

Business Review **2003**. Australia. New Zealand. Oceania.





Milestones in Innovation

Aspirin® The world's best-known painkiller 1899	Synthetic Rubber The first synthetic rubber manufactured in large-scale production 1910	Polyurethanes Plastics made from isocyanates and polyols. May take the form of elastomeric materials, adhesives, foams, fibres or coatings 1937	Makrolon® The first transparent thermoplastic based on polycarbonate. Used in a range of products including CD's, sheeting and in the automotive industry 1953	
Baygon® Broad spectrum insecticide against household and hygiene pests 1964		Canesten® Range of anti-fungal products providing treatment for conditions such as tinea, athlete's foot, ringworm and candidal infections 1973	Adalat® Medicine for the treatment of coronary heart disease 1975	Bayleton® Systematic fungicide for use in cereal, vegetable, coffee and fruit crops 1975
Amolin® Bayer Australia Ltd acquires Miles Laboratories and with it the Amolin brand. Bayer has since developed and extended this baby product range 1985	Bayticol® Pour on Tickicide The first pour-on cattle tickicide released worldwide to control cattle ticks 1985		Ciproxin® Antibiotic for the treatment of bacterial infections 1987	Gaucho® Systemic insecticide with long-term effectiveness and very low toxicity to humans 1991
	Kogenate® Bayer's first genetically engineered medicine, for the treatment of haemophilia 1993	Zapp® Pour on First insect growth regulator (IGR) to be released in Australia to combat widespread resistance to synthetic pyrethroids in sheep lice 1993	Pluravit® Bayer Australia Ltd acquires Pluravit® brand, a market-leading multivitamin in Australia for over 30 years 1995	Advantage® Developed in Australia, this flea control product provides long-term effectiveness for cats and dogs worldwide 1996
Baypure® Highly biodegradable dispersing and complexing agent 1996	Advia® 120 haematology system Fully automated analyzer for determining blood counts 1998	Calypso® Effective, environmentally-friendly, broad-spectrum insecticide 2001		Levitra® Medicine to treat erectile dysfunction 2003

About Bayer

- Bayer is a global enterprise with core competencies in the fields of healthcare, nutrition and high-tech materials
- Research and development is key to Bayer's success. Most of today's business activities are based on Bayer's own innovations
- Bayer products are used in some way in virtually every field of human activity
- Bayer is represented by some 350 companies employing approximately 115,400 people
- The Bayer Group is headquartered in Leverkusen, Germany
- Bayer prides itself on a well-trained, competent and committed workforce
- Bayer upholds the principle of sustainable development, which places corporate social responsibility on an equal level with economic and ecological performance



Growth based on Innovation

'By concentrating on our core competencies, Bayer is focusing on areas where innovation is a driving force.'

focus on our core strengths, our potential, our customers and the markets of the future.

In my new role as Senior Country Representative for Australia, New Zealand and Oceania, I feel I have taken the helm at both a very exciting and a very challenging time. The foundations for success are set; the task ahead is to drive the business to its full potential.

By concentrating on three core competencies, healthcare (Bayer HealthCare), nutrition (Bayer CropScience) and hi-tech materials (Bayer MaterialScience), our focus for the future is clearly on innovation and growth.

As the chart opposite illustrates, Bayer has always been a company renowned for inventions and we will continue to pioneer research and development programs – improving existing products and discovering new ones. Research is essential capital for our future and the basis for sustained growth.

By concentrating on our core competencies, Bayer is focusing on areas where innovation is a driving force. Internationally, we plan to combine our chemicals business (with the exception of H.C.Starck

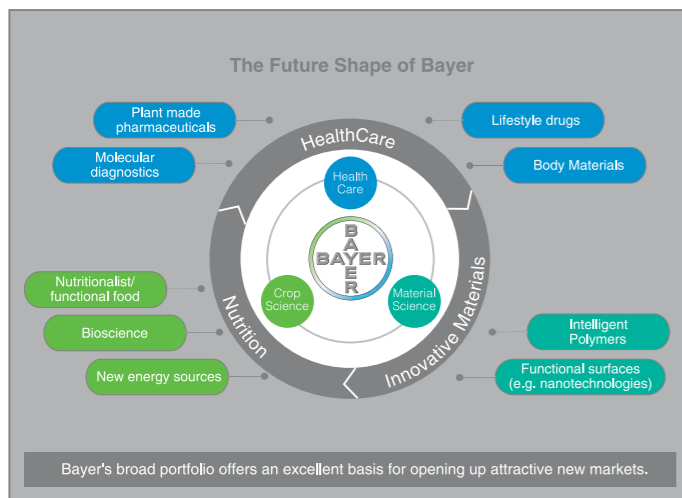
and Wolff Walsrode) and about one-third of our polymers business into a new company named LANXESS, which we then aim to list on the stock market by the beginning of 2005. The LANXESS portfolio will consist mostly of cost-driven businesses operating in mature markets that require a different long-term success strategy than the research-intensive businesses. We believe the separation is of benefit to both Bayer and LANXESS.

2003 was a challenging year for Bayer ANZ. However, looking forward we feel confident that 2004 will deliver improved results. At Bayer we are committed to satisfying our customers, developing our staff and also to fulfilling our responsibilities to local communities at an environmental and a social level. In all of these partnerships we aim to go above and beyond expectation – to be the best and lead by example.

Sam Howard
Senior Country Representative
Bayer Australia, New Zealand and Oceania

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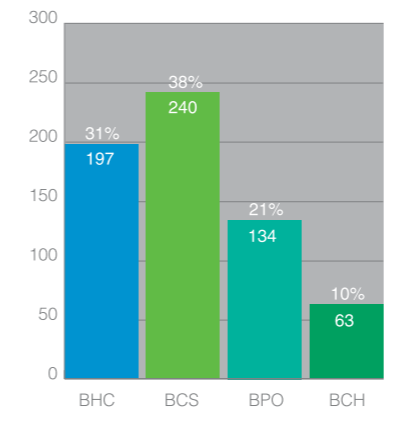


2003 Sales by Subgroup

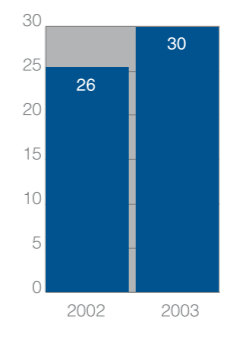
Sub-Group	Global Sales € million	ANZ Sales A\$ million	ANZ Sales NZ\$ million
BHC	8871	197	217
BCS	5764	240	264
BPO	9897	134	147
BCH	3400	63	69

■ Bayer HealthCare (BHC) ■ Bayer CropScience (BCS)
■ Bayer Polymers (BPO) ■ Bayer Chemicals (BCH)

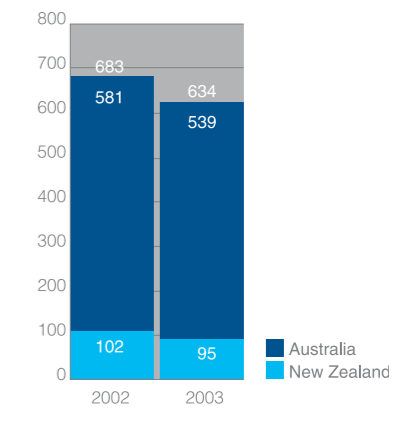
Note: All graphs illustrate results for ANZ/Oceania. For reporting purposes New Zealand Dollars have been converted to Australian Dollars (A\$).



Total Sales and Percentage of Total Revenue by Subgroup in ANZ 2003 (A\$ million)



EBIT in ANZ (A\$ million)



Sales/Turnover by Country and Total (A\$ million)

The New Bayer

Bayer has set a new course for the future with the focus clearly set on innovation.

Bayer's future lies in the core businesses of healthcare, nutrition and high-tech materials. These will be represented by three subgroups – Bayer HealthCare, Bayer CropScience and Bayer MaterialScience. The present chemicals business (except for H.C. Starck and Wolf Walsrode) and certain polymers activities will be combined into an independent company that is to be listed on the stock exchange.

Bayer's product range will be aligned more strictly toward innovation and

growth. The revised portfolio will be future-oriented, innovation-driven businesses that have high growth potential and are based on skills, knowledge and experience.

This change of direction is a milestone in Bayer's history and points the way to our corporate future.

Global Financial Results

The global economy was highly unstable in the first half of 2003 due to conflicts in the Middle East region, stock market weakness and the high price of oil. Towards the end of the third quarter, the economy began to recover and consumer and corporate confidence started to rise.

Despite this unsatisfactory business

environment, Bayer significantly improved its 2003 operating performance before special items by 67% on the previous year – advancing by €0.6 billion to €1.4 billion. This improvement was achieved primarily through cost saving and efficiency measures initiated throughout the year.

However, earnings were hampered by net special charges of €2.6 billion, mainly related to the portfolio realignment. After these negative one-time effects, Bayer recorded Earnings Before Income Tax (EBIT) of minus €1.2 billion for the year.

Group sales in 2003 declined by 3.6% to €28.6 billion due to exchange rate factors, particularly the weakness of the US dollar. In local

currencies, however, business improved by 5%.

Gross cash flow improved in 2003 by 5.2% year on year to €3.2 billion, mainly due to the increase in earnings from operations. Net operating cash flow, at €3.3 billion, was again at a high level. In 2003, we succeeded in keeping working capital at virtually the same level. Net debt was reduced by €2.9 billion to below €6 billion, thanks largely to the net cash flow and to income from divestments.

Werner Wenning, Chairman of the Board of Management of Bayer AG, explains, "The Bayer Group intends to increase both the operating result before depreciation and amortization

(EBITDA) and the operating result (EBIT) before special items by more than 10% in 2004."

Wenning has ambitious goals for the company's future. "We plan to achieve an EBITDA margin of approximately 19% for the Bayer Group as a whole by 2006 which corresponds to an increase of nearly 60% over the 12% EBITDA margin in 2003."

ANZ Financial Results

2003 was once again a challenging year for Bayer in Australia, New Zealand and Oceania. Revenue was down on 2002 due to the continued drought in Australia (46% of our business is dependant on the rural

economy) and the divestitive program implemented worldwide. Overall, the Bayer Group in Australia, New Zealand and Oceania generated A\$634 million in revenue. Although this represents an 8% decrease compared with 2002, EBIT increased by 15% over the same period to A\$30 million. The increase in EBIT can be attributed to the cost saving programs implemented across the group, favourable exchange rates and the improved performance resulting from the cultural change program.

The following pages provide details of the performance of each of Bayer's subgroups in Australia and New Zealand for 2003.

pioneering solutions

Thanks to **Aspirin®** she is well enough to see her grand-daughter walk down the aisle



In Profile: Aspirin®

Referred to by some as the 'drug of the century', scientific interest in acetylsalicylic acid, the active ingredient in Aspirin®, remains undiminished since its creation by a Bayer chemist in 1897. This household, non-prescription product has been widely used to remedy painful, inflammatory and feverish conditions for over 100 years.

During this time Aspirin® has achieved numerous milestones. More recently, these include in 1971, first proof of the blood thinning properties of acetylsalicylic acid. This was followed in 1988 by research results which suggested a possible role in preventing colonic cancer.

Aspirin® is widely used to treat a number of cardiovascular conditions including the prevention of heart attacks and strokes. Everything about this drug is extraordinary: its popularity, its wide range of uses, its success story.

In line with the Bayer Group's global strategy to increase the operational independence of its subgroups, Bayer HealthCare, Australia and New Zealand (ANZ) experienced its first full year as a single entity in 2003.

The year saw Bayer HealthCare ANZ achieve strong results, generating a total of A\$197 million across its five divisions: Animal Health, Pharmaceuticals, Biological Products, Consumer Care and Diagnostics.

A highly motivational combined meeting in Queensland kick-started the year, laying the foundations for consistent growth in teamwork and cooperation across all divisions throughout 2003.

The year also saw a strong focus on 'performance through people' – acknowledging that a positive workplace culture means more satisfied employees and better results. The implementation of new career development plans for employees, a continued investment in employee training and the ongoing success of a company culture change program were highly visible examples of this focus.

Bayer HealthCare's investment in attracting and retaining the best employees will continue in 2004, with the emphasis on creating an

environment that is rewarding, healthy and enjoyable while encouraging exceptional performance.

The overall outlook for Bayer HealthCare ANZ in 2004 is bright. Bayer HealthCare is one of the industry's innovators, with its Consumer Care, Diagnostics and Animal Health divisions already among the leaders in their global and local markets. In 2004 HealthCare will sharpen its focus on these consumer health care businesses, capitalising on forecast growth opportunities around the world.

The Pharmaceuticals division will position itself as a medium-sized enterprise, focusing on the core therapeutic areas of infectious diseases, cardiovascular risk management, urology and oncology. It will also seek opportunities to expand in the fast-changing fields of biotechnology and genetic engineering through strategic external partnerships. Biological Products will continue to contribute to Bayer HealthCare's success with its highly regarded haemophilia treatment product, Kogenate®.

Year in Review

Animal Health

Within the Animal Health division, the Companion Animal portfolio

performed strongly in 2003, whilst Livestock products were challenged by the continuing drought in ANZ.

Growth in the Companion Animal market was driven by aggressive consumer advertising. Flea control product Advantage® was the top performing brand, highlighted by New Zealand achieving 28% market share. Drontal®, for intestinal worm control in dogs and cats, grew in Australia with the Business Support Scheme, an on-line reward program. It also achieved an amazing 70% market share in New Zealand.

Outlook 04

- **Overview:** Bayer HealthCare develops, produces and markets innovative products for prevention, diagnosis and treatment of diseases in humans and animals
- **Locations:**
 - Head office in Pymble, Sydney
 - Offices in Melbourne, Perth, Brisbane, Adelaide and Auckland
 - HealthCare Operations Centre in Melbourne
- **Employees:** 333
- **Revenue 2003:** A\$197 million
- **Divisions:**
 - Animal Health
 - Pharmaceuticals
 - Biological Products
 - Consumer Care
 - Diagnostics



In Livestock, Zapp® Pour-on for the prevention of lice in sheep, also registered for flystrike prevention in NZ, and Tiguvon® (cattle lousicide) remained market leaders, but declined in sales due to the tough drought conditions. Generic livestock products continued to push pricing downward. The Farm Hygiene range, a complete solution for all farm hygiene needs including rodenticides, insecticides and fumigants, was introduced in Australia with positive expectations for 2004.



Developed in Australia, Zapp® Pour-on controls body lice in sheep.

The outlook for Animal Health in 2004 is very optimistic, with key new product launches for both Livestock and Companion Animal portfolios expected to drive growth.

Pharmaceuticals

The Pharmaceuticals division achieved a solid performance in 2003. During May, Bayer combined with GlaxoSmithKline in ANZ to successfully launch Levitra® into the erectile dysfunction market. A consumer education campaign in 2004 focusing on erectile dysfunction highlights Bayer's ongoing commitment to this important men's health issue. Indications suggest that Levitra® will establish itself as a strong contender for the 'number one' position in this market. Anti-hypertension agent Adalat® OROS continued to perform well in

Australia, with sales levels remaining stable. In the highly restricted antibiotic market, Avelox® unit sales continued to increase with 53% growth over 2002, whilst sales in Ciproxin® IV also continued to grow.

Biological Products

The primary business of the Biological Products division in ANZ is the provision of Kogenate® FS, a clotting agent used to treat haemophilia A. The division achieved its 2003 budget and profit targets, mainly due to Kogenate's® continuing market leadership in New Zealand. In 2004, new features will be launched to further support the Kogenate® FS product line and provide significant new patient benefits. Bayer HealthCare is committed to improving the lives of those suffering

from haemophilia, and will continue to passionately support its New Zealand customers. It will also seek innovative ways to expand its Australian business in the future.

Consumer Care

The Consumer Care division is a leading supplier of non-prescription OTC products and dietary supplements. Consumer Care performed well in 2003, exceeding sales and profit targets in ANZ.

Strong marketing programs supporting the Canesten® brand (anti-fungal agent) – including the award-winning "itchy feet" TV ad campaign in Australia – helped retain market share. The Pluravit® vitamin and supplement range was relaunched with new naturopath improved formulations and a modern pack design. The trusted Amolin® baby care range continued its successful expansion within the baby market and delivered substantial sales growth in 2003.

New competitors and increased reliance on consumer advertising will continue to provide challenges for Consumer Care in 2004. However, the strength of these well-established brands, new formulations and strong marketing and sales efforts provide a foundation for continued excellence in performance.

Diagnostics

The Diagnostics division is a leader in medical laboratory, diagnostic systems. In 2003, a new management team for Diagnostics in ANZ strengthened the vision and direction of the organisation, focusing efforts more closely on customers and employees. The new vision led to an alignment of the sales and support teams in order to streamline customer interactions. Immediate success was realised – Bayer was awarded a number of key hospital contracts and formed strong partnerships with several private pathology providers across Australia and South East Asia.

Based on this success, Diagnostics exceeded both its sales and profit targets for 2003. Most importantly, the division implemented a new vision, set to deliver positive results in 2004 and beyond, and supported by several much-anticipated new product launches.



The award winning Canesten® Itchy feet TV ad campaign.



Mark Shephard (left) at a DCA® 2000 training workshop for Aboriginal health workers in remote Australia.

Bayer Diagnostics Helps to Improve Diabetes Care in Aboriginal Communities

Bayer HealthCare's Diagnostics division has supported the leading edge work of Senior Research Fellow Mark Shephard in Australia's Aboriginal communities over the past few years. Mark has successfully initiated programs that deal with the early detection, prevention and management of chronic diseases in the Aboriginal community through the implementation of 'Point-of-Care' pathology testing. Point-of-Care testing enables healthcare professionals to conduct key pathology tests for chronic diseases 'on the spot' at a health clinic, emergency room or in the doctor's office, with the results immediately available at the time of consultation.

Diabetes, kidney disease and heart disease are among the most serious health problems facing Australia's Aboriginal people today. Bayer's support saw Mark introduce the point-of-care DCA® 2000 analyser, which measures key markers of diabetes control (Haemoglobin A1c) and early renal disease (urine ACR) on just a drop of blood or urine in under ten minutes, into over 50 Aboriginal health centres in urban, rural and remote Australia.

Mark Shephard explains, "Early identification, with follow up management – monitored by Bayer's DCA® 2000 – can slow and in some cases prevent the complications of both diabetes and renal disease. Bayer's support has been fantastic – without their dedication and belief in my work, my health programs would not have achieved the results they have to date."

Bayer Diagnostics continues to support Mark's efforts through the on-going supply of products and by supporting education and training workshops. Mark's team run these workshops for the Aboriginal health workers who use the DCA® 2000 in the field on a daily basis.

Dean Whiting, Marketing Manager, Near Patient Testing for Diagnostics Australia, explains, "The importance of Mark's programs cannot be underestimated. We are seeing definite improvements in the control of diabetes in these communities, and we are proud to play a part in his work."

Mark was presented with an Australian of the Year Award at a ceremony in November 2003. The 'Local Hero' Award category, which Mark won for South Australia, was introduced into the Australian of the Year Awards in 2003 to acknowledge extraordinary contributions made by Australians in their local communities.



His family has a bumper crop thanks to **Confidor®**

In Profile: Confidor®

Launched in 1994, Confidor®, based on the active ingredient imidacloprid, is used by both home gardeners and farmers. Today, imidacloprid is sold as a variety of brands in horticulture, seed treatment and environmental science markets. It is the world's best selling insecticide with annual global sales of around €800 million. With high efficacy, long duration of control, flexibility in application and low dose rates, Confidor® is the ideal product in a range of situations for the control of sucking pests. Not content to rest on its laurels, the Confidor® portfolio is set to expand in 2004 with the launch of two new products. Confidor® Guard and Confidor® CR will be launched into the sugarcane segment positioning Bayer CropScience as the leading provider of a total sugarcane cane grub management approach.

Bayer CropScience offers one of the most comprehensive portfolios of crop protection solutions in the world, as well as the latest developments in environmental science products, biotechnology and conventional seeds.

Bayer CropScience faced a year of strong recovery in Australia in 2003, after the country was gripped by drought in 2002. In New Zealand, Bayer CropScience's first full year was a positive one, with sales significantly up over the previous season. Overall, the company achieved solid results in ANZ, increasing market share by 2.5% and generating A\$240 million revenue. The outlook for Bayer CropScience in 2004 is positive. The company's cutting-edge technological platform and proven track record in managing innovation will enable it to strengthen its market position as a global leader in the agricultural industry.

Year in Review Crop Protection

The Crop Protection division provides solutions for the protection of crops from pests, weeds and diseases as well as prophylactic treatment of seeds.

Good sales in Crop Protection were achieved in both Australia and New Zealand in 2003, with a significant increase in revenue in both countries.

Horticulture: In Australia, 2003 was a record season for Basta® (herbicide) due to growth in tropical crops and the vine market. Business in Prosper® (grape fungicide) also increased, as did sales in Flint® (fungicide). Calypso® (insecticide) received solid support in a season that was impacted negatively by late frosts.

In New Zealand, cool, wet weather early in the season in fruit growing areas, was good for fungicide sales. Teldor® (fungicide) was successfully launched with good customer acceptance. With potential launches of new label claims for existing products in a range of horticultural crops, such as Euparen® Multi, the outlook for New Zealand is positive.

Broadacre: Following the 2002 drought, the Broadacre business benefited from normal rain patterns across various regions, while the very late drought-break in northern Victoria, NSW and southern Queensland led to a reduction in sales. Broadacre predicts a positive winter cropping season for the year ahead.

Cereal herbicide sales were assisted by a new wild oats resistance management program called "Operation Wild Oats" while the customer loyalty initiative, the "Brodal® Bonus" program, cemented sales of Brodal Options (broadleaf weed control) in a segment exposed to strong generic competition.

In New Zealand, fungicide sales were adversely affected in cereal growing areas due to the cool, dry conditions. Hussar® (broad spectrum post-emergent grass and broadleaf control) was successfully launched adding to an already impressive range of cereal herbicides.

Outlook 04

- Overview: Bayer CropScience is a leading provider of innovative products and integrated solutions for agriculture and environmental science
- Locations:
 - Head offices in Melbourne for Australia and Auckland for New Zealand
 - Manufacturing plants in Wyong (NSW), Pinkenba (QLD) and Kwinana (WA)
- Employees: 272
- Revenue 2003: A\$240 million
- Divisions:
 - Crop Protection
 - Environmental Science
 - BioScience



Cotton: Cotton continued to suffer the effects of the Australian drought, facing considerable reductions in acreage in the 2002/03 (24%) and 2003/04 (61%) cotton-planting seasons compared to previous years. Despite these unfavourable market conditions, Bayer CropScience was able to increase its market share from an already strong position. Cotton expects significant increases in sales for the 2004/5 season, with planting estimates more than double compared to 2003/04.

Seed Treatment: Business experienced substantial increases across the product range, with a stripe rust outbreak significantly boosting sales. In 2003 the cereal fungicide seed treatment range performed well with Jockey® becoming Bayer CropScience's top selling product based on turnover. Seed Treatment is set for another busy year with the launch of Amparo® which controls sucking pests in cotton.

In New Zealand, Poncho® was launched and gained significant market share.

Environmental Science

The Environmental Science division covers pest control, turf and amenities, vector control and home and garden products. The division underwent a year of transition in 2003, finalising its resources and completing business sector strategies.

While sales finished well below expected levels for 2003, revenue



Bayer CropScience's cereal fungicide range helps farmers, such as Scott Vaessen from Griffith in NSW, to achieve a healthy wheat crop.

decreased only marginally compared to the previous year – even after significant product rationalisation and a slow recovery from the drought. Operating expenses were reduced by 23% from 2002, highlighting the synergies produced by successful integration.

While improved profitability was mainly due to lower operating costs, Environmental Science was also active in deleting less profitable stock keeping units. From 2002 to 2004, the division will delete 28 stock keeping units, incurring a significant sales loss with a view to achieving longer term profitability. This strategy will be aided by the launch of new products such as Confidor® Hose On and Drops, Destiny®, Forstall® and Baythroid® Ready to Use, as well as continued growth in remaining products.

BioScience

The BioScience division of Bayer CropScience aims to increase the quantity and quality of crops for the benefit of farmers, the food and non-food industries, consumers and the environment. This aim is achieved at BioScience principally through plant biotechnology.

In Australia, the main project has been advancing InVigor® hybrid canola through the extensive regulatory process for approval of genetically modified (GM) organisms. Breeding canola varieties suitable for the Australian market and conducting seed production and evaluation for the North American canola program are the key operational focus.

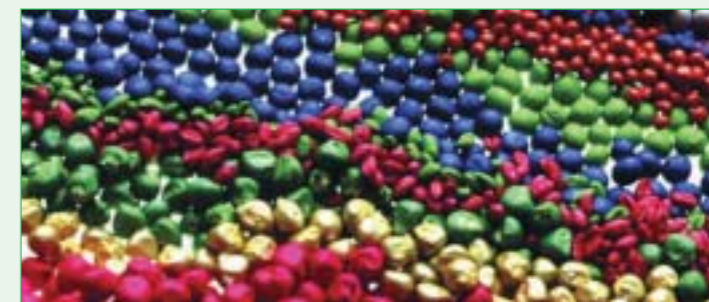
In July 2003, the Federal Government's Office of the Gene Technology Regulator (OGTR) granted Bayer CropScience a commercial licence for InVigor® hybrid canola, concluding it was as safe as non-GM canola for human and environmental safety. InVigor® hybrid canola is a high yielding hybrid canola which has been genetically modified to be tolerant to Liberty® herbicide.

Since the OGTR approval, various State Governments have imposed moratoriums on the commercialisation of GM canola based on marketing impact. This has prevented the limited commercialisation and/or trials involving

supply chain industry partners that were originally planned.

BioScience will evaluate the impact on commercialisation timelines and operational effectiveness as the moratoriums are enacted. Bayer CropScience is committed to keeping all stakeholders informed about the progress of its GM crop research as well as outlining its efforts to support the cautious and phased introduction of hybrid canola into the Australian market.

BioScience is also involved in development of GM cotton in Australia. Liberty® tolerant cotton is being trialled in the cotton growing areas of NSW and QLD in conjunction with CSIRO. Australia is the centre for a global research alliance with CSIRO. The collaboration supports basic research into crops that lead to innovative and valuable discoveries. It also forms part of a broader BioScience research strategy to supplement Bayer CropScience's development and commercialisation product pipeline. The research has resulted in numerous publications in scientific journals and several patent filings. The majority of research activities have focused upon innovative technologies for the Australian and overseas cottonseed businesses.



Seed treatment ensures maximum performance of the crop.

WA Farmers Reap Benefits of Seed Treatment Machine



Bayer's innovative mobile seed treatment machine.

With the design and production of an innovative mobile seed treatment machine and an exclusive pilot partnership with Elders in Western Australia, Bayer CropScience's commitment to the Australian seed treatment industry is clear.

The mobile seed treatment machine has been designed specifically for the Australian grain market to ensure that Bayer CropScience seed treatment products are applied in a correct, consistent and optimal way. Correct application is essential for highly technical seed treatments such as Gaucho®, Hombre® and Zorro®, to ensure that the farmer receives the best value for money.

Bayer CropScience's exclusive partnership with Elders allows this progressive agribusiness to operate the machinery and offer an exclusive seed treatment facility to their customers within the West Australian market.

Whilst only in pilot stage, the partnership is a win for Bayer CropScience and a win for Elders. Bayer can be confident that grain growers are receiving the optimum benefits and results from their seed treatment products whilst Elders has an opportunity to differentiate itself in the seed applied fungicide market in West Australia and improve market share and margin.

According to Jim Forward, Elders' Broadacre Category Manager, the pilot project has been a success. "Feedback received from the growers already indicates that this innovative project is a winner and that they are reaping the benefits. Every day, grower demand for the applicator increases. Bayer CropScience is to be congratulated, not only for introducing this concept to us, but in their work to make it happen."

Bayer CropScience Seed Treatment Business Manager, Peter Herold, said it is essential the seed industry has consistent standards in application quality.

"We are the leaders in seed treatment, both in the area of actual product development and in setting standards for application and use. These are critical to the success of this industry.

In addition, we supported the development of the current accreditation system for seed treaters, to ensure they are operating to an industry standard as well as guaranteeing that growers receive the full benefits of our seed treatment products."

core solutions



Bayferrox® helps to colour the family dream

In Profile: Bayferrox®

Look around you – at home, in the city, in the park, at the shopping centre – and you will see colour abounding in the design of the landscape. For many decades now, Bayferrox® inorganic pigments, renowned for their high quality and environmentally friendly characteristics, have been used as colorants within the construction industry to create stylish, colourful building materials. Bayer Chemicals provides a broad spectrum of colours, all of which comply to the most stringent colour quality control in Australia and New Zealand. Importantly for architects and specifiers, Bayer Chemicals provides a professional and thorough colour matching service to the construction industry.

With more than 36 colours to choose from, Bayferrox® colours our lives and helps to shape the modern landscape in which we live.

Pioneer Products used Bayferrox® to add colour to this wall.

Bayer has set a new and exciting course for the future of its Chemicals business.

During 2004, Bayer will combine a large part of its existing Chemicals activities and some sections of its Polymers business into an independent company to be called LANXESS (see page 16). LANXESS, scheduled to be listed on the stock exchange in 2005, will be one of the leading suppliers in its sector, boasting sales of approximately €5.7 billion and 20,000 employees. LANXESS has been divided up into the business areas Chemical Intermediates, Performance Chemicals, Performance Plastics and Performance Rubber.

The new enterprise will be a global leader in its sector and will remain an important supplier to Australian, New Zealand and Pacific Island manufacturers.

Customers can be assured that LANXESS will retain an extensive range of quality products from the Bayer Chemicals and Bayer Polymers portfolios. From boogie boards to roof tiles – it would be hard to find an Australasian home that does not contain an item made with Bayer raw materials – a fact that will not change with the formation of LANXESS.

LANXESS will continue to offer customers an experienced and

specialised team, providing integrated solutions throughout the region.

Year in Review

LANXESS will benefit from a particularly strong foundation in local markets, building on another successful year for Bayer Chemicals in 2003.

Sales of Bayer Chemicals in Australia, New Zealand and Oceania generated over A\$60 million in 2003, exceeding expected sales for Australia, and coming in slightly below expectations in New Zealand.

Strong Sales in Pigments

Inorganic Pigments are the single largest contributor to Bayer Chemicals' business in Australia and New Zealand, representing around 40% of total revenue. The company's pigments products performed well once again in 2003, boosted by continued strength in the building and construction sectors. Despite pressure from Chinese-sourced competitors, sales in Bayferrox® iron oxide pigments – in particular granular pigments which are used by masonry block and paving plants – exceeded expectations.

In November 2003, Bayer Chemicals extended its supply contract for a further two years with Boral, one of

the largest users of iron oxides in Australia for the colouration of masonry products, roof-tiles, ready-mixed concrete and asphalt.

Paper Chemicals in the Pipeline

Despite falling short of sales expectations for 2003, the Paper Chemicals sector continued to form a profitable part of the Bayer Chemicals Pty Ltd business for the year in Australia.

The outlook for the paper segment in 2004 is particularly positive, with some exciting products in the pipeline, and new opportunities becoming available in New Zealand.

Outlook 04

- **Overview:** LANXESS, formerly Bayer Chemicals, boasts a wide range of chemicals, either individual building blocks or system-wide solutions, that are turned into highly innovative products throughout the world
- **Locations:**
 - Head office in Homebush Bay, Sydney
 - Offices in Melbourne, Perth and Brisbane and Auckland
- **Employees:** 39
- **LANXESS revenue:** A\$90 million
- **Divisions*:**
 - Chemical Intermediates
 - Performance Chemicals
 - Performance Plastics
 - Performance Rubber

*Business structure for the operation of LANXESS



LANXESS: Three Advantages

Focus on Chemicals/Polymers

- Concentration of all resources on our core businesses
- Stronger market presence
- Customer focus
- Problem solving capability

Entrepreneurial Freedom

- Decision making
- Wider scope for action
- Alignment of all structures to needs of our market
- Exploitation of attractive niche markets

Active Portfolio Management

- Targeted purchase and sale of businesses
- Access to new business areas
- Independent search for partners for individual business units

LANXESS Portfolio

With more than 5,000 products, LANXESS will have a broad portfolio of Basic, Specialty and Fine Chemicals and Polymers, including:

- Basic Chemicals
- Active Ingredients (custom manufacturing) and Intermediates for pharmaceuticals and crop protection products
- Material Protection Products
- Finishing Agents for the Leather, Textile and Paper industries
- Ion Exchange Resins for water treatment
- Inorganic Pigments for colouring concrete, surface coatings, plastics, paper etc.
- Dyes and Inorganic and Organic pigments for colouring plastics
- Plastics Additives such as flame retardants and plasticisers
- Solid Rubber and Rubber Chemicals for the rubber and tyre industry
- Plastics for automotive, electrical appliances, furniture, sports and leisure
- Synthetic Elastic Fibres for fashionable garments (Dorlastan®)

Promising developments within the Baysize® product range will provide significant local and global sales opportunities. The range, with patents likely to be commercialised in mid-2004, will offer surface waterproofing for products such as plasterliner board and cardboard boxes.

Another growth area is with Blankophor®, a whitening agent in the Bayer Chemicals portfolio, used to whiten copy paper and to improve the printability of newsprint.

In October 2003, Bayer Chemicals continued its long association with Amcor Fibre Packaging, signing a two-year extended supply agreement, which represents a significant proportion of total paper chemical sales.

Challenges in Textiles

The Textiles Processing Chemicals business in both Australia and New Zealand remained a challenging sector for Bayer Chemicals in 2003, with sales in Australia falling well short of expectations. In New Zealand, Bayer

Chemicals is involved in the sale of textile dyeing machinery, and business was assisted by the significant industry investment made in new textile plants and machinery in 2003.

Performance Chemicals Shine

Bayer's Performance Chemicals products achieved strong sales results in 2003, particularly in the polymer additives and water treatment areas.

Bayer Chemicals' new Baypure® product range is environmentally-friendly and represents a good market opportunity for the future. The product has many uses, such as replacement for phosphates in detergents. A successful future for the range looks assured, as the environmental outcomes of chemical processes assume greater importance in the eyes of both manufacturers and the public.

The future also looks bright for Preventol®, Bayer Chemicals' environmentally-friendly wood preservative product. In December 2003, the APVMA (Australian

Pesticides and Veterinary Medicines Authority) announced that it would limit the use of Chromated-Copper-Arsenic (CCA) wood treatment compounds in Australia. This will effectively prevent the use of CCA-treated wood in children's playgrounds and domestic decking applications.

As a result of this fundamental change, at least one Bayer Preventol® product will be widely used by the industry in replacement wood preservatives.

Products such as Preventol® are developed after extensive research, the development of high-cost environmental and health packages, and world-wide registrations by Bayer Chemicals.

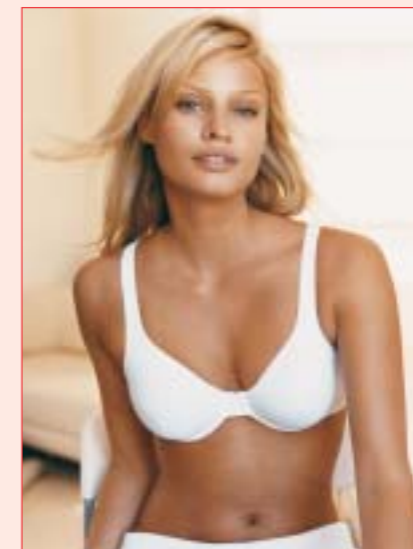
Preventol® is just one example of Bayer Chemicals working closely with customers to develop products which ensure a better way forward when market circumstances change.

Outlook

The future looks bright for Bayer Chemicals as it prepares to become an even more highly specialised, industry-focussed and responsive company – LANXESS.

Retaining a good balance of products will ensure the company and its customers remain at the forefront of their respective industries in 2004 and beyond.

Fresh and Crisp Coloured Bras Thanks to Bayer Chemicals



Model Kristy Hinze in Berlei underwear.

The world of chemicals and women's lingerie seems an unlikely combination. However, the crisp, clean appearance of a white or pastel coloured Berlei Bra is only achieved through an ingenious joint initiative by Bayer Chemicals and Pacific Fabrics, part of the Pacific Brands Group.

The partnership utilises Bayer's chemical technology to prevent bra material from discolouring during the production process – an expectation all Australian women, including model and face of Berlei bras, Kristy Hinze, have of their underwear.

Once the elastomeric (stretch) material that bras are made from has been knitted, it then has to be stabilised prior to dyeing and bleaching, before conversion into bras. Stabilisation involves treating

the fabric at high temperatures while it is held on a moving frame so it cannot shrink.

Unfortunately for Pacific Fabrics, if it is not treated, the fabric usually discolours (yellows) when subjected to heat. After the dyeing or bleaching process is completed, the fabric is stored prior to conversion to bras and then stored again prior to sale. During these brief storage periods, the fabric is once more susceptible to yellowing.

When Pacific Fabrics recently commenced processing material for its sister company, Berlei, which boasts extremely high quality standards, they requested technical support from Bayer Chemicals to help solve these discolouration problems.

Bayer Chemicals NSW Sales Manager, Colin Parkin, and Technical Manager, Hans Speiser, ran a number of trials with Pacific Fabrics using Bayer's Spanscour GR® in the heat setting process and Levasalt AY® to eliminate storage yellowing. Thanks to some 'fine-tuning' to optimise the applications, these Bayer Chemical products are now essential components of their standard procedures.

Tony Cranston, Dyehouse Manager at Pacific Fabrics, explains, "These products are not only effective, but are very simple to apply. We could not process to the standards which Berlei require without them."

So when you see or purchase your next white or pastel coloured Berlei Bra, remember the crisp, clean appearance is a result of Bayer technology.

innovative solutions



Only a surfer knows
the feeling of a **Desmopan®**
leg rope

In Profile: Desmopan®

Polyurethanes are used in many areas of our daily lives. For applications including mattresses, upholstered furniture, car seats, sports equipment and more, the potential of this plastic is virtually unlimited.

Desmopan® is the trade name for Bayer's range of Thermoplastic Polyurethanes. These materials combine the property characteristics of high quality polyurethane with the processing efficiency of thermoplastics.

Desmopan® boasts excellent abrasion, high elasticity, tear and weather resistance advantages, and is used substantially in the sport and leisure industries, for example in ski boots, roller skate wheels, soles of sports shoes – and of course leg ropes for surfers! So next time you participate in a sporting activity look out for Desmopan®!

The Bayer Polymers business covers a variety of different product areas: Plastics, Rubber, Polyurethanes, Coatings and Adhesives. In Australia and New Zealand, Bayer Polymers also includes subsidiary company Laserlite Australia Pty Ltd, which makes polycarbonate sheeting.

A new direction has been set for the future of Bayer Polymers. In 2004, the subgroup will take on a new identity – Bayer MaterialScience. It will retain most of the current Bayer Polymers product portfolio, with the exception of Performance Plastics and Performance Rubber (which will move to new company LANXESS, see page 16). Also assigned to Bayer MaterialScience are specialist business units H.C. Starck (metal and ceramic powders) and Wolff Walsrode (cellulose derivatives).

Bayer MaterialScience will allow the company to focus on innovation-driven products made by technically demanding processes. It will derive a major proportion of its revenues from products that hold leading positions on the world market. For example, Bayer MaterialScience will be the world's number one supplier of polyurethane raw materials and number two producer of polycarbonate plastics.

The MaterialScience business will build on the strong customer relationships and market successes achieved by Bayer Polymers to date. Bayer Polymers generated a total of A\$134 revenue in Australia and New Zealand in 2003.

Year in Review Plastics

Key products in the Plastics business area include: thermoplastic polyurethane (Desmopan®), used in transparent, scratch-resistant film; Polyamides and Polyesters (Durethan® and Pocan®), used in under-the-hood automotive applications; Styrenics (Lustran® ABS), for production of housings and covers for the white goods and automotive industries; and Polycarbonates (Makrolon®, Makrofol®, SAN® and Apec®) used in a wide variety of applications, from reflective road-markings and CDs to unbreakable tableware.

The best-performing product for Plastics in 2003 was Makrolon®, a versatile, light and strong thermoplastic polyurethane. It performed particularly well in the optical disc market, where it retained a high market share as the main raw material for production of DVD's, CD's and CD-ROM's. It also celebrated its 50th birthday in 2003, demonstrating it is a highly durable product in more ways than one!

Market share gains were also made in both Australia and New Zealand in the injection moulding area, as well as the white goods market (for Lustran® ABS), particularly with key partner Fisher & Paykel Appliances. This helped to offset a disappointing year for SAN®, which was the subject of product substitution in some parts of the food packaging industry.

The outlook for Plastics in 2004 is for modest, profitable growth. The new Bayer MaterialScience structure will provide greater opportunities to introduce proactive initiatives and better service the market. Many exciting

Outlook 04

- Overview: Formerly Bayer Polymers, Bayer MaterialScience is a leading manufacturer of innovative, high performance materials for use in numerous areas of daily life.
- Locations:
 - Head office in Pymble, Sydney
 - Head office for Laserlite Australia Pty Ltd in Melbourne
 - Customer Service Centres in Melbourne and Auckland
- Employees: 123 (including 106 at Laserlite Australia Pty Ltd)
- Revenue 2003: A\$134 million
- Divisions*:
 - Polyurethanes
 - Coating Raw Materials
 - Polycarbonates
 - Methylcellulose
 - Tantalum

*Business structure for the operation of the new Bayer MaterialScience business



developments are on the horizon for Plastics, including a plastic/metal hybrid front end for a car, a new outdoor TV monitor, a calculator case and a clothes dryer... to name just a few.

Polyurethanes

Bayer's Polyurethane market in Australia and New Zealand is represented by the Comfort and Insulation sectors, with raw materials used in the production of items such as foam mattresses, bedding and insulation bats. Polyurethanes experienced a challenging year in 2003. Although volumes were in line with expectations, an increasing exchange rate pushed local currency pricing down. Some gains were made through introducing new, novel polyols into the insulation market, resulting in export business which is expected to grow in 2004. The overall outlook for 2004 is for another challenging year. There will be pressure on supply of key raw materials due to predicted high exchange rates and a growing Asian domestic market. However, with its strong customer relationships and new export projects coming on-line, Polyurethanes remains optimistic of an increased market in 2004.

Coatings

Bayer Polymers' Coatings products are used in automotive, industrial, powder and wood applications. In 2003, Coatings experienced significant sales growth in areas



Makrolon® is one of the world's most versatile and successful thermoplastics. One of its many uses is in the production of CDs, DVDs and CD-ROMs.

where its customers were exposed to export markets, while growth in local Australian and New Zealand coating markets remained flat.

Standout products were Desmodur® Naliphatic polyisocyanates, used in the automotive refinishing market, as well as Desmodur® MDI, an isocyanate for manufacture of elastomers and foams. A highlight in 2003 was the expansion of environmentally-friendly, water-based coatings technology.

Looking towards 2004, local production in coatings is expected to match 2003 levels.

Adhesives

Bayer Polymers manufactures raw materials for the adhesives industry, making products for virtually every application – whether it be heat-activated adhesives, contact adhesives, reactive adhesives or hot-melt adhesives.

Key Adhesives products in Australia and New Zealand are Baypren®, a solvent based polychloroprene, used in contact adhesive applications and Dispercol® C, a polychloroprene dispersion used in foam-to-foam adhesive applications.

Rubber

Bayer Polymers is the world's largest producer of synthetic rubber and is also an important manufacturer of rubber chemicals. In Australia and New Zealand, Bayer Polymers supplies high quality products from the company's international production plants to the local rubber industry.

Results for the rubber business were again mixed in 2003. The effects of the rationalisation of the tyre industry continued to be felt. At the same time, automotive production continued to rise, ensuring an increased demand for rubber products in the non-tyre sector. Rubber chemical products Vulkanox® (antioxidants) and Vulkacit® (rubber accelerators) continued to perform well.

Major changes are taking place for the rubber business in 2004, when it will be relocated within the new company, LANXESS (see page 16). This will provide excellent opportunities to focus more strongly on specific markets, while remaining at the forefront of rubber technology, and adapting systems to better service customers.

Sheeting (Laserlite Australia Pty Ltd)

Laserlite's standout performance in 2002 was followed by an even more successful year in 2003, with strong growth in sales and profitability. Contributing factors included good sales in Laserlite® Polycarbonate Roofing products, a buoyant home improvement market and strong

growth in Industrial Fibreglass. Significant benefit was also gained from the strength of the Australian dollar, reducing the cost of raw material Polycarbonate Resin.

There were a number of highlights during 2003. Laserlite Apollo®, a heat-reflective, transparent roofing product, grew significantly, aided by the launch of "Arctic Ice" – a new colour – providing a high level of shading while allowing significant levels of light transmission. A national radio advertising campaign – a first for Laserlite – also boosted sales. Another highlight was the performance of Laserlite® 2000 in New Zealand. Launched in 2002, sales more than doubled in 2003. Furthermore the successful launch of Makrolon® CS into the South African market provided a strong platform for future exports.

As part of Laserlite's ongoing commitment to quality, the company maintained its Certification to Australian Standards and successfully upgraded its ISO Certification and received Certification to ISO 9001-2000 in July 2003.

First quarter 2004 sales and business activity indicate that the market remains healthy. Assuming this continues, and there is no weakening of the Australian dollar or increase in Polycarbonate Resin prices, Laserlite is confident of another successful year.

Dynamic Use for Makroblend®



Makroblend® used in 'Shark' power wheelchair controllers.

For many years now Makroblend® resin has developed a reputation for toughness. Made from a blend of the well-known Makrolon® polycarbonate and polyethylene terephthalate (PET) polyester, the product is used in everything from lawn mowers to parfait dishes.

However, Christchurch company, Talbot Plastics Ltd, has found another use for Makroblend®, one that is set to benefit people who use wheelchairs. The company is using Makroblend® to make joysticks and mouldings for Dynamic Controls, an international company based in New Zealand and the world's largest manufacturer of controllers for powerchairs and scooters.

Dynamic will use Makroblend® in the production of their 'Shark' brand of wheelchair controllers. Dynamic describes the 'Shark' as "a truly unique design that totally redefines aesthetic

and functional expectations in the powerchair industry". Makroblend® allows the 'Shark' control unit to be designed purely around the user, to create a truly compact, stylish and ergonomically optimised driving sensation.

Talbot's Managing Director, Steve Wilson, said, "Makroblend® was chosen because of its toughness – powerchair controllers are subject to considerable wear and tear, both from the environment and from the user. Makroblend® is not only lightweight, but also impact resistant up to speeds of 50kph. It also has excellent heat, UV and chemical resistance, all of which are important considerations in this demanding application."

The 'Shark' control unit also uses another Bayer product – Desmopan® TPU – which is over-moulded on the Makroblend® main structure to create a soft-touch, semi-rigid 'bumper', to protect the unit from impact.

"Together the two products are ideal for components such as Dynamic's 'Shark' controller," said Mr Wilson.

A substantial user of Makroblend®, Talbot Plastics also uses the plastic for making casings for Global Positioning System (GPS) devices, agricultural weighing scales and even oven parts.

Bayer MaterialScience Sales Manager, Justin Gleeson, said Makroblend® was becoming increasingly popular as customers discovered its unique properties.

"Because the product is light, yet strong and resistant to chemicals, it is being used for more and more applications. It's great to see a New Zealand company, such as Talbot Plastics, using Makroblend® in such an innovative way."



At Eco-Innovate 03, held in Sydney in July, Dr. Klaus Topfer, Executive Director of the United Nations Environment Programme (UNEP), congratulated Bayer on its commitment to youth environmental education in Asia Pacific.



Bayer helps the Guide Dog Association to achieve its aim of 'Independence through Mobility'.

Corporate Social Responsibility

When the Ku-ring-gai Philharmonic Orchestra, in Sydney's north, approached Bayer to support its annual schools concerto competition almost a decade ago, Bayer was delighted to get involved. Held in the municipality where Bayer has its Australian head office, the competition has gone from strength to strength, with winners such as pianist, Simon Tedeschi, going on to international acclaim. Bayer's partnership with the Ku-ring-gai Philharmonic Orchestra reflects

the company's commitment to the principles of corporate social responsibility, and is just one of a broad range of programs assisted by Bayer ANZ, spanning community, culture, health and the environment.

Community: Bayer ANZ believes it has a duty to give something back to the community in which it operates, and supports many worthy initiatives such as the Guide Dog Association, the Royal Flying Doctor Service, the Smith Family, the Whangarei Bird Recovery Centre in New Zealand and fundraising efforts for victims of drought. Bayer also helps staff in their individual community endeavours, providing grants towards their charitable, sporting and cultural activities.

Beyond the locality, Bayer ANZ assists the wider community in times of need. For example, in 2003 Bayer donated 1,500 medical textbooks to Iraq's severely under-resourced healthcare sector.

Health: From a joint initiative with the Australian Lung Foundation to develop guidelines for the management of chronic and acute illness to a training programme to assist doctors in communicating with patients on difficult issues, Bayer considers health education and research an important area of social responsibility. It also provides product assistance to disadvantaged communities and supports a number of programs to alleviate suffering of animals.



Snoopy the Kiwi, just one of the birds protected and cared for at the Bayer sponsored Whangarei Native Bird Recovery Centre in New Zealand.

Culture: Bayer has long supported cultural programs in ANZ, and in 2003 began a new sponsorship with the Sydney Dance Company (SDC). Bayer is proud to help this innovative group take its groundbreaking work to Australasia and the rest of the world.

Environment: Bayer ANZ's commitment to environmental education was taken to a new level in 2003, with the sponsorship of 'Eco-Innovate 03'. Held in conjunction with the United Nations Environment Programme (UNEP) and the University of NSW, this high-profile forum attracted the brightest young minds from Australia and the Asia-Pacific to discuss sustainability issues.



Environment Health & Safety



Bayer recognises its responsibilities to protect the environment and the health and safety of all people involved in its business operations.

Following the company-wide review of EH&S management programs in 2002, a new system for dealing with EH&S issues was implemented in 2003. Integral to the new system has been the development of a database to help staff identify and log EH&S risks and incidents along with comprehensive training workshops on using the new database.

The effectiveness of Bayer's safety systems has been recognised in New South Wales and Victoria by a reduction in its worker's compensation insurance premium. Further proof lies in the safety record of Bayer CropScience's Wyong plant, achieving over five years without a lost time injury.

Bayer ANZ is committed to the principles of many well-recognised EH&S initiatives, such as Responsible Care, an international chemical industry scheme, the National Packaging Covenant (Australia), aimed at reducing packaging waste and the DrumMuster agricultural chemical container recycling program.

During 2003, all of Bayer ANZ's six production sites met their licensing requirements and reported no off-site incidents. Reportable injury rates were low, no serious injuries were recorded, and there was only one minor transport incident.

All sites maintained good environmental records. Stormwater and groundwater monitoring programs showed results well within environmental limits. High recycling rates were achieved in cardboard, paper, aluminium, steel, wood, plastics, wastewater and stormwater.

At Bayer CropScience's three production sites in Wyong (NSW), Pinkenba (WA) and Kwinana (QLD), waste generation decreased compared with 2002 due to targeted, cleaner production programs and a revised product range. CO₂ emissions were well below licensing limits.

Whilst levels of waste generated at Melbourne's Bayer HealthCare Operations Centre remained low (50 to/a), there was a slight increase in waste generation, waste water emissions and energy usage compared with 2002 due to increased production volumes and an upgrade to the airconditioning system.

In 2004, EH&S will remain a focus for Bayer ANZ, with the continued roll-out of the new management system ensuring compliance with policies and procedures.



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