



## Bayer Polymers



**Merrill Lynch Chemicals Conference**  
**London, November 18, 2003**  
**Dr. Hagen Noerenberg, Head of Bayer Polymers**

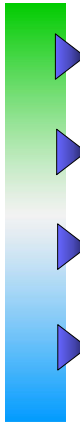
### Safe Harbor

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.

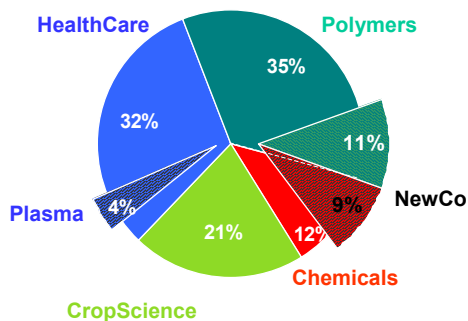


# Realignment of future business focus

- 
- ▶ Strategic focus on growth, innovation and value generation
  - ▶ Three core areas: HealthCare, CropScience and MaterialScience
  - ▶ Carve-out of EUR 5.6 bn chemicals and polymers activities into new independent listed company planned
  - ▶ Pharmaceutical activities will be continued as a stand-alone solution and repositioned as a mid-sized European player



# Future Business Refocus



Sales breakdown FY2003e

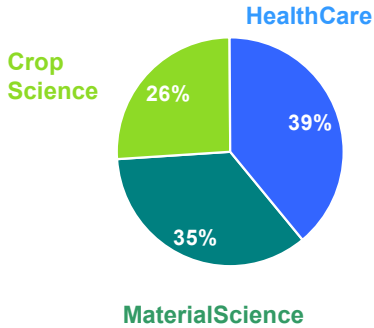
## Distinct business structures...

- Rapidly changing industry dynamics
- Increasing competitive pressure across all businesses
- Targeted allocation of resources
- Industry-specific business models required

... for different businesses



# The Future Shape of Bayer



Sales breakdown  
FY2003e €22.5 billion



## HealthCare

- Strong positions in consumer health
- Excellent technology base
- Significant new product opportunities
- Improving pharmaceuticals pipeline



## CropScience

- Leader in conventional Crop Protection
- Leader in Environmental Science
- Emerging Player in BioScience
- Rich pipeline



## MaterialScience

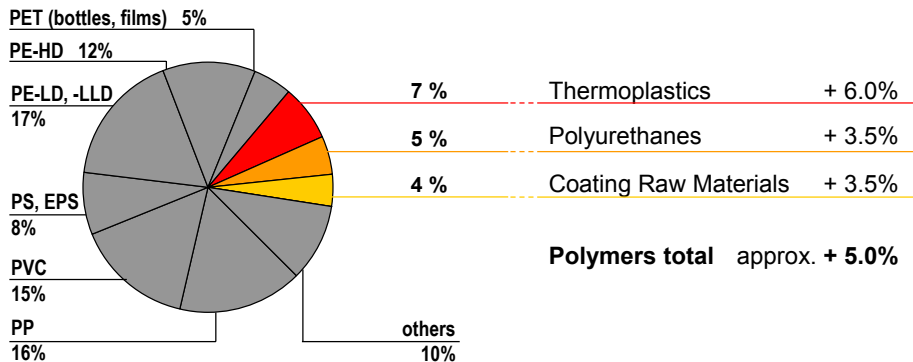
- Market leader in most products
- Cost advantages through world-scale production sites
- Technology leadership
- Expansion in Asia under way



# World market for polymers 2002

Volumes produced

Average annual increase in volumes from 2002 to 2006 (worldwide)



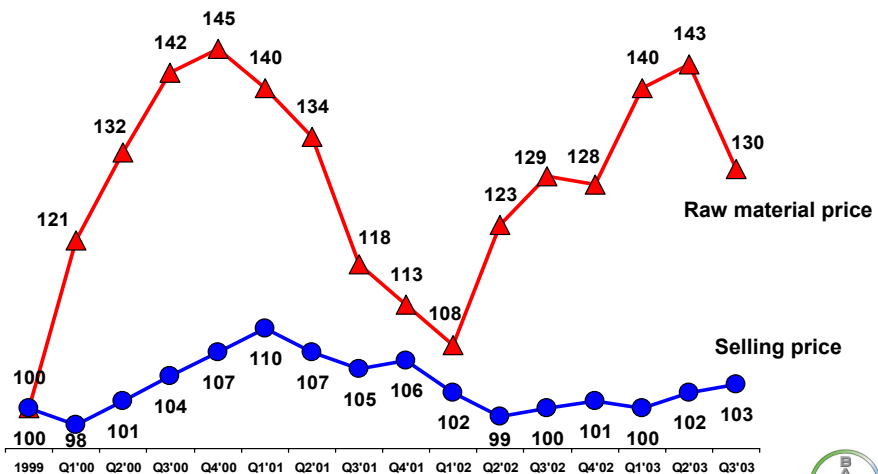
Total: approx. 190 million metric tons  
(not including synthetic fibers and synthetic rubbers)



# Main Competitors



# Polymers - Raw material and selling prices



# Build on leadership position



## MaterialScience

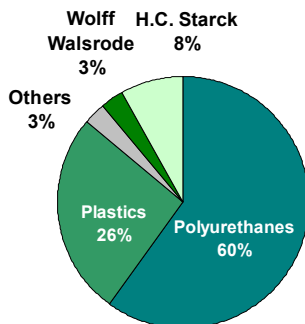
A leading market participant

### Market Positions

- TDI/MDI/Polyols #1
- Polycarbonates #2
- Coatings raw materials #1
- Tantalum #1
- Methyl- & nitro-celluloses #2



## MaterialScience: Segment Strategy



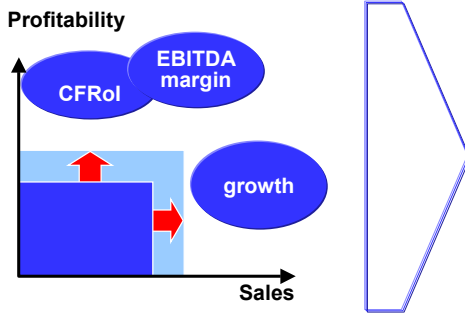
Sales breakdown FY2002  
Total €7,832 million

- Polymer portfolio focused on two key technologies (PC & PUR)
- Exploit full potential of leadership positions
- Grow faster than GDP on average
- Significant earnings recovery potential (restructuring, cost savings)
- Expand in Asia/Pacific (first mover advantage)
- H.C.Starck / Wolff Walsrode are attractive additions
- Exit from low-growth, low-margin commodity businesses initiated



# Our Commitment

Higher turnover and better return

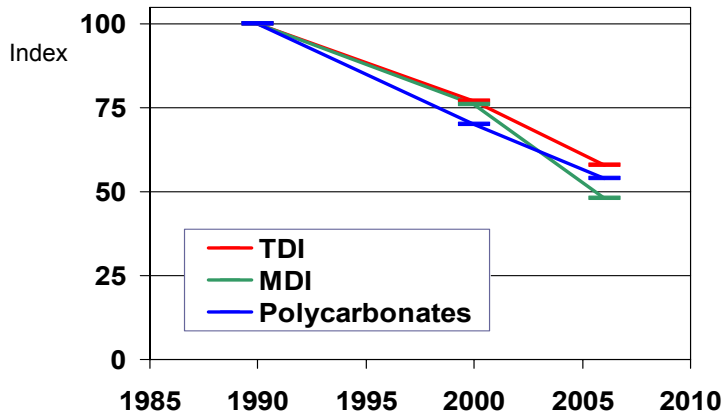


## Our Measures

- Efficiency
- Portfolio Optimization
- Restructuring
- Growth



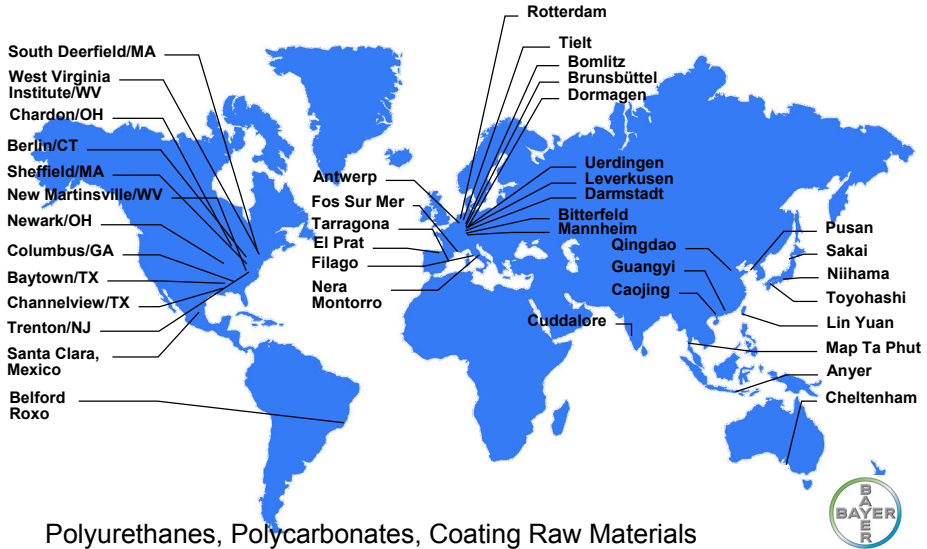
# Cost reduction by Scale and Technology



Development of Conversion Costs (Index 1990=100)



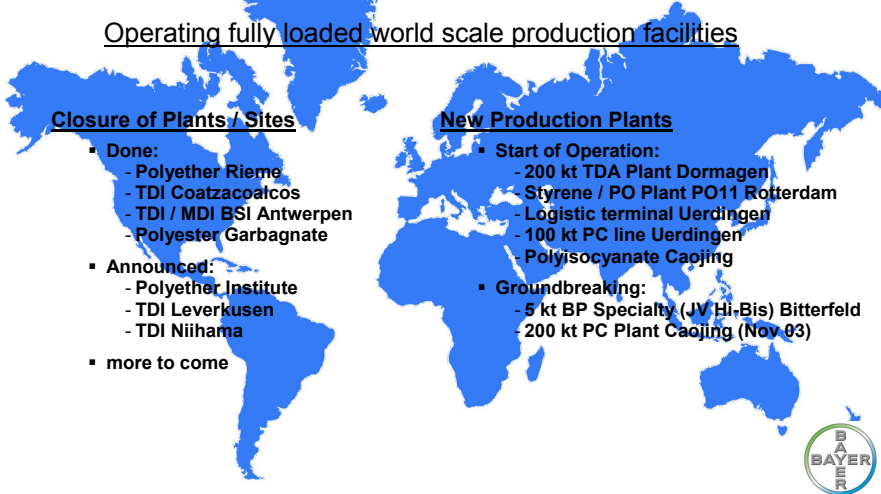
# Production sites across the world



# Optimizing profitability of tangible assets

Production restructuring and site consolidation as continuing task to achieve and defend best-in-class cost structure.

## Operating fully loaded world scale production facilities



## MaterialScience: Go East



### Asia / Pacific

- Asian area offers excellent growth opportunities
- Developing economy with huge consumption of performance materials

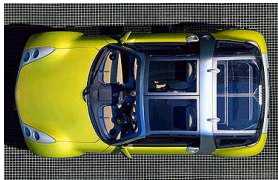
### Bayer MaterialScience

- Strengthen regional competitiveness through local production in China (near Shanghai)
- Polycarbonates, MDI and HDI on stream in 2006-2007, domestic source for TDI in China in 2006
- Asia sales ratio target of 25% by 2007 (actual 17%)



## Creating the world of tomorrow

Growth through new products and technologies



### Car glazing of Makrolon®

Makrolon® instead of glass means:

- efficient production
- reduced assembly complexity
- greater design freedom
- higher safety
- significant weight saving



### Rapid Coating through Dual Cure Technology

- Dual cure Technology combines the benefits of radiation cure and thermal cure technology:
- High efficiency and film performance
- Ecological compatibility
- Extension of UV cure technology to complex shaped 3D objects (curing in shadow zones)





## Bayer MaterialScience ...

- is one of the best established polymers companies in the world and market leader with most of its product lines
- is a truly global player and has excellent market and customer access worldwide
- is committed to continued process and cost efficiency improvement that will increase profitability
- grows substantially in Asia and sets up local production bases
- provides unique solutions, new applications and innovative products through its outstanding technical expertise



## Key figures Polymers

€ million	Q3 2002	Q3 2003	YoY %	Q1- Q3 2002	Q1-Q3 2003	YoY %
<b>Net sales</b>	2,595	2,456	(5.4)	7,872	7,459	(5.2)
- Plastics, Rubber	1,313	1,170	(10.9)	3,951	3,630	(8.1)
- PU, Coat., Fibers	1,282	1,286	0.3	3,921	3,829	(2.3)
<b>EBITDA</b>	440	233	(47.0)	1,072	815	(24.0)
- Plastics, Rubber	258	62	(76.0)	501	262	(47.7)
- PU, Coat., Fibers	182	171	(6.0)	571	553	(3.2)
<b>EBIT</b>	101	(11)		137	132	(3.6)
- Plastics, Rubber	95	(50)		126	(41)	
- PU, Coat., Fibers	6	39		11	173	
<b>Net cash flow</b>	336	514	53.0	795	666	(16.2)





## Appendix

### Q3'03: Operating Performance on Target



- Sales and earnings development broadly on budget
- Solid portfolio and currency adjusted sales growth (+ 4.6% yoy)
- Underlying EBIT significantly improved (+ 52.9% yoy)
- Business momentum improved during the quarter
- Cash generation remains high
- Strong working capital performance
- Full year net debt target already achieved (€6.9 billion as per Sept 30)
- €2.5 billion efficiency improvement programs on schedule
- Continued progress with Baycol settlement program (1,811 cases settled for \$659 million)
- ➡ Double-digit EBIT growth (pre possible impairment write-downs and accelerated restructuring)

## Q3'03 Financial Highlights



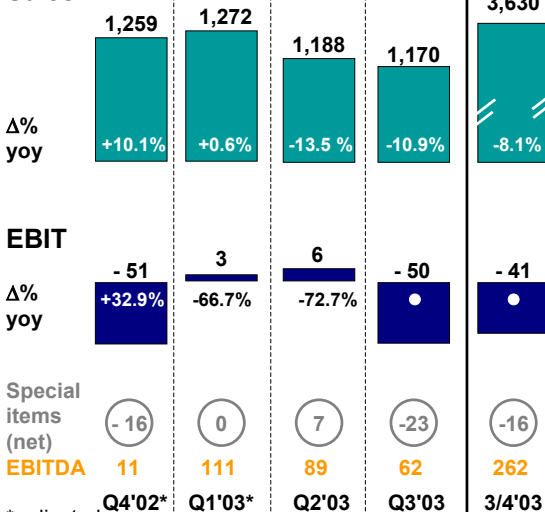
€ million

	Q3'03	Δ% yoy	3/4'03	Δ% yoy
Sales	6,834	- 8.4	21,446	- 3.4
EBIT	21	- 97.6	1,550	- 20.5
Special items (net)	(83)	•	189	•
EBIT (underlying)	104	+ 52.9	1,361	+ 53.4
EBITDA	753	- 54.1	3,635	- 12.6
Non-operating result	(211)	+ 12.4	(559)	- 57.9
Pre-tax income	(190)	•	991	- 37.9
After-tax income	(116)	•	606	- 59.1
Net income	(123)	•	591	- 59.9
Gross cash flow	541	- 11.5	3,032	+ 37.4
Net cash flow	1,193	- 14.6	2,323	- 14.9
Earnings/share (€)	(0.17)	•	0.81	- 59.9

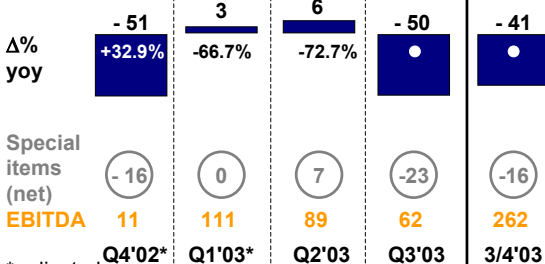
## Plastics / Rubber Quarterly Performance

€ million

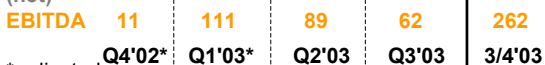
### Sales



### EBIT



Special items (net)



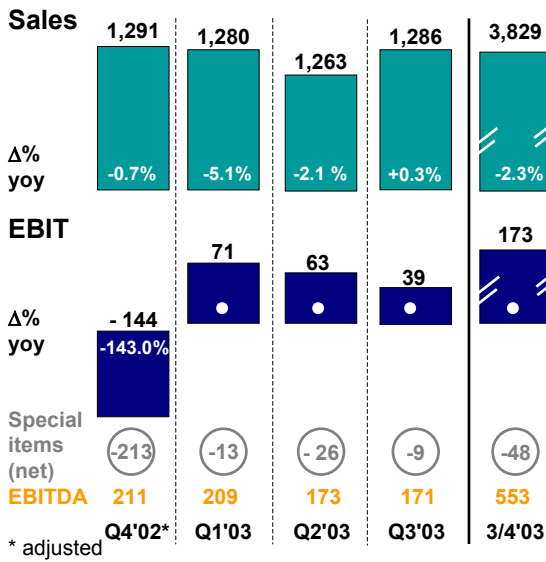
\* adjusted

- Eng. Thermoplastics dropped 8.8% (- 3.6% in local currencies)
- Rubber Polymers down 13.8% (- 10.0% in local currencies)
- Strong volume growth in Polycarbonates
- EBIT improvement withheld by higher raw material costs
- Flotation of Styrenics, Rubber business planned



# Polyurethanes / Coatings / Fibers Quarterly Performance

€ million



\* adjusted

- Segment registered 6% local currency growth  
PU + 9.5% in local currency growth  
Coatings Fx adjusted flat + 0.4%
- Pricing pressure continues in major product lines
- High capacity utilization esp. in the MDI segment
- TDI sales increased, profitability remains weak
- EBIT significantly improved yoy
- Flotation of Fibers planned

