Bayer Polymers –
Top League Player
In A Changing Market

Hagen Noerenberg
*Head of Bayer Polymers*

March 2002

---

**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.
Agenda

- About Bayer Polymers
- Bayer Polymers markets and competitors
- Trend in the polymers industry
- Bayer Polymers commitment
Bayer Polymers role within the Bayer Group

Bayer Polymers contributes with largest turnover in 2002

Merger of four business groups with leading positions in relevant markets
Bayer Polymers - Facts and figures 2002

- ~ 5,800 kt volumes
- € 10,775 million sales
- 22,000 employees
- € 418 million operating result before exceptional items (3.9 % return on sales)
- 55 production sites
- € 1,133 million gross cash flow
- 8.0 % Cash flow return on investment

10 of the key customers:
Albis, BASF, Bridgestone, Carpenter, Continental, DuPont, Goodyear, Johnson Controls / Woodbridge, Michelin, Whirlpool

Polymers 2002 Quarterly Performance

<table>
<thead>
<tr>
<th>Sales</th>
<th>€ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>2,648</td>
</tr>
<tr>
<td>Q2</td>
<td>2,765</td>
</tr>
<tr>
<td>Q3</td>
<td>2,694</td>
</tr>
<tr>
<td>Q4</td>
<td>2,615</td>
</tr>
<tr>
<td>FY</td>
<td>10,775</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPI (pre-except.)</th>
<th>€ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1*</td>
<td>92</td>
</tr>
<tr>
<td>Q2</td>
<td>139</td>
</tr>
<tr>
<td>Q3</td>
<td>152</td>
</tr>
<tr>
<td>Q4</td>
<td>38</td>
</tr>
<tr>
<td>FY</td>
<td>418</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exception. EBITDA (post-except.)</th>
<th>€ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1*</td>
<td>-102</td>
</tr>
<tr>
<td>Q2</td>
<td>-128</td>
</tr>
<tr>
<td>Q3</td>
<td>-69</td>
</tr>
<tr>
<td>Q4</td>
<td>-251</td>
</tr>
<tr>
<td>FY</td>
<td>-550</td>
</tr>
</tbody>
</table>

- positive development in volumes
- on-going margin pressure due to rising raw material cost with largest impact in Q4
- pricing improvement only in second half-year; predominantly effective in the course of Q4
- significant cost savings achieved
- negative currency effects

*) Fibers in discontinuing operations
Results of Bayer Polymers - 2002

External Sales

\[ \Delta \text{YoY: } -2.2\% \]

\[
\begin{array}{lccc}
 & 2001 & 2002 & \text{OPI pre-exept.} \\
\hline
\text{Plastics and Rubber} & 5,581 & 5,397 & 417 \\
\text{Polyurethanes} & 5,439 & 5,378 & 288 \\
\text{and Coating} & & & 175 \\
\text{Raw Materials} & & & 243 \\
\end{array}
\]

\[ \Delta \text{YoY: } +0.2\% \]

*) Fibers in discontinuing operations

External sales by region

Total 2002: € 10,775 Mio

- Europe, Middle East, Africa: 48%
- North and Latin America: 35%
- Asia Pacific: 17%
 Agenda

- About Bayer Polymers
- Bayer Polymers markets and competitors
- Trend in the polymers industry
- Bayer Polymers commitment

**Bayer Polymers segmentation**

**Engineering Thermoplastics and Rubber**
- Butadiene/Butyl Rubbers
- Technical Rubber Products
- Rubber Chemicals
- Semi-Crystalline Products
- Styrenics
- Polycarbonates
- Polycarbonate Sheets

**Polyurethanes and Coating Raw Materials**
- TDI (PUR Raw materials)
- Polyethers (PUR Raw materials)
- MDI (PUR Raw materials)
- Base- and modified Isocyanates
- Polysters, TPU & Films
- Inorganic Basic Chemicals
- Fibres
Leading market positions

Market shares in volumes

- TDI
- MDI
- Polyols
- Aliphatic Isocyanates
- Adhesive Raw Materials
- Solid Rubber
- Semi-crystalline Thermoplastics
- Polycarbonates
- Styrenics
- TPU
- Fabricated Products
- Rubber Chemicals

Our customer industries structure

Sales 2002: € 10,775 Mio

- Automotive 25%
- Electronics 15%
- Construction 15%
- Chem. Industry 12%
- Others 15%
- Furniture 10%
- Mechn. Eng. 3%
- Footwear 3%
- Sports & Textile 2%
Main competitors

**Plastics**
- General Electric
- BASF
- Dow Chemicals
- DuPont
- Teijin
- Chimei
- Mitsubishi
- LG

**Rubber**
- Goodyear
- Exxon
- Enichem
- Dow Chemicals
- Nippon Zeon
- Flexsys
- Crompton

**Polyurethanes**
- Dow Chemicals
- BASF
- Huntsman

**Coatings**
- Solutia
- Rhodia

---

Bayer Polymers and its competitors

**Net sales 2001; € bn**

- Dow Chemicals: 15.4
- Bayer Polymers: 10.8
- BASF: 8.2
- General Electric: 5.9
- DuPont: 5.2

*selected polymer segments excl. fibers, „end-use“ coatings, silicones*

1 EUR = 0.895429 USD
Agenda

- About Bayer Polymers
- Bayer Polymers markets and competitors
- Trend in the polymers industry
- Bayer Polymers commitment

Market trends

<table>
<thead>
<tr>
<th>Present situation</th>
<th>+</th>
<th>New trends</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Commoditization</strong>: Increasing price competition, Continuing deterioration of margins, Ubiquity of technology / raw materials</td>
<td></td>
<td>Global activities of Asian competitors, Innovation in partnerships, New forms of procurement agreements, New distribution channels (E-Commerce), Shift of growth to Asian arena</td>
</tr>
<tr>
<td><strong>Consolidation</strong>: Concentration of suppliers, customers and competitors, Partnerships / Joint-ventures to achieve economies of scale</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Growth</strong>: Growth through material substitution and new applications</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Raw material price development and its cyclicity

Petrochemical price index NWE

Price recovery a challenge in competitive markets

Example: Average market price South East Asia
Margin decline as structural challenge

Feedstocks → Petrochemicals → Polymeric Materials → Converter → OEM → Consumer

- Feedstock cost volatility
- Margin pressure
- Price Competition

Agenda

- About Bayer Polymers
- Bayer Polymers markets and competitors
- Trends in the polymers industry
- Bayer Polymers commitment
Financial performance: Actual and target

Sales / EBITDA Polymers

<table>
<thead>
<tr>
<th>€ Mio</th>
<th>2002</th>
<th>Mid-term target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>10,775</td>
<td>≈ 11,500</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,305</td>
<td>≈ 2,200</td>
</tr>
<tr>
<td></td>
<td>12%</td>
<td>19%</td>
</tr>
</tbody>
</table>

- cost reduction
- growth
- economic recovery

These targets are based on current assumptions. Due to various known and unknown risks and uncertainties, actual future results might differ substantially from these targets. The company assumes no liability whatsoever to update these forward looking statements. We also refer to the general disclaimer at the beginning of the presentation.

Our Commitment

Higher turnover and better return

Profitability

- 13% CFRoI
- 19% EBITDA margin

Our Measures
- Efficiency
- Portfolio
- Restructuring
- Growth

These targets are based on current assumptions. Due to various known and unknown risks and uncertainties, actual future results might differ substantially from these targets. The company assumes no liability whatsoever to update these forward looking statements. We also refer to the general disclaimer at the beginning of the presentation.
New Bayer Polymers: Structured for success

Global Operations

- global responsibility for investment values (assets)
- pooling on the basis of functions: manufacturing, engineering, purchasing, product management, process development

- uniformity of responsibility to the customer
- organized by primary application area and customer service needs

Global Services and Innovation

New structure reflects strategic goals and options

Excellence in assets
- Capacity strategies
- Raw material and value added costs
- Competitive plant size

Marketing excellence
- Service costs
- Marketing efficiency
- Growth and innovation

Global Operations

Materials
- Product quality
- Optimization of margins
- Capacity management
- Efficacy
- Efficiency of order processing

Systems
- Bundling / sales of systems
- Return-on-service
- Complexity management

Solutions
- Solutions provider
- Value-oriented pricing
- Growth through service

Divestiture
Acquisition
Partnerships
Joint Ventures
Our Commitment

Higher turnover and better return

Profitability

13% CFRoI

Our Measures
- Efficiency
- Portfolio
- Restructuring
- Growth

These targets are based on current assumptions. Due to various known and unknown risks and uncertainties, actual future results might differ substantially from these targets. The company assumes no liability whatsoever to update these forward looking statements. We also refer to the general disclaimer at the beginning of the presentation.

C&E Program

Comprehensive cost and efficiency program contributes € 200 Mio to Bayer Polymers’ result in 2003 and more than € 700 Mio p.a. by 2005.

Improvement of internal processes
- global sales and operation planning
- contractors management
- reliability improvement

Synergies through business group merger and adjustment to business environment
- streamlining production and marketing
- R&D focussed on value growth
- overhead reduction

Headcount reduction by > 20%

Business Area Polymere 2002
4 Business Groups

Target Organization Bayer Polymers 2005
Our Commitment

Higher turnover and better return

Profitability

13% CFRoI
19% EBITDA margin

growth

Sales

Our Measures
- Efficiency
- Portfolio
- Restructuring
- Growth

These targets are based on current assumptions. Due to various known and unknown risks and uncertainties, actual future results might differ substantially from these targets. The company assumes no liability whatsoever to update these forward looking statements. We also refer to the general disclaimer at the beginning of the presentation.

Portfolio Management

In all business units of its portfolio, Bayer Polymers strives for leading position in:

- global market share
- process and application technologies
- cost structures
Our Commitment

Higher turnover and better return

Profitability

- 13% CFR\textsuperscript{o}\textsuperscript{l}
- 19% EBITDA margin

Our Measures
- Efficiency
- Portfolio
- Restructuring
- Growth

These targets are based on current assumptions. Due to various known and unknown risks and uncertainties, actual future results might differ substantially from these targets. The company assumes no liability whatsoever to update these forward looking statements. We also refer to the general disclaimer at the beginning of the presentation.

Production cost structure

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

Focus on world scale production facilities.

Recent measures:
- Discontinue Mexican TDI production JV Industrias Cydsa Bayer (Coatzacoalcos, MEX) by Q1 2003
- Intention to discontinue Belgian TDI and MDI production joint venture Bayer Shell Isocyanates (Antwerp) by Q3 2003
- Closure of PET production site at Rieme, Belgium
Our Commitment

Higher turnover and better return

Our Measures
- Efficiency
- Portfolio
- Restructuring
- Growth

These targets are based on current assumptions. Due to various known and unknown risks and uncertainties, actual future results might differ substantially from these targets. The company assumes no liability whatsoever to update these forward looking statements. We also refer to the general disclaimer at the beginning of the presentation.

Above average growth rates in Asian countries

GDP growth rates 2003-2007 CAGR; world 3.0%

Source: Global Inside; FERI
Focus on Asian market

Target: Strong growth in Asia exceeding Asian market's average through local production.

Current and up-coming projects:
- HDI Caojing
- PC films Shanghai
- PC Caojing
- MDI Caojing
- TDI Caojing

Bayer Polymers in innovative markets

„No customer will buy a material“
Director of Product Development – Audi AG

Customers buy a solution

Bayer Polymers offers its customers the products, services and expertise that they require for their solutions.
Partner in development

Bayer Polymers Development Chain

- Innovation
- New Technology
- Creative Center & Industry Innovation
- Development
- Technical Service
- Marketing
- Pre-development
- Development
- Construction
- Partnership Technology-transfer
- Project-management
- Product-process-consulting
- Product-and Technology Service

Customer Development Chain

Automobile glazing with polycarbonate – opening up new markets

Advantage of substitution of glass
- freedom of design
- safety
- light weight component
- reduced assembly complexity
- environmental benefits

High market potential

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>58</td>
<td>66</td>
</tr>
</tbody>
</table>

Technology
- enhanced properties of Polycarbonate through surface modification

Challenges
- innovate entire process chain
- weather and scratch resistance
Waterborne 2K-Polyurethane Coatings

Waterborne 2K-PUR Coatings provide innovative, tailor-made solutions to market requirements with growth potentials significantly above market growth.

- Low Solvent Emission
- Broad application fields
- High Resistance to
  - Weather
  - Chemicals
  - Scratching

- Market
  Sales 2002 36 Mio €
  Potential 85 Mio €

Waterborne 2K-Polyurethane Coatings

Bayer Polymers ...

- 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 structured for fast and flexible response to market potential with lean cost structures
- 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
Top League Player In A Changing Market