plans for 2009 and we see the period ahead as a time for consolidation.

**Directors**

The following directors have held office since 1 January 2008:

| | |
|---|---|
| F-J Berners | (Resigned 20 February 2009) |
| M S Dawkins | |
| I Paterson | (Appointed 20 February 2009) |

**Charitable donations**

During the year, the sum of £9,489 (2007: £4,821) was donated to a number of United Kingdom charitable organisations. No payments were made for political purposes (2007: £nil).

**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.

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.

**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.

# DIRECTORS' REPORT (CONTINUED)
# FOR THE YEAR ENDED 31 DECEMBER 2008

**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 40 days (2007: 19 days). The increase is largely due to the fact that in 2007 creditors were paid early prior to the sale of the Diagnostics Division and integration of Schering Health Care Limited into Bayer Plc.

**Independent Auditors**
The company has by elective resolution dispensed with the obligation to appoint auditors annually in accordance with section 386(1) of the Companies Act 1985. Therefore, the auditors, PricewaterhouseCoopers LLP, will be deemed to be reappointed for each succeeding financial year.

**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 and applicable law). The financial statements are required by law to 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 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.

# BAYER PLC

## DIRECTORS' REPORT (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2008

**Statement of disclosure to auditors**
Each person who is a director at the date of approval of this report confirms that:

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board

M. Wilkinson
..............................
M A Wilkinson
**Secretary** 26 March 2009
........................

# BAYER PLC

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BAYER PLC

We have audited the financial statements of Bayer Plc for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of the directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 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.

# BAYER PLC

## INDEPENDENT AUDITORS' REPORT (CONTINUED)
## TO THE MEMBERS OF BAYER PLC

**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 2008 and of its profit for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

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

Date: 26 March 2009

# BAYER PLC

## PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 DECEMBER 2008

| | Notes | | 2008 £ 000's | | 2007 £ 000's |
|---|---|---|---|---|---|
| **Turnover** | 2 | | | | |
| Continuing operations | | 345,246 | | 228,788 | |
| Acquisitions | | - | | 61,987 | |
| | | | 345,246 | | 290,775 |
| Change in stocks of finished goods and work in progress | | | (2,988) | | (764) |
| Other operating income | | | 482 | | 302 |
| | | | 342,740 | | 290,313 |
| Raw materials and other consumables | | | (216,567) | | (188,826) |
| Other external charges | | | (2,233) | | (1,793) |
| Staff costs | 22 | | (51,083) | | (53,508) |
| Depreciation | | | (889) | | (958) |
| Other operating charges | | | (47,910) | | (30,882) |
| Restructuring costs | 4 | | (1,611) | | (8,933) |
| **Operating profit** | 3 | | | | |
| Continuing operations | | 22,447 | | 12,613 | |
| Acquisitions | | - | | (7,200) | |
| | | | 22,447 | | 5,413 |
| Profit on sale of intangible fixed assets | 4 | | 559 | | - |
| Profit/(loss) on sale of subsidiary | 4 | | 2,003 | | (3,051) |
| Profit on sale of business group | 4 | | - | | 19,831 |
| **Profit on ordinary activities before interest** | | | 25,009 | | 22,193 |
| Interest receivable and similar income | 5 | | 6,251 | | 10,620 |
| Other finance income | 6 | | 4,096 | | 2,167 |
| Interest payable and similar charges | 7 | | (2,134) | | (1,458) |
| **Profit on ordinary activities before taxation** | | | 33,222 | | 33,522 |
| Tax charge on profit on ordinary activities | 8 | | (9,491) | | (12,414) |
| **Profit for the financial year** | 17 | | 23,731 | | 21,108 |

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

# BAYER PLC

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2008

| | Notes | 2008<br>£ 000's | 2007<br>£ 000's |
|---|---|---|---|
| **Profit for the financial year** | | 23,731 | 21,108 |
| Actuarial (loss)/gain on pension scheme | 15 | (17,641) | 20,129 |
| Movement on deferred tax relating to pension scheme | 14 | 4,939 | (6,038) |
| **Total recognised gains and losses relating to the year** | | 11,029 | 35,199 |

# BAYER PLC

## BALANCE SHEET
## AS AT 31 DECEMBER 2008

| | Notes | 2008 £ 000's | 2008 £ 000's | 2007 £ 000's | 2007 £ 000's |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 9 | | 20,877 | | 26,836 |
| Tangible assets | 10 | | 4,801 | | 5,420 |
| | | | 25,678 | | 32,256 |
| **Current assets** | | | | | |
| Stocks | 11 | 12,285 | | 9,297 | |
| Debtors | 12 | 284,903 | | 266,433 | |
| Cash at bank and in hand | | 10,452 | | 10,259 | |
| | | 307,640 | | 285,989 | |
| **Creditors: amounts falling due within one year** | 13 | (113,947) | | (114,842) | |
| **Net current assets** | | | 193,693 | | 171,147 |
| **Total assets less current liabilities** | | | 219,371 | | 203,403 |
| **Provisions for liabilities and charges** | 14 | | (3,539) | | (6,218) |
| **Net assets excluding pension scheme asset** | | | 215,832 | | 197,185 |
| **Pension scheme asset** | 15 | | 4,677 | | 12,295 |
| **Net assets including pension scheme asset** | | | 220,509 | | 209,480 |
| **Capital and reserves** | | | | | |
| Called up share capital | 16 | | 25,062 | | 25,062 |
| Share premium account | 17 | | 10,655 | | 10,655 |
| Other reserves | 17 | | 7,373 | | 7,373 |
| Profit and loss account | 17 | | 177,419 | | 166,390 |
| **Equity shareholders' funds** | 18 | | 220,509 | | 209,480 |

Approved by the Board and authorised for issue on 26 March 2009

M S Dawkins
**Director**

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

## 1 Accounting policies

### 1.1 Accounting convention

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the UK. The principal accounting policies are set out below.

### 1.2 Cash flow statement and related party disclosures

The company is a subsidiary of Bayer Schering Pharma AG which is a wholly-owned subsidiary of Bayer AG and is included in the consolidated financial statements of Bayer AG, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996). The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Bayer AG group or investees of the Bayer AG group.

### 1.3 Turnover

Turnover represents goods and services provided net of discounts and is recognised when these goods have been delivered and services have been received, and includes commission receivable from indent sales and excludes value added tax. Other operating income represents other miscellaneous income.

### 1.4 Goodwill

Purchased goodwill is determined by comparing the amount paid on the acquisition of a business and the aggregate fair value of its separable net assets. It is capitalised and written off on a straight line basis over its estimated useful economic life or 20 years, whichever is shorter.

### 1.5 Marketing rights

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

### 1.6 Research and development

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

### 1.7 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost, less estimated residual value of each asset over its expected useful life, as follows:

| | |
|---|---|
| Land and buildings Leasehold | 20 - 50 years dependent on lease term |
| Plant and machinery | 2 - 15 years |
| Fixtures, fittings & equipment | 3 - 10 years |
| Rental equipment | 3 - 5 years |

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.

The cost of tangible fixed assets is their purchase cost together with any incidental costs of acquisition.

### 1.8 Leasing

Rentals payable under operating leases are charged against income on a straight-line basis over the lease term.

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

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

**1 Accounting policies** **(continued)**

**1.9 Stock**

Stocks are stated at the lower of cost and net realisable value after provisions for obsolescence. In general, cost is determined on a moving average basis. Stocks on consignment and their related obligations are recognised when the risk and rewards of ownership pass to the company.

**1.10 Pensions**

The company operates two defined benefit pension schemes for the benefit of its employees, the assets of which are held seperately from those of the company in independently administered funds.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the company's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

The company operates a defined contribution pension scheme. The assets of the scheme are held seperately from those of the company in an independently administered fund. The pension cost charge disclosed in note 15 represents contributions payable to the company fund.

The company also operates an unfunded unapproved benefit arrangement for one employee of Bayer Plc.

**1.11 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 in 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.

**1.12 Foreign currency translation**

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 profit and loss account.

**1.13 Impairment**

Where events or changes in circumstances indicate that the carrying amount of a fixed asset or goodwill may not be recoverable an impairment review is performed. An impairment write down is recognised to the extent that the carrying amount of the asset exceeds the higher of net realisable value and value-in-use. Estimated future cash flows are discounted to present value using an appropriate discount rate which represents an estimate of the rate that the market would expect on an equally risky investment.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

## 1 Accounting policies (continued)

### 1.14 Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle the 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 balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

## 2 Turnover

| | 2008<br>£ 000's | 2007<br>£ 000's |
|---|---|---|
| **Class of business** | | |
| Marketing of HealthCare and Polymer products | 343,634 | 256,718 |
| Provision of administration services to group companies | 1,612 | 34,057 |
| | 345,246 | 290,775 |

**Geographical market**

| | 2008<br>£ 000's | 2007<br>£ 000's |
|---|---|---|
| United Kingdom | 331,871 | 235,075 |
| Rest of Europe | 13,375 | 55,700 |
| | 345,246 | 290,775 |

The company's turnover originates entirely in the UK and is wholly attributable to its principal trading activities as discussed in the Director's Report. The company's net assets are entirely based in the UK.

The company is unable to produce segmental information relating to the net assets and profit.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
# FOR THE YEAR ENDED 31 DECEMBER 2008

| 3 Operating profit | 2008 £ 000's | 2007 £ 000's |
|---|---|---|
| Operating profit is stated after charging: | | |
| Amortisation of intangible assets | 4,655 | 4,838 |
| Depreciation of owned tangible assets | 889 | 958 |
| Research and development | 2,175 | 3,066 |
| Operating lease rentals | | |
| - Plant and machinery | 1,271 | 460 |
| - Other assets | 2,276 | 1,359 |
| Auditors' remuneration | 220 | 220 |
| Remuneration of auditors for non-audit work - regulatory work | 13 | 2 |
| and after crediting: | | |
| Profit on disposal of tangible assets | (2) | - |
| Profit on foreign exchange transactions | (325) | (147) |

**4 Exceptional items**

**(i) Sale of intangible fixed asset**

On 1st January 2008 the Irish Consumer Care business was transferred from Bayer Plc to Bayer Consumer Care AG. As a result the element of the Roche goodwill that related to the Irish Consumer Care business was sold to Bayer Consumer Care AG for consideration of £1,863,000. The profit arising from this sale was £558,900. The associated tax charge is £159,000.

**(ii) Sale of subsidiary undertaking and Pension Contribution**

On 31 December 2006 the company sold the entire share capital in its subsidiary undertaking, Bayer Diagnostics Manufacturing (Sudbury) Limited to Siemens AG for consideration of EUR 233,755,000. The resulting profit arising from this sale during 2006 was £139,321,000. Further costs incurred during 2007 relating to this sale amounted to £3,051,000. The tax effect of this was £nil.

Under the terms of the sale and purchase agreement, the company agreed to reimburse Siemens AG for £2,100,000 representing a payment it was due to make into the Bayer Group Pension Plan to cover the liabilities relating to ex-Bayer staff now working for Siemens. This cost was originally treated as a reduction of the profit on the sale of the subsidiary. In September 2008 Siemens AG made the payment into the pension scheme which the company reimbursed. The cost of the reimbursement in 2008 has now been treated as a contribution to the pension scheme resulting in an adjustment to increase the net profit on the sale of the subsidiary by £2,100,000. The tax effect of this reimbursement is £nil. Interest received of £96,930 has been offset against this payment.

**(iii) Restructuring costs**

On 1 July 2007 the company acquired the trade and assets of Schering Health Care Limited. The costs relating to the integration in the current year amounted to £1,611,000 (2007: 8,933,000). The associated tax credit is £459,000 (2007: £2,679,000).

**(iv) Sale of business group**

In the prior year, the company sold its diagnostics business group to Siemens AG. The profit resulting from this was £19,831,000 and the tax effect of this was a charge of £6,005,000.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
# FOR THE YEAR ENDED 31 DECEMBER 2008

**5 Interest receivable and similar income**

| | 2008 £ 000's | 2007 £ 000's |
|---|---|---|
| Interest receivable from group companies | 5,517 | 10,002 |
| Bank interest | 734 | 618 |
| | 6,251 | 10,620 |

**6 Other finance income**

| | 2008 £ 000's | 2007 £ 000's |
|---|---|---|
| Net interest on pensions scheme (note 15) | 4,096 | 2,167 |
| | 4,096 | 2,167 |

**7 Interest payable and similar charges**

| | 2008 £ 000's | 2007 £ 000's |
|---|---|---|
| On amounts payable to group companies | 2,130 | 1,458 |
| Other interest | 4 | - |
| | 2,134 | 1,458 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

## 8 Taxation

| | 2008 £ 000's | 2007 £ 000's |
|---|---|---|
| **Domestic current year tax** | | |
| U.K. corporation tax | 8,174 | 8,287 |
| Adjustment for prior years | (623) | 959 |
| **Current tax charge** | 7,551 | 9,246 |
| **Deferred tax** | | |
| Deferred tax charge current year | 2,219 | 3,923 |
| Deferred tax adjustment for previous year | (240) | (415) |
| Effect of change in corporation tax rate | (39) | (340) |
| Deferred tax charge | 1,940 | 3,168 |
| **Total tax charge on profit on ordinary activities** | 9,491 | 12,414 |
| **Deferred tax charge is analysed as:** | | |
| Deferred tax re pensions | 1,977 | 3,498 |
| Deferred tax re capital allowances and other timing differences (note 14) | (37) | (330) |
| | 1,940 | 3,168 |
| **Factors affecting the tax charge for the year** | | |
| Profit on ordinary activities before taxation | 33,222 | 33,522 |
| Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28.50% (2007 - 30.00%) | 9,468 | 10,057 |
| Effects of: | | |
| Non deductible expenses | 326 | 1,238 |
| Non taxable gain on disposal of subsidiary | 599 | 915 |
| Accelerated capital allowances and other timing differences | (2,219) | (3,923) |
| Adjustments to previous periods | (623) | 959 |
| | (1,917) | (811) |
| **Current tax charge** | 7,551 | 9,246 |

Factors that may affect future tax charges:
Based on current capital investment plans, the company expects that depreciation will exceed capital allowances in future years.

The standard rate of Corporation Tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

## 9 Intangible fixed assets

| | Marketing Rights | Goodwill | Total |
|---|---|---|---|
| | £ 000's | £ 000's | £ 000's |
| **Cost** | | | |
| At 1 January 2008 | 17,035 | 31,353 | 48,388 |
| Disposals | - | (1,863) | (1,863) |
| At 31 December 2008 | 17,035 | 29,490 | 46,525 |
| **Accumulated amortisation** | | | |
| At 1 January 2008 | 12,150 | 9,402 | 21,552 |
| Amortisation on disposals | - | (559) | (559) |
| Charge for the year | 1,703 | 2,952 | 4,655 |
| At 31 December 2008 | 13,853 | 11,795 | 25,648 |
| **Net book value** | | | |
| At 31 December 2008 | 3,182 | 17,695 | 20,877 |
| At 31 December 2007 | 4,885 | 21,951 | 26,836 |

Marketing rights and goodwill arose on the purchase of the UK and Irish OTC business of Roche in 2005 and are being written off over 10 years. Other goodwill is being written off over its estimated useful life of 10 years.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

## 10 Tangible fixed assets

| | Land and buildings Leasehold £ 000's | Plant and machinery £ 000's | Fixtures, fittings & equipment £ 000's | Rental equipment £ 000's | Assets in the course of construction £ 000's | Total £ 000's |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2008 | 4,853 | 32 | 7,830 | 458 | 53 | 13,226 |
| Additions | - | - | - | - | 282 | 282 |
| Transfers | 40 | - | 162 | - | (202) | - |
| Disposals | (188) | (5) | (608) | (303) | - | (1,104) |
| At 31 December 2008 | 4,705 | 27 | 7,384 | 155 | 133 | 12,404 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2008 | 1,154 | 30 | 6,234 | 388 | - | 7,806 |
| On disposals | (181) | (5) | (603) | (303) | - | (1,092) |
| Charge for the year | 359 | 1 | 475 | 54 | - | 889 |
| At 31 December 2008 | 1,332 | 26 | 6,106 | 139 | - | 7,603 |
| **Net book value** | | | | | | |
| At 31 December 2008 | 3,373 | 1 | 1,278 | 16 | 133 | 4,801 |
| At 31 December 2007 | 3,699 | 2 | 1,596 | 70 | 53 | 5,420 |

## 11 Stocks

| | 2008 £ 000's | 2007 £ 000's |
|---|---|---|
| Finished goods and goods for resale | 12,285 | 9,297 |

At 31 December 2008, the company held £36.9 million (2007: £25.2 million) of consignment stocks on a sale or return basis from Bayer SRL, Bayer Consumer Care AG, Bayer Schering Pharma AG and Bayer Health Care 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.

The replacement value is not materially different from the balance sheet value.

## 12 Debtors

| | 2008<br>£ 000's | 2007<br>£ 000's |
|---|---|---|
| Trade debtors | 44,896 | 52,116 |
| Amounts owed by parent and fellow subsidiary undertakings | 234,261 | 207,493 |
| Other debtors | 2,917 | 5,221 |
| Prepayments and accrued income | 2,829 | 1,603 |
| | 284,903 | 266,433 |

Included within amounts owed by parent and fellow subsidiary undertakings are amounts totalling £57,000,000 (2007: £38,000,000) owed by Bayer AGCO Limited, Bayer Agriculture Limited and Bayer CropScience Limited. These loans accrue interest at a rate of 3.8% and are repayable on 26 January 2009. There is a further amount of £144,803,271 (2007: £nil) owed by Bayer CropScience Holdings Limited. This loan is non interest bearing and is repayable on 31 March 2009. All other amounts are repayable on demand and are non interest bearing.

Amounts owed by group companies are secured by the holding company.

## 13 Creditors: amounts falling due within one year

| | 2008<br>£ 000's | 2007<br>£ 000's |
|---|---|---|
| Trade creditors | 28,113 | 16,672 |
| Amounts owed to parent and fellow subsidiary undertakings | 54,374 | 72,648 |
| Corporation tax | 6,205 | 5,421 |
| Other taxes and social security costs | 2,931 | 1,204 |
| Other creditors | 2,460 | 2,289 |
| Accruals and deferred income | 19,864 | 16,608 |
| | 113,947 | 114,842 |

Included within amounts owed to parent and fellow subsidiary undertakings is an amount of £17,298,424 (2007: £3,488,331) owed to Schering Health Care Limited and Schering Holdings Limited. These loans accrue interest at a rate of 5.01% and are repayable on 22 May 2009. There are also amounts of £4,000,000 and £5,000,000 (2007: £nil) owed to Bayer CropScience Nufarm Limited and Bayer Antwerpen N.V. which accrue interest at rates of 1.25% and 3.81% respectively and are repayable on 26 January 2009. All other amounts are repayable on demand and are non interest bearing.

Amounts owed to group companies are secured by the holding company.

## 14 Provisions for liabilities and charges

| | Deferred tax liability £ 000's | Other £ 000's | Total £ 000's |
|---|---|---|---|
| Balance at 1 January 2008 | 109 | 6,109 | 6,218 |
| Profit and loss account | (37) | (165) | (202) |
| Utilised | - | (2,477) | (2,477) |
| Balance at 31 December 2008 | 72 | 3,467 | 3,539 |

Other provisions represent building retirement obligations, restructuring and long term service awards which are expected to be utilised fully within five years.

**The deferred tax liability is made up as follows:**

| | 2008 £ 000's | 2007 £ 000's |
|---|---|---|
| Accelerated capital allowances | 1,361 | 1,363 |
| Other timing differences | (1,289) | (1,254) |
| Deferred tax liability before pension asset deferred tax | 72 | 109 |
| Deferred tax relating to pension asset (note 15) | 1,819 | 4,781 |
| Total deferred tax liability | 1,891 | 4,890 |

| | |
|---|---|
| Balance at 1 January 2008 | 4,890 |
| Deferred tax charge in profit and loss account | 1,940 |
| Deferred tax credit to the statement of total recognised gains and losses | (4,939) |
| Total deferred tax liability at 31 December 2008 | 1,891 |

There is no unprovided deferred tax.

**14 Provisions for liabilities and charges** **(continued)**

The deferred tax liability relating to the pension scheme of £1,819,000 (2007: £4,781,000) has been deducted in arriving at the net pension asset on the balance sheet.

As a result of the change in UK corporation tax rates on 1 April 2008, deferred tax balances as at 31 December 2007 and 31 December 2008 were remeasured at the tax rate of 28% being the tax rate that will apply on reversal.

### 15 Pension costs

**Defined benefit - Bayer Group Pension Plan and SHCL Pension Scheme**
During the year, the company operated two funded defined benefit pension schemes in the UK; the Bayer Group Pension Plan (BGPP) and the SHCL Pension Scheme (SHCLPS). With effect from 1 February 2008 the SHCLPS was merged with the BGPP on a sectionalised basis. The assets of the fund are held separately from those of the company in a separate trustee administered fund. Contributions to the fund are charged to the profit and loss account 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. Both the BGPP and SHCLPS defined benefit sections are closed to new members.

For the Group defined benefit section of the BGPP the participating companies agreed to contributions of 21.2% of members' pensionable pay and to have made deficit payments totalling £11.3m. For the SHCLPS Section the company has agreed to match employee contributions of between 5.25% and 8.0% and pay an additional 10.5% of members' pensionable pay towards administration expenses. The company also operates an unfunded unapproved benefit arrangement for one employee of Bayer Plc.

The actuarial valuations of the funds and the unfunded unapproved arrangement were updated to 31 December 2008 by an independent qualified actuary in accordance with FRS 17. As required by FRS 17, the defined benefit liabilities have been measured using the projected unit method.

**Defined contribution - Bayer Group Pension Plan**
Certain employees of Bayer Plc are members of the defined contribution section of the Bayer Group Pension Plan. The cost of the contributions to the scheme amount to £5,779,000 (2007:£3,672,000). Employees contribute between 2 - 9% of pensionable pay with the company matching the employees' contributions plus 3%. In addition, members who switched from the defined benefit section to the defined contribution section with effect from 1 May 2007 have additional employer contributions, based on the members' age as at 30 April 2007.

**The amounts recognised in the profit and loss account are as follows:**

| **Defined benefit pension plans** | **2008 £ 000's** | **2007 £ 000's** |
|---|---|---|
| Current service cost | 1,601 | 2,605 |
| Interest cost | 18,538 | 16,358 |
| Expected return on assets | (22,650) | (18,917) |
| Adjustment to return on assets for limit in paragraph 41 of FRS 17 | - | 375 |
| Pension (income)/expense before special events | (2,511) | 421 |
| Cost of curtailments | 752 | 424 |
| | (1,759) | 845 |
| **Split between:** | | |
| Charged to operating profit - staff costs | 2,353 | 3,029 |
| Credited to other finance income | (4,112) | (2,184) |
| | (1,759) | 845 |

The actual loss on plan assets for the year was £43,898,000 (2007: £12,470,000).

# BAYER PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2008

**15 Pensions costs** **(continued)**

| **Unfunded unapproved arrangement** | **2008 £ 000's** | **2007 £ 000's** |
|---|---|---|
| Current service cost | 24 | 32 |
| Interest cost | 16 | 17 |
| | 40 | 49 |
| **Split between:** | | |
| Charged to operating profit - staff costs | 24 | 32 |
| Charged to other finance income | 16 | 17 |
| | 40 | 49 |

**Statement of total recognised gains and losses (STRGL):**

| **Defined benefit pension plans** | **2008 £ 000's** | **2007 £ 000's** |
|---|---|---|
| Actuarial loss/(gain) arising during the year | 22,124 | (20,980) |
| Effect of the limit in paragraph 41 of FRS 17 | (4,454) | 953 |
| Total loss/(gain) recognised via STRGL during the year | 17,670 | (20,027) |
| Cumulative actuarial loss recognised in the STRGL at the year end | 97,568 | 79,898 |
| **Unfunded unapproved arrangement** | | |
| Actuarial gain arising during the year | (29) | (102) |
| Total gain recognised via STRGL during the year | (29) | (102) |
| Cumulative actuarial gain recognised in the STRGL at the year end | (164) | (135) |

## 15 Pensions costs (continued)

**The principal assumptions for the defined benefit plans and the unfunded plan used by the actuary were:**

| | 2008<br>% | 2007<br>% |
|---|---|---|
| Rate of increase in salaries | 3.85 | 4.70 |
| Rate of increase in pensions payment | | |
| LPI maximum 5% | 2.85 | 3.20 |
| LPI minimum 3%, maximum 5% | 3.25 | 3.40 |
| LPI maximum 2.5% | 2.35 | 2.50 |
| Rate of increase for deferred pensioners | 2.85 | 3.20 |
| Discount rate | 6.44 | 5.80 |
| Inflation assumption | 2.85 | 3.20 |
| Long term rate of return on assets | 5.84 to 6.25 | 6.50 to 6.70 |
| **Significant demographic assumptions** | PNMA00 / PNFA00 +1.0 year age rating medium cohort improvements | PNMA00 / PNFA00 +1.0 year age rating medium cohort improvements |

The overall expected rate of return on assets is determined as the average of the expected return of each major asset, weighted by the assets allocated to each class.

**Development of the net balance sheet position**

| | 2008<br>£'000s | 2007<br>£'000s |
|---|---|---|
| **Defined benefit pension plans** | | |
| Actuarial value of plan liabilities | (297,099) | (332,847) |
| Fair value of assets | 308,899 | 359,671 |
| Surplus in the plans | 11,800 | 26,824 |
| Amount not recognised as an asset due to the limit in paragraph 41 of FRS 17 | (5,012) | (9,467) |
| Pension asset recognised in the balance sheet | 6,788 | 17,357 |

# BAYER PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2008

**15 Pensions costs** **(continued)**

| **Unfunded unapproved arrangement** | **2008 £ 000's** | **2007 £ 000's** |
|---|---|---|
| Actuarial value of plan liabilities | (292) | (281) |
| Fair value of assets | - | - |
| Pension liability recognised in the balance sheet | (292) | (281) |

**Reconciliation to the balance sheet:**

| **Defined benefit pension plans** | **2008 £ 000's** | **2007 £ 000's** |
|---|---|---|
| Net pension asset/(liability) at 1 January | 17,357 | (15,566) |
| Transfer on acquisition of Schering Health Care Limited | - | 1,526 |
| Disclosed pension income/(expense) for year | 1,759 | (845) |
| Employer contributions | 5,342 | 12,215 |
| (Loss)/ gain recognised via the STRGL | (17,670) | 20,027 |
| Net pension asset at 31 December before deferred tax | 6,788 | 17,357 |
| Related deferred tax liability | (1,901) | (4,860) |
| Net pension asset at 31 December after deferred tax | 4,887 | 12,497 |

| **Unfunded unapproved arrangement** | | |
|---|---|---|
| Net pension liability at 1 January | (281) | (334) |
| Disclosed pension expense for year | (40) | (49) |
| Gain recognised via the STRGL | 29 | 102 |
| Net pension liability at 31 December before deferred tax | (292) | (281) |
| Related deferred tax asset | 82 | 79 |
| Net pension liability at 31 December after deferred tax | (210) | (202) |

| | | |
|---|---|---|
| Total net pension asset at 31 December recognised in the balance sheet | 4,677 | 12,295 |

**15 Pensions costs** **(continued)**

**Expected contributions for the year ended 31 December 2009:**

| | **£ 000's** |
|---|---|
| **Defined benefit pension plans** | |
| Employer | 2,307 |
| | |
| **Unfunded unapproved arrangement** | |
| Employer | - |

**15 Pensions costs** **(continued)**

| **Plan asset information:**<br>**Defined benefit pension plans** | **2008**<br>**£ 000's** | **2007**<br>**£ 000's** |
|---|---|---|
| Equity securities | 146,644 | 166,445 |
| Debt securities | 143,885 | 164,191 |
| Property | 13,682 | 26,294 |
| Other | 4,688 | 2,741 |
| Fair value of assets | 308,899 | 359,671 |

There were no amounts included in the fair value of scheme assets for the company's own financial instruments, nor for property occupied by, or other assets used by, the company.

**History of assets, liabilities and surplus or deficit in the plans:**

| **Defined benefit pension plans** | **2008**<br>**£ 000's** | **2007**<br>**£ 000's** | **2006**<br>**£ 000's** |
|---|---|---|---|
| **Asset experience** | | | |
| Asset loss/(gain) during year | 66,548 | 6,447 | (128,565) |
| Asset loss/(gain) expressed as a percentage of plan assets | 21.54% | 1.80% | (46.28%) |
| **Liability experience** | | | |
| Liability (gain)/loss during year | (44,424) | (27,427) | 128,234 |
| Liability (gain)/loss expressed as a percentage of plan liabilities | (14.95%) | (8.20%) | 43.71% |
| **Surplus/(deficit)** | | | |
| Actuarial value of plan liabilities | (297,099) | (332,847) | (293,364) |
| Fair value of assets | 308,899 | 359,671 | 277,798 |
| Surplus/(deficit) in the plan | 11,800 | 26,824 | (15,566) |

Information relating to the defined benefit schemes' assets, liabilities and surplus/(deficit) for 2005 and prior has not been disclosed due to insufficient actuarial information.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
# FOR THE YEAR ENDED 31 DECEMBER 2008

**15 Pensions costs** **(continued)**

| **Unfunded unapproved arrangement** | **2008 £ 000's** | **2007 £ 000's** | **2006 £ 000's** | **2005 £ 000's** |
|---|---|---|---|---|
| **Asset experience** | | | | |
| Asset (gain)/loss during period | - | - | - | - |
| Asset (gain)/loss expressed as a percentage of plan assets | 0% | 0% | 0% | 0% |
| **Liability experience** | | | | |
| Liability (gain)/loss during period | (29) | (102) | 54 | 62 |
| Liability (gain)/loss expressed as a percentage of plan liabilities | (9.93%) | (36.30%) | 16.20% | 25.50% |
| **Surplus/(deficit)** | | | | |
| Actuarial value of plan liabilities | (292) | (281) | (334) | (243) |
| Fair value of assets | - | - | - | - |
| Deficit in the plan | (292) | (281) | (334) | (243) |

Information relating to the unfunded unapproved arrangement's assets, liabilities and surplus/(deficit) for 2004 has not been disclosed due to insufficient actuarial information.

**Change in plan liabilities:**

| **Defined benefit pension plans - wholly or partly funded** | **2008 £ 000's** | **2007 £ 000's** |
|---|---|---|
| Plan liabilities at 1 January | 332,847 | 293,364 |
| Current service cost | 1,601 | 2,605 |
| Interest cost | 18,538 | 16,358 |
| Contributions from scheme participants | 36 | 102 |
| Actuarial gain | (44,424) | (27,427) |
| Benefits paid from plan assets | (12,251) | (12,087) |
| Acquisitions/divestitures | - | 59,508 |
| Curtailments | 752 | 424 |
| Plan liabilities at 31 December | 297,099 | 332,847 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

## 15 Pensions costs (continued)

| Unfunded unapproved arrangement - wholly unfunded | 2008 £ 000's | 2007 £ 000's |
|---|---|---|
| Plan liabilities at 1 January | 281 | 334 |
| Current service cost | 24 | 32 |
| Interest cost | 16 | 17 |
| Actuarial gain | (29) | (102) |
| Plan liabilities at 31 December | 292 | 281 |

**Change in plan assets:**

| Defined benefit pension plans - wholly or partly funded | 2008 £ 000's | 2007 £ 000's |
|---|---|---|
| Fair value of assets at 1 January | 359,671 | 277,798 |
| Expected return on assets | 22,650 | 18,917 |
| Actuarial losses on assets | (66,548) | (6,447) |
| Employer contributions | 5,342 | 12,215 |
| Employee contributions | 35 | 102 |
| Benefits paid | (12,251) | (12,087) |
| Acquisitions/divestitures | - | 69,173 |
| Fair value of assets at 31 December | 308,899 | 359,671 |

## 16 Share capital

| | 2008 £ 000's | 2007 £ 000's |
|---|---|---|
| **Authorised** | | |
| 30,000,000 Ordinary shares of £1 each | 30,000 | 30,000 |
| **Allotted, called up and fully paid** | | |
| 25,062,356 Ordinary shares of £1 each | 25,062 | 25,062 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

## 17 Statement of movements on reserves

| | Share premium account £ 000's | Other reserves (see below) £ 000's | Profit and loss account £ 000's |
|---|---|---|---|
| Balance at 1 January 2008 | 10,655 | 7,373 | 166,390 |
| Profit for the year | - | - | 23,731 |
| Actuarial gains or losses on pension scheme assets | - | - | (17,641) |
| Movement on deferred tax relating to pension asset | - | - | 4,939 |
| Balance at 31 December 2008 | 10,655 | 7,373 | 177,419 |

| | | Other reserves £ 000's | |
|---|---|---|---|
| **General reserves** | | | |
| Balance at 1 January 2008 & at 31 December 2008 | | 7,373 | |

## 18 Reconciliation of movements in shareholders' funds

| | 2008 £ 000's | 2007 £ 000's |
|---|---|---|
| Profit for the financial year | 23,731 | 21,108 |
| Actuarial (loss)/ gain on pension scheme | (17,641) | 20,129 |
| Movement on deferred tax relating to pension asset | 4,939 | (6,038) |
| Net addition to shareholders' funds | 11,029 | 35,199 |
| Opening shareholders' funds | 209,480 | 174,281 |
| Closing shareholders' funds | 220,509 | 209,480 |

## 19 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 2008 (2007: £nil).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

## 20 Financial commitments

At 31 December 2008 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2009:

| | Land and buildings | | Other | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | £ 000's | £ 000's | £ 000's | £ 000's |
| Operating leases which expire: | | | | |
| Within one year | - | - | 69 | 115 |
| Between two and five years | 188 | - | 1,217 | 398 |
| In over five years | 2,089 | 2,277 | - | - |
| | 2,277 | 2,277 | 1,286 | 513 |

## 21 Directors' emoluments

| | 2008 | 2007 |
|---|---|---|
| | £ 000's | £ 000's |
| Emoluments for qualifying services | 299 | 254 |

No retirement benefits have been accrued for the directors (2007: Nil) under the Bayer Group Pension Plan.

Emoluments disclosed above (excluding pension contributions) include amounts paid to:

| | | |
|---|---|---|
| The highest paid director | 299 | 254 |

No retirement benefits have been accrued for the directors (2007: Nil) under the Bayer Group Pension Plan.

The emoluments of the other directors during the current and prior period 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 accounts of their employer.

### 22 Employees

**Number of employees**

The average monthly number of employees (including directors) during the year was:

| | 2008 Number | 2007 Number |
|---|---|---|
| Sales and Marketing | 437 | 389 |
| Research and Development | 119 | 84 |
| General Administration | 171 | 191 |
| | 727 | 664 |

| **Employment costs** | 2008 £ 000's | 2007 (as restated) £ 000's |
|---|---|---|
| Wages and salaries | 39,107 | 38,448 |
| Social security costs | 4,428 | 3,292 |
| Other pension costs | 7,548 | 6,592 |
| | 51,083 | 48,332 |

Prior year wages and salaries have been restated for consistency to exclude agency staff and outsourcing costs.

### 23 Ultimate parent undertaking and controlling party

At 31 December 2008, the company's immediate parent company is considered by the directors to be Bayer Schering Pharma AG (formerly Bayer Healthcare AG), which is incorporated in Germany. The ultimate parent undertaking and controlling party is Bayer AG which is incorporated in Germany and 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:

Investor Relations
Bayer AG
Kaiser-Wilhelm Allee
51368 Leverkusen
Germany

### 24 Related party transactions

At the year end the company was owed £10,000 (2007: £Nil) by Bayer CropScience Nufarm Limited, a company which is indirectly 75% owned by Bayer AG. Sales made to the related party during the year totalled £114,000 (2007: £Nil).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
# FOR THE YEAR ENDED 31 DECEMBER 2008

**25 Post balance sheet events**

After the year end the directors proposed a dividend of £40,000,000, of which £15,960,190 is payble to Bayer Gesellschaft fur Beteiligungen mbH and £24,039,810 is payable to Bayer Schering Pharma AG (formerly Bayer Healthcare AG).