MaterialScience

Chemical Industry
Finance & Investment Conference

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Bayer MaterialScience

ICIS and Merrill Lynch
Chemical Industry Finance & Investment Conference

Delivering Growth and Performance

Examples from the Polyurethanes Business Unit

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Bayer MaterialScience AG

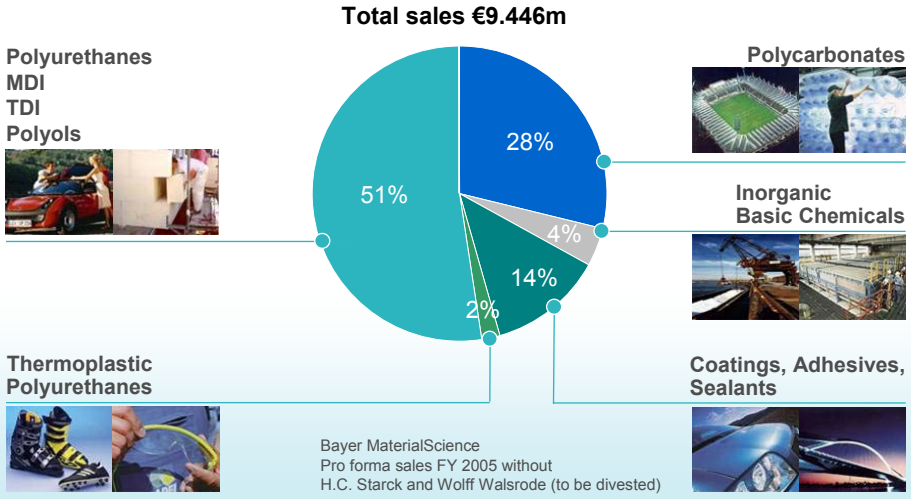
Forward Looking Statements

This presentation contains forward-looking statements based on current assumptions and forecasts made by Bayer Group management.

Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. These factors include those discussed in our public reports filed with the Frankfurt Stock Exchange and with the U.S. Securities and Exchange Commission (including our Form 20-F). The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

- We are focusing on profitable growth
- We are delivering strong performance
- We are executing a clear strategy
- We are generating value for our shareholders

Focused on Polyurethanes and Polycarbonates



Q3 Key Financials

In € million	Q3 2006	y-o-y Δ	9M 2006	y-o-y Δ
Sales	2,920	+ 11%	8,614	+ 9%
EBITDA underlying	427	- 15%	1,501	- 1%
EBITDA Margin (underlying)	14.6%		17.4%	
EBIT underlying	293	- 20%	1,097	- 1%
EBIT Margin (underlying)	10.0%		12.7%	
Gross cash flow	274	- 33%	991	- 10%
Net cash flow	262	- 47%	825	+ 8%
CapEx	98	- 50%	443	+ 9%

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Business Objectives

Deliver Growth
- Maintain or expand market leadership positions in our key product areas
- Tapping significant growth potential through business expansion in Asia

Build on Innovation
- Extend businesses further along the value chain through new applications

Increase Efficiency
- Improve our cost base to generate earnings above industry average

Generate Value
- Earn a premium on our cost of capital throughout the cycle

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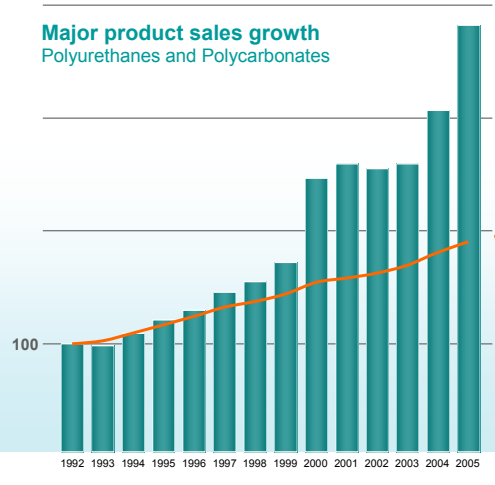
Major Products Outpace GDP Growth
Long-term Trend Intact Across The Cycle



CAGR 1992-2005
Total net sales include Lyondell Polyols acquisition in 2000

Historic growth rate of major products at Bayer MaterialScience

Major long-term growth drivers:

- **Construction**
  - > Energy saving
  - > Heat insulation
- **Automotive**
  - > New polymeric applications
- **Innovation**
  - > Films/surfaces and nanotechnology

Growth Opportunities Through Market Leader Positions

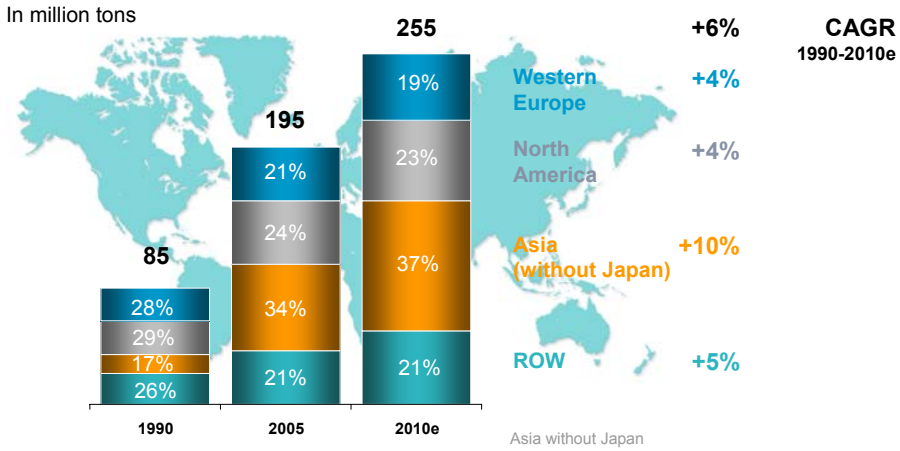
	Global Market Positions	Volume growth CAGR 2005-2010e
	Bayer	**World**
Polyurethanes	**#1** (ms ≈ 26%)	Global + ~5%
Polycarbonates*	**#1** (ms ≈ 30%)	Global + ~8%
Thermoplastic Polyurethanes	**#1** (ms ≈ 20%)	Global + ~4%
Coating Raw Materials**	**#1** (ms > 40%)	Global + ~5%

* Including blends
** Arom. and aliph. isocyanates

Thermoplastic Polyurethanes incl. Ure-tech, Taiwan; Acquisition subject to regulatory approval

Exploiting market opportunities as a producer of choice for our customers

Asia Outpaces Other Regions
Global Consumption of Plastic Materials

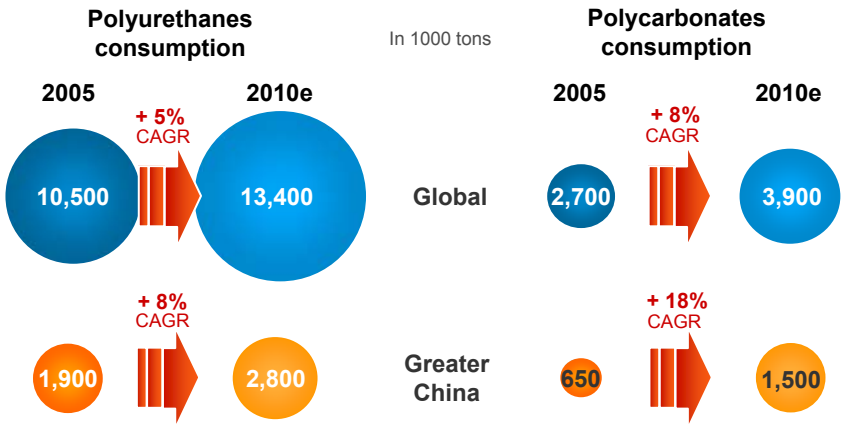


Source: Bayer estimates

Asia without Japan
Plastic materials excluding coatings, fibers, adhesives

Fastest business expansion of +10% CAGR expected in Asian polymer market

China Outpaces Global Growth in Our Major Businesses PUR and PCS



Bayer estimates, PCS incl. Blends

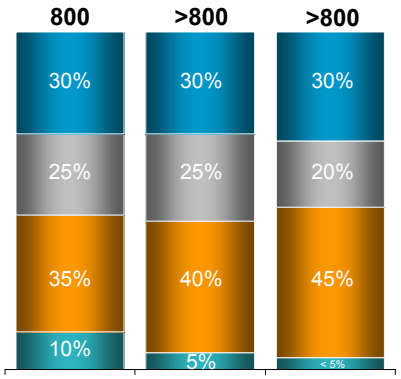
Greater China: PR China, Taiwan, Hongkong

China is set to become the world´s largest PUR market by 2015

China already is the world´s largest PCS market today

Focused Capital Investment in China

CapEx on fixed assets
in million €



All figures are approximations based on the 2006 budget

- Competitive CapEx funding to secure long-term volume growth in line with market dynamics
- Investment focus of US$ 1.8bn in China (in 2003-2009) demonstrates commitment to participate in future growth of this region
- € 2.5bn total budget in 2006-2008e
  - € 1.6bn for strategic growth projects
  - € 0.9bn for maintenance and efficiency projects

Greater China: PR China, Taiwan, Hongkong

Bayer MaterialScience capital expenditures efficiently deployed

Exploiting Growth Opportunities of Our Businesses

Strengthen our regional competitiveness through local production in China

PUR: Polyurethanes
PCS: Polycarbonates
CAS: Coatings, Adhesives, Sealants

PUR	PCS	CAS
		
MDI 80kt in 2006 (crude MDI splitter) ***350 kt in 2008**** **TDI** 160 kt in 2009**	**PCS** 40 kt in 2005 (PC compounding) **PCS** 100 kt in 2006 ***+100 kt in 2008****	Desmodur® N 12 kt in 2003 Desmodur® L 11 kt in 2004 **HDI** 30 kt in 2006 +20 kt thereafter**

under construction
**planned

All numbers are name plate capacities
Dates for HDI refer to mechanical completion

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Broad Diversity of Innovations

Printable aliphatic **Desmopan** films for improved mechanical properties and light stability

Multitec Short Fiber Spraying – fast and efficient process

ETICS External thermal insulation composite system

Bayflex Lightweight Density reduction, excellent dynamic compression set performance

Baypreg Composite material for structural parts

Waterborne 2K-PUR coatings Meeting ecological requirements

Aspartates for innovative corrosion protection

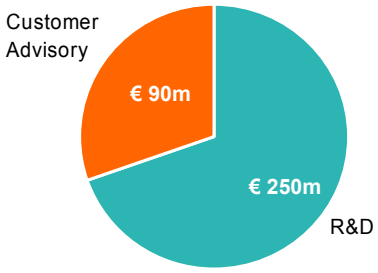
New Makroblend product lines for use in automotive exterior parts – high toughness even at low temperatures

Flame resistant **Bayblend** grades with Eco-label compliance

New scratch-resistant **Makrolon** grades for automotive glazing

R&D Resources Efficiently Deployed
Solid IP Position and Share of New Products

R&D Budget 2006



- Competitive R&D funding, approximately 3% of sales
- NPV-based project evaluation
- R&D expenses split between 'process innovation' and 'growth opportunities in new applications'
- 'Customer advisory' involves customers at early stage of R&D to adapt projects to specific customer needs
- >10% of R&D invested in New Business
- More than 20% of sales come from new products (launched since 2000)
- More than 40% of 2005 sales were generated by patented products

Moving Further Along the Value Chain
Expanding the Scope, Integrating Forward

Polyurethanes

BaySystems (umbrella brand)
>20 local PUR systems providers worldwide

Fast growing franchise through
- Minor acquisitions (e.g. Polythane Systems, USA)
- JVs (e.g. Pearl Insulations, UAE)
- Greenfield investments (e.g. India, Thainland)

- Exploiting existing, highly versatile polymer portfolio
- Offering tailor-made solutions, meeting specific customer needs
- Transformational growth within key strategic innovation areas:
  - Films and surfaces
  - Nanotechnology
- Expanding the scope of business by driving innovation in multiple applications
- Continue to increase our portion of the value chain
- Forward integrated business lines of Bayer MaterialScience generated sales of close to € 1bn in 2005

Major example of businesses considered as forward-integrated

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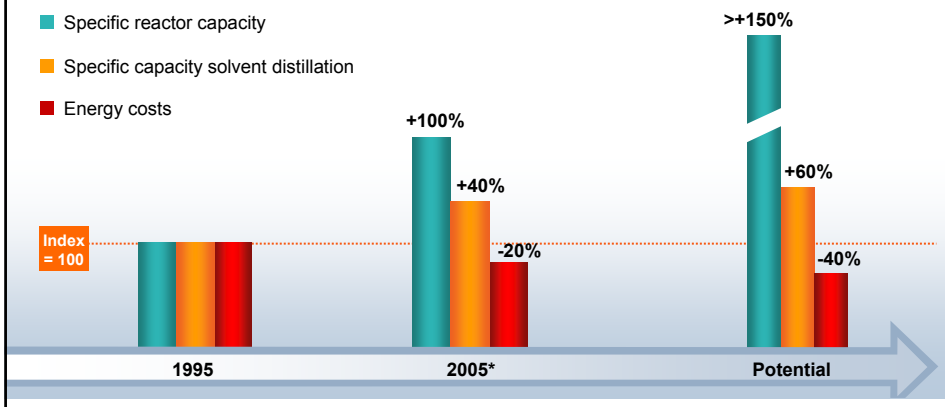
MDI Process Innovation Pays Off
High Efficiency Phosgenation Delivers Returns



Proprietary process

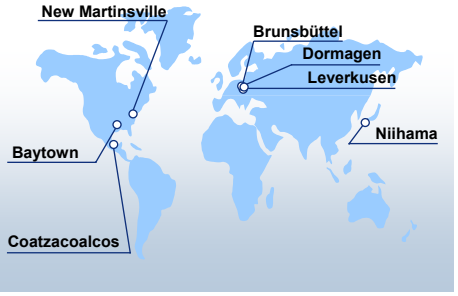
* Status achieved in existing MDI plants

- Bayer's high efficiency phosgenation offers an increase in reactor capacity and savings in energy costs at a very low investment level
- Prerequisite to construct world's largest single-train MDI complex in China by 2008

Increasing TDI Efficiency
Successful site consolidation program completed

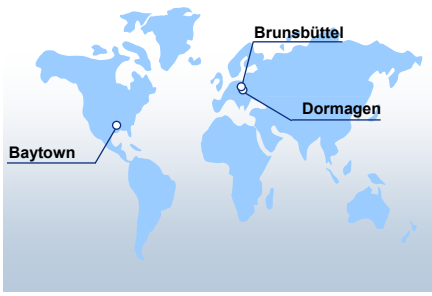
Name plate capacities

2002



Number of plants	7
Capacity 2002	435kt

2005



Number of plants	3
Capacity 2005	385kt

Average plant capacity doubled: 60kt (2002) → 130kt (2005)

Gas Phase Phosgenation Process for TDI
Costs Savings and Further Improved Safety

- **Process characteristics**
  - Reaction of phosgene and TDA in the gas phase
  - Proprietary process new standard for efficiency
- **Benefits of gas phase process**
  - Reduced capital expenditures by approx. 20%
  - Reduced conversion costs due to lower energy demand and reduced solvent usage
  - Reduced phosgene hold up by approx. 60%
  - New process to extend cost and technology leadership in TDI production

- Successful operation of 30 kt pilot plant (Germany) since 2005
- World-scale 160 kt production line in Caojing planned
- Operation start due in 2009

Energy costs of gas phase process reduced by 40% vs. optimized conventional process

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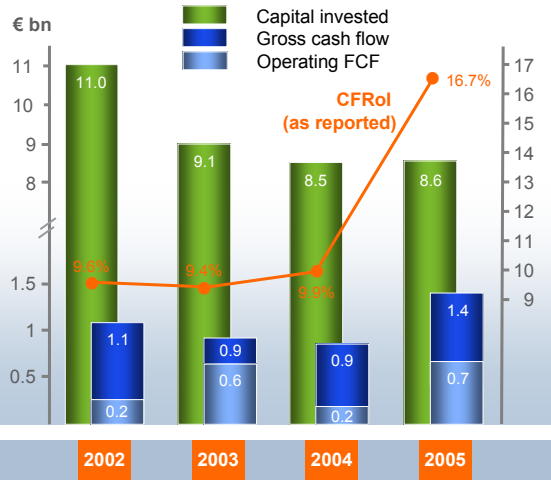
Becoming Leaner and More Profitable
Return on Investment Greatly Improved

Polymers 1999	Major Milestones Achieved	MaterialScience 2005
		
Sales € 9.3bn	■ Strong top line growth, fully over-compensating € 2.4bn Lanxess carve-out	**Sales** € 10.7bn
Sales per employee € 400,000	■ Increased employee productivity results in a leaner organization	**Sales per employee** € 570,000
EBIT margin 12.5% (pre special items)	■ Margin improvement through savings and efficiency enhancements, despite significantly higher raw material costs	**EBIT margin** 13.1% (pre special items)
CFRoI 11.5% Bayer Polymers, as reported	■ Return on investment greatly improved by concentration on more profitable businesses	**CFRoI** 16.4% Bayer MaterialScience

2005 Demonstrates Our Potential to Generate Significant Value



Value Generation in 2005

- CVA of € 681m generated
- Target return including asset reproduction well exceeded
- CFRoI is the ratio of gross cash flow to capital invested (€ 8.5bn)
- CFRoI-hurdle (8.4%) as minimum requirement covers cost of capital and reproduction of depletable assets
- Subgroup WACC at 6.0%

Positive oFCF and CFRoI above Hurdle

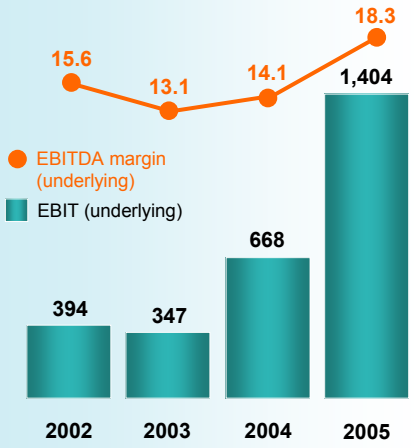
Strong Performance Across the Cycle

- Capacity expansions follow long-term market growth, independently of cycle
- Constantly evaluating opportunities for plant and site consolidation while concentrating on world-scale production
  - Competitive advantage through economies of scale
  - Reducing specific conversion costs through process innovation
- Commitment to further optimizing G&A costs

- Significant positive cash contribution (oFCF) across the cycle
- Earn a premium on the BMS cost of capital throughout the cycle

FY 2006: Committed to Continue Growth and Excellent Earnings Performance

Performance



Outlook 2006

- **Positive general market environment**
- **Assumptions**
  Increased global production capacities
  Significantly increased raw material costs
- **Sales**
  Continued growth
- **Underlying EBIT and EBITDA**
  On a par with excellent 2005 level
  Some risks from higher raw material cost

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Key Messages

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