Interim Report
as of March 31, 2006

Dynamic start to 2006
Record quarter for Bayer

Bayer Group Key Data

€ million	1st Quarter 2005	1st Quarter 2006	Change	Full Year 2005
Net sales	6,704	7,494	+ 11.8%	27,383
Change in sales				
Volume	+ 2%	+ 4%		+ 1%
Price	+ 8%	+ 2%		+ 7%
Currency	− 2%	+ 5%		+ 1%
Portfolio	+ 8%	+ 1%		+ 9%
EBITDA[1]	1,437	1,552	+ 8.0%	4,647
Special items	*(138)*	*(128)*		*(435)*
EBITDA before special items	*1,575*	*1,680*	*+ 6.7%*	*5,082*
Operating result (EBIT)	1,004	1,108	+ 10.4%	2,812
Special items	*(138)*	*(128)*		*(488)*
Operating result (EBIT) before special items	*1,142*	*1,236*	*+ 8.2%*	*3,300*
Return on sales	15.0%	14.8%		10.3%
Non-operating result	(131)	(213)	− 62.6%	(613)
Net income	652	600	− 8.0%	1,597
Earnings per share (€)[2]	0.89	0.82		2.19
Gross cash flow[3]	1,101	1,190	+ 8.1%	3,477
Net cash flow[4]	(226)	128	•	3,542
Capital expenditures (total)	181	419	+ 131.5%	1,389
Research and development expenses	423	454	+ 7.3%	1,886
Depreciation and amortization	433	444	+ 2.5%	1,835
Number of employees at end of period	93,300	93,600	+ 0.3%	93,700
Personnel expenses	1,509	1,617	+ 7.2%	5,912

1 EBITDA = operating result (EBIT) plus depreciation and amortization
2 Earnings per share = as defined in IAS 33: net income divided by the average number of shares outstanding (730.34 million shares)
3 Gross cash flow = operating result (EBIT) plus depreciation and amortization, minus income taxes, minus gains/plus losses on retirements of noncurrent assets, plus/minus changes in pension provisions. The latter item includes the elimination of non-cash components of the operating result. It also contains benefit payments during the period.
4 Net cash flow = cash flow from operating activities according to IAS 7

Dynamic start to 2006

Record quarter for Bayer

- Sales up 12 percent to €7.5 billion
- Best-ever operating performance
  - EBITDA before special items €1.7 billion
  - EBIT before special items €1.2 billion
- Plans to substantially expand the HealthCare business by acquiring Schering

Overview of Sales, Earnings and Financial Position

Bayer got off to a dynamic start in 2006, continuing the previous year's positive trend. Group sales in the first quarter showed an 11.8 percent year-on-year increase, from €6,704 million to €7,494 million. Growth was mainly attributable to HealthCare (+20.9 percent) and MaterialScience (+10.5 percent), with sales of the CropScience subgroup 1.5 percent above the high level of the prior-year quarter. Adjusted for currency and portfolio effects, Group sales grew 5.8 percent.

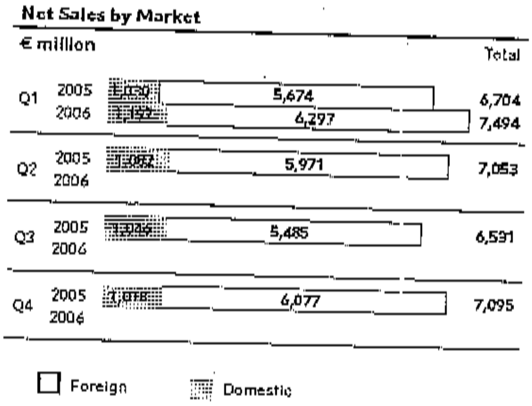
This gratifying business trend led to a record operating performance, with EBITDA before special items up 6.7 percent to €1,680 million (Q1 2005: €1,575 million).

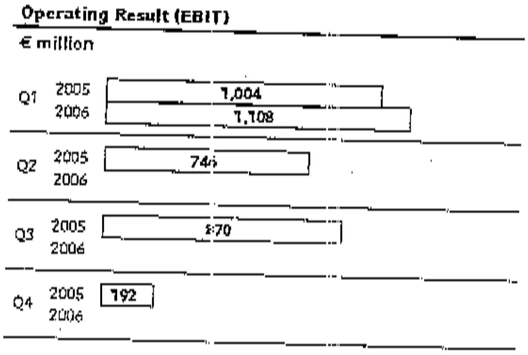
EBIT before special items advanced 8.2 percent to €1,236 million (Q1 2005: €1,142 million). With sales growth in all of the HealthCare divisions well into double digits, this was the main reason for the 37.7 percent jump in this subgroup's operating result, while the 11.1 percent earnings improvement at MaterialScience was primarily driven by selling price increases. Despite difficult market conditions in Brazil, CropScience earnings slipped by just 3.5 percent from the high figure for the first quarter of 2005.

First quarter earnings were impacted by special items totaling €128 million (Q1 2005: €138 million). These included an amount of €110 million arising from a finding against Bayer in an arbitration proceeding in the United States relating to MaterialScience. Bayer will explore all possibilities for legal recourse in this matter and has also asserted a claim to payment in a separate arbitration proceeding.

After special items, EBITDA for the first quarter of 2006 rose 8.0 percent to €1,552 million (Q1 2005: €1,437 million), while EBIT advanced 10.4 percent to €1,108 million (Q1 2005: €1,004 million).

After a €213 million non-operating loss, pre-tax income improved slightly to €895 million. The non-operating result included net interest expense of €144 million (Q1 2005: €80 million). The increase in interest expense was due to interest incurred on retroactive tax payments in Germany and on payment obligations arising out of the above-mentioned U.S. arbitration proceeding. After tax expense of €298 million, income from continuing operations was €597 million (Q1 2005: €598 million). Group net income after minority interests amounted to €600 million (Q1 2005: €652 million). The prior-year figure included €52 million in income from discontinued operations (mainly Lanxess).





Benefiting from the growth in EBIT, first-quarter gross cash flow improved 8.1 percent to €1,190 million (Q1 2005: €1,101 million), while net cash flow came in a clear €854 million ahead of the prior-year quarter, at €128 million.

Net debt on March 31, 2006 amounted to €5.7 billion. This was €0.2 billion higher than on December 31, 2005 (€5.5 billion) and €1.4 billion lower than on March 31, 2005 (€7.1 billion).

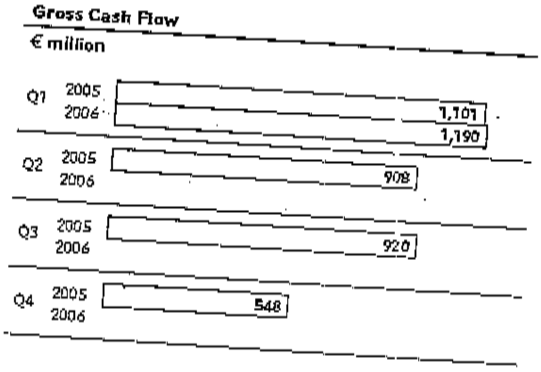
Provisions for pensions and other post-employment benefits, at €6.3 billion, were €0.9 billion lower than on December 31, 2005, mainly as a result of higher capital market rates.

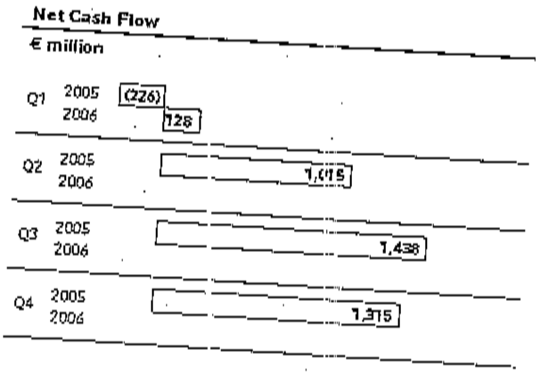
Takeover Offer for Schering AG

On March 23, 2006 we announced our intention to acquire Schering AG. The formal takeover offer of €86 per Schering share or ADS (American Depositary Share) – representing a total transaction volume of €16.5 billion – was published on April 13, 2006. In particular, the offer is contingent upon a minimum acceptance threshold of 75 percent of the outstanding shares of Schering AG by the end of the offer period and the approval of the antitrust authorities in the United States and Europe. The acceptance period ends on May 31, 2006.

The acquisition of Schering is entirely consistent with our strategic objective of strengthening the HealthCare business, especially in the areas of pharmaceutical specialties and consumer care, in order to substantially expand the role of the Bayer HealthCare subgroup as the primary growth engine of the Bayer Group as a whole.

The acquisition would raise the specialty products' share of Pharmaceuticals Division sales from the current level of 25 percent to around 70 percent. Including Schering, pro forma combined pharmaceuticals sales in 2005 would have been in the region of €9 billion. The merger would also give us a balanced portfolio of established businesses and disproportionately fast-growing franchises such as oncology, cardiology/hematology and gynecology. The biotechnology products provide another excellent platform for further growth. The combined product pipeline thus has the potential for sustained innovation. We plan to further optimize our support for worthwhile projects by significantly increasing the research and development budget for the pharmaceuticals operations.





It is intended to finance the transaction with a combination of equity, debt and hybrid capital instruments. In this connection we successfully issued a €2.3 billion mandatory convertible bond in April. We plan to generate additional financing by divesting H.C. Starck and Wolff Walsrode in the Bayer MaterialScience subgroup, thus ensuring a healthy balance-sheet structure for the future. We expect to retain a good investment-grade credit rating even after this transaction.

Outlook

Despite persistently high energy and raw material prices we are anticipating further global economic growth in 2006. The U.S. economy should remain robust, although growth may not be quite so strong as of late. The uptrend that emerged in Europe toward the end of last year continued in the first quarter of 2006. We therefore expect this region's economy to grow slightly faster in 2006 than in 2005.

At present we are not altering the guidance we gave in March. On the basis of the economic forecast outlined above, the Bayer Group is still targeting a slight increase in underlying EBIT and EBITDA in 2006 and an underlying EBITDA margin of approximately 19 percent for the full year.

The market environment for our present HealthCare activities should remain favorable, with all divisions able to grow at least with the market. We expect underlying EBIT to increase by more than 10 percent from last year.

We predict a slight expansion in the crop science market this year. Especially in light of recent product launches, we are targeting above market sales growth and an increase in underlying EBIT. Further restructuring is planned to further improve the underlying EBITDA margin.

We also predict continuing positive market conditions for our MaterialScience business, which should therefore continue to grow. Against this background, underlying EBIT for this subgroup should remain at an excellent level in 2006 although it could be somewhat lower than for 2005. We expect the EBITDA margin for the full year to come in slightly below the 18 percent recorded for 2005.

The above guidance does not take into account the effects of the planned acquisition of Schering.

Performance by Subgroup and Segment

Our business activities are grouped in the HealthCare, CropScience and MaterialScience subgroups.

Sales by Subgroup and Segment		1st Quarter 2005	Proportion of Goup Sales %)	1st Quarter 2006	Proportion of Goup Sales %
€ million					
HealthCare		2,135	32	2,581	34
	Pharmaceuticals	952	14	1,148	15
	Consumer Care	523	8	542	9
	Diabetes Care, Diagnostics	461	7	571	7
	Animal Health	199	3	320	3
CropScience		1,744	26	1,771	24
	Crop Protection	1,417	21	1,413	19
	Environmental Science, BioScience	327	5	358	5
MaterialScience		2,544	38	2,811	38
	Materials	923	14	1,035	14
	Systems	1,621	24	1,776	24
Reconciliation		281	4	331	4
Bayer Group (continuing operations)		6,704	100	7,494	100

Bayer HealthCare

The Bayer HealthCare subgroup lifted sales 20.9 percent year on year to €2,581 million (+€446 million). On a currency- and portfolio-adjusted basis, sales rose 15.1 percent. All divisions contributed double-digit sales increases. Business in North America showed particularly strong growth. EBIT increased 124.0 percent year on year to €410 million. Before special items, especially the expenses recorded in the prior-year period for the termination of a co-promotion agreement for Levitra®, EBIT moved ahead strongly, rising 87.7 percent to €416 million.

Pharmaceuticals

Sales of the Pharmaceuticals segment increased by €196 million, or 20.6 percent, year on year to €1,148 million. Since January 1, 2006 the Pharmaceuticals Division has been divided into three business units: Primary Care, Hematology/Cardiology and Oncology.

The Primary Care business unit saw sales expand 9.6 percent to €787 million. Strong growth in Avelox®, Levitra® and other core products more than offset the expected drop in sales of our antibiotic Cipro®. Additional sales of this product to government agencies had boosted sales in the first quarter of 2005.

Sales in the Hematology/Cardiology business unit rose 41.6 percent to €327 million. Kogenate®, in particular, posted strong growth of 68.2 percent, benefiting from a substantially higher volumes in the United States and Europe.

At the same time, we registered a decline in sales of Trasylol®, our product for use in open heart surgery. Two separate studies reported a possible link between the use of Trasylol® (aprotinin) and severe renal dysfunction or cardiovascular or cerebrovascular problems (heart attack or stroke) in patients treated with this drug. However, the long-term studies available to us and our experience with Trasylol® indicate that it is a safe and effective medication when used correctly. The studies are currently being evaluated by the FDA and the EMEA.

The new Oncology business unit raised sales to €34 million, the increase resulting mainly from the successful launch of our new cancer drug Nexavar®.

Our specialties business (Hematology/Cardiology and Oncology) thus expanded by 54.3 percent overall.

EBIT for the Pharmaceuticals segment improved by €116 million to €203 million. It should be noted here that a milestone payment of €41 million for the late-stage development product alfimeprase, made under the agreement concluded with Nuvelo in January, was capitalized as an intangible asset and thus did not impact earnings. Adjusted for special items, which in the previous year mainly comprised expenses for terminating a co-promotion agreement, EBIT increased 12.5 percent to €207 million despite higher marketing and R&D expenses. The improvement in earnings was chiefly due to the segments's good sales performance.

Bayer HealthCare € million	1st Quarter 2005	1st Quarter 2006	Change %
Net sales	2,135	2,581	+ 20.9
EBITDA*	302	529	+ 75.2
Special items	(119)	(6)	
EBITDA before special items	421	535	+ 27.1
Operating result (EBIT)	183	410	+ 124.0
Special items	(119)	(6)	
Operating result (EBIT) before special items	302	416	+ 37.7
Gross cash flow*	202	356	+ 76.2
Net cash flow*	67	107	+ 59.7
Best-Selling Bayer HealthCare Products			
Kogenate® (Pharmaceuticals)	125	204	+ 63.2
Ascensia® product line (Diabetes Care)	140	190	+ 35.7
Aspirin® (Consumer Care/Pharmaceuticals)	140	164	+ 17.1
Adalat® (Pharmaceuticals)	153	157	+ 2.6
Advia Centaur® System (Diagnostics)	113	143	+ 26.5
Ciprobay®/Cipro® (Pharmaceuticals)	158	132	− 16.5
Avalox®/Avelox® (Pharmaceuticals)	103	130	+ 26.2
Levitra® (Pharmaceuticals)	60	78	+ 30.0
Glucobay® (Pharmaceuticals)	71	77	+ 8.5
Advantage®/Advantix® (Animal Health)	54	59	+ 9.3
Aleve®/naproxen (Consumer Care)	28	53	+ 89.3
Canesten® (Consumer Care)	33	41	+ 24.2
Trasylol® (Pharmaceuticals)	45	40	− 11.1
Baytril® (Animal Health)	40	40	0.0
Rapidlab®/Rapidpoint® (Diagnostics)	37	40	+ 8.1
Total	1,300	1,548	+ 19.1
Proportion of Bayer HealthCare sales	61%	60%	
Pharmaceuticals			
Net sales	952	1,148	+ 20.6
Primary Care	718	787	+ 9.6
Hematology/Cardiology	231	327	+ 41.6
Oncology	3	34	•
EBITDA*	127	241	+ 89.8
Special items	(98)	(5)	
EBITDA before special items	225	246	+ 9.3
Operating result (EBIT)	86	202	+ 134.9
Special items	(98)	(5)	
Operating result (EBIT) before special items	184	207	+ 12.5
Gross cash flow*	74	162	+ 118.9
Net cash flow*	(92)	(11)	+ 88.0

* for definition see Bayer Group Key Data on page 2

Consumer Care

Sales of the **Consumer Care** segment in the first quarter of 2006 advanced 22.8 percent to €642 million. This pleasing trend was driven mainly by rapid expansion in Europe and North America, a contributory factor here being our success in maintaining the growth momentum of newly acquired products such as Rennie®, Bepanthen®/Bepanthol® and Supradyn®. Sales of Aleve® surged 90 percent compared with the prior-year quarter, when they were hampered by the debate surrounding nonsteroidal anti-inflammatory drugs (NSAIDs). Aleve® thus became our second-best-selling Consumer Care product after Aspirin®.

Segment EBIT improved by €87 million to €98 million. Before special items relating to the integration of the Roche business, EBIT rose €67 million, mainly due to the growth in sales. It should be noted here that the fair-value measurement of inventories acquired from Roche had a one-time impact on margins in the same period of 2005.

Diabetes Care, Diagnostics

Sales of the **Diabetes Care, Diagnostics** segment rose by €110 million, or 23.9 percent, to €571 million.

Compared with a weak prior-year quarter, Diabetes Care reported an increase of €50 million (+35.0 percent), driven by substantially higher sales of our Ascensia® Contour® blood glucose monitoring system in North America. Sales of the Diagnostics Division expanded by €60 million, or 18.9 percent, chiefly due to growth in our laboratory systems in North America.

Thanks to the strong sales performance, segment EBIT improved by 59.5 percent to €59 million.

Animal Health

Sales in the **Animal Health** segment advanced 10.6 percent to €220 million as volumes increased in all regions, especially Europe. At the same time, this segment benefited from the European market launch of Profender®, a new dewormer for cats.

EBIT of the segment increased slightly from an already high level to €51 million.

Consumer Care			
€ million	1st Quarter 2005	1st Quarter 2006	Change %
Net sales	523	642	+22.8
EBITDA*	43	129	•
Special items	*(21)*	*(1)*	
EBITDA before special items	*64*	*130*	*+ 103.7*
Operating result (EBIT)	11	98	•
Special items	*(21)*	*(1)*	
Operating result (EBIT) before special items	*32*	*99*	•
Gross cash flow*	37	84	+ 127.0
Net cash flow*	92	19	− 79.3

Diabetes Care, Diagnostics			
Net sales	461	571	+ 23.9
Diabetes Care	143	193	+ 35.0
Diagnostics	318	378	+ 18.9
EBITDA*	77	102	+ 32.5
Special items	*0*	*0*	
EBITDA before special items	*77*	*102*	*+ 32.5*
Operating result (EBIT)	37	59	+ 59.5
Special items	*0*	*0*	
Operating result (EBIT) before special items	*37*	*59*	*+ 59.5*
Gross cash flow*	56	71	+ 26.8
Net cash flow*	60	63	+ 5.0

Animal Health			
Net sales	199	220	+ 10.6
EBITDA*	55	57	+ 3.6
Special items	*0*	*0*	
EBITDA before special items	*55*	*57*	*+ 3.6*
Operating result (EBIT)	49	51	+ 4.7
Special items	*0*	*0*	
Operating result (EBIT) before special items	*49*	*51*	*+ 4.7*
Gross cash flow*	35	39	+ 11.4
Net cash flow*	7	36	•

* for definition see Bayer Group Key Data on page 2

Bayer CropScience

The **Bayer CropScience** subgroup generated **sales** of €1,771 million in the first quarter of 2006 (+1.5 percent). Currency- and portfolio-adjusted sales declined by 3.8 percent and EBIT slipped €6 million to €408 million (−1.4 percent).

Crop Protection

First-quarter **sales** in the **Crop Protection** segment were almost unchanged year on year at €1,418 million. After adjustment for currency effects, they were down 5.8 percent. While sales of fungicides showed encouraging growth, business with insecticides and seed treatment products declined. Sales of herbicides came in at around the prior-year level.

Our crop protection business remains hampered by tough market conditions, especially in Brazil, where the continuing appreciation of the currency is holding back exports of farm produce. This has clipped demand for agricultural inputs, especially insecticides and fungicides. As expected, sales of our herbicides and seed treatment products declined in Europe due to the reduction in sugar beet acreages following the reform of the E.U. sugar market.

On the positive side, sales of our top ten products advanced 5.8 percent despite the difficult overall market situation. Also deserving special mention is the success of recent product launches such as the cereal fungicides Proline® and Fandango®, the herbicide Atlantis® and the insecticides Oberon® and Envidor®.

EBIT of the Crop Protection segment slipped 11.5 percent year on year to €285 million, mainly due to a decline in business in Latin America that was only partially offset by cost savings.

Environmental Science, BioScience

The **Environmental Science, BioScience** segment lifted first-quarter **sales** 9.5 percent to €353 million. Adjusted for currency effects, the increase came to 3.4 percent.

Sales of the Environmental Science unit rose by 10.9 percent to €198 million. Apart from positive currency effects, this was attributable to higher sales of our products for professional users. The BioScience Business Group increased sales by 7.8 percent to €165 million, thanks largely to good business with vegetable seeds.

Segment **EBIT** advanced 33.7 percent to €123 million, driven by the positive sales trend and cost savings.

Bayer CropScience			
€ million	1st Quarter 2005	1st Quarter 2006	Change %
Net sales	1,744	1,771	+ 1.5
EBITDA*	557	551	− 1.1
Special items	(9)	0	
EBITDA before special items	566	557	− 2.7
Operating result (EBIT)	414	408	− 1.4
Special items	(9)	0	
Operating result (EBIT) before special items	423	408	− 3.5
Gross cash flow*	387	387	+ 0.0
Net cash flow*	(379)	(350)	+ 7.7

Best-Selling Bayer CropScience Products			
Confidor®/Gaucho®/Admire®/Merit® (Insecticides/Seed Treatment/Environmental Science)	171	165	− 3.5
Folicur®/Raxil® (Fungicides/Seed Treatment)	97	95	− 2.1
Basta®/Liberty® (Herbicides)	59	72	+ 22.0
Puma® (Herbicides)	67	68	+ 1.5
Proline® (Fungicides)	36	58	+ 61.1
Flint®/Stratego®/Sphere® (Fungicides)	49	49	0.0
Atlantis® (Herbicides)	42	49	+ 16.7
Betanal® (Herbicides)	52	45	− 13.5
Temik® (Insecticides)	40	44	+ 10.0
Decis®/K-Othrine® (Insecticides/Environmental Science)	38	44	+ 15.8
Total	651	689	+ 5.8
Proportion of Bayer CropScience sales	37%	39%	

Crop Protection			
Net sales	1,417	1,413	− 0.3
Insecticides	364	348	− 4.4
Fungicides	347	378	+ 8.9
Herbicides	555	550	− 0.9
Seed Treatment	151	137	− 9.3
EBITDA*	443	406	− 8.4
Special items	(9)	0	
EBITDA before special items	452	406	− 10.2
Operating result (EBIT)	322	285	− 11.5
Special items	(9)	0	
Operating result (EBIT) before special items	331	285	− 13.9
Gross cash flow*	307	285	− 7.2
Net cash flow*	(323)	(289)	+ 10.5

Environmental Science, BioScience			
Net sales	327	358	+ 9.5
Environmental Science	174	193	+ 10.9
BioScience	153	165	+ 7.8
EBITDA*	114	145	+ 27.2
Special items	0	0	
EBITDA before special items	114	145	+ 27.2
Operating result (EBIT)	92	123	+ 33.7
Special items	0	0	
Operating result (EBIT) before special items	92	123	+ 33.7
Gross cash flow*	80	102	+ 27.5
Net cash flow*	(56)	(61)	− 8.9

* for definition see Bayer Group Key Data on page 2

Bayer MaterialScience

The Bayer MaterialScience subgroup continued to grow sales strongly in the first quarter of 2006, posting a rise of 10.5 percent year on year to €2,811 million. Currency- and portfolio-adjusted sales were up 4.5 percent. All business units contributed to this positive performance. EBIT amounted to €339 million, down €67 million, or 16.5 percent, from the prior-year quarter, but EBIT before special items showed a pleasing 11.1 percent increase, to €451 million.

Materials

Sales of the Materials segment came to €1,035 million (+12.1 percent). Following last year's price rises, the increase in first quarter sales came largely from higher volumes in the Polycarbonates business unit. We also succeeded in raising sales through price increases, particularly at H.C. Starck.

Segment EBIT of €160 million was at the previous year's high level.

Systems

In the Systems segment, sales advanced to €1,776 million, which was 9.6 percent above the same quarter of last year. In the Polyurethanes Business Unit, given a slight decline in volumes and prices for MDI, the improvement in sales was driven mainly by the previously announced price increases for TDI and polyether. The Coatings, Adhesives, Sealants business unit and the Inorganic Basic Chemicals unit also made strong gains.

EBIT of the Systems segment, at €179 million, was down €68 million or 27.5 percent from the prior-year quarter, mainly because of €110 million in one-time expenses arising from an arbitration proceeding in the United States concerning the production of propylene oxide. EBIT before special items came in €44 million, or 17.8 percent, above the prior-year quarter. This earnings improvement was mainly due to the price rises achieved, which more than offset the increase in raw material costs.

Bayer MaterialScience			
€ million	1st Quarter 2005	1st Quarter 2006	Change %
Net sales	**2,544**	**2,811**	**+ 10.5**
EBITDA*	**533**	**473**	**– 11.3**
Special items	*0*	*(112)*	
EBITDA before special items	*533*	*585*	*+ 9.8*
Operating result (EBIT)	**406**	**339**	**– 16.5**
Special items	*0*	*(112)*	
Operating result (EBIT) before special items	*406*	*451*	*+ 11.1*
Gross cash flow*	**361**	**354**	**– 1.9**
Net cash flow*	**0**	**299**	**•**

Materials			
Net sales	**923**	**1,035**	**+ 12.1**
Polycarbonates	588	656	+ 11.6
Thermoplastic Polyurethanes	46	54	+ 17.4
Wolff Walsrode	72	78	+ 8.3
H.C. Starck	217	247	+ 13.8
EBITDA*	**212**	**216**	**+ 1.9**
Special items	*0*	*0*	
EBITDA before special items	*212*	*216*	*+ 1.9*
Operating result (EBIT)	**159**	**160**	**+ 0.6**
Special items	*0*	*0*	
Operating result (EBIT) before special items	*159*	*160*	*+ 0.6*
Gross cash flow*	**143**	**163**	**+ 14.0**
Net cash flow*	**64**	**61**	**– 4.7**

Systems			
Net sales	**1,621**	**1,776**	**+ 9.6**
Polyurethanes	1,196	1,269	+ 6.1
Coatings, Adhesives, Sealants	320	369	+ 15.3
Inorganic Basic Chemicals	87	106	+ 21.8
Others	18	32	+ 77.8
EBITDA*	**321**	**257**	**– 19.9**
Special items	*0*	*(112)*	
EBITDA before special items	*321*	*369*	*+ 15.0*
Operating result (EBIT)	**247**	**179**	**– 27.5**
Special items	*0*	*(112)*	
Operating result (EBIT) before special items	*247*	*291*	*+ 17.8*
Gross cash flow*	**218**	**191**	**– 12.4**
Net cash flow*	**(64)**	**238**	**•**

* for definition see Bayer Group Key Data on page 2

Performance by Region

In the first quarter of 2006, sales showed a year-on-year increase of €790 million, or 11.8 percent, to €7,494 million. After adjustment for currency effects, this was equivalent to a 6.7 percent rise. The greater part the Group's growth was generated in **North America**, where sales moved ahead by €396 million (+22.2 percent). Of this increase, roughly half was due to currency effects. The strongest sales growth in North America was posted by our pharmaceuticals and diagnostics activities. While currency-adjusted sales of the CropScience subgroup were roughly unchanged year on year, MaterialScience reported a 9.8 percent improvement.

First-quarter sales in **Europe** advanced by 6.4 percent to €3,308 million, with the main impetus coming from the positive trend at HealthCare. Germany reported above-average expansion to €1,197 million (+16.2 percent). Adjusted for portfolio effects, the improvement was around 11 percent in Germany and about 4 percent in Europe as a whole.

In **Asia/Pacific** sales rose 8.9 percent to €1,130 million, with the Bayer HealthCare and Bayer MaterialScience subgroups posting the strongest gains of 12.8 percent and 9.1 percent respectively. Business in China developed particularly well (+33 percent).

In the **Latin America/Africa/Middle East** region, sales rose 18.3 percent to €877 million. On a currency-adjusted basis the increase amounted to 1.8 percent. Business growth in HealthCare and MaterialScience more than offset lower sales of crop protection products.

Liquidity and Capital Resources

Cash provided by operating activities (net cash flow)

Thanks to the strong growth in business, gross cash flow increased by 8.1 percent to €1,190 million (Q1 2005: €1,101 million). Net cash flow improved by €354 million, to €128 million (Q1 2005: minus €226 million). Despite its higher sales, MaterialScience succeeded in keeping working-capital growth well below the level of the prior-year quarter. This more than compensated for the increase associated with the expansion of business at HealthCare.

Net cash used in investing activities

There was a net cash outflow of €192 million for investing activities (Q1 2005: €947 million). Capital expenditures for property, plant and equipment (€242 million) and intangible assets (€177 million) rose by a total of €238 million to €419 million (Q1 2005: €181 million). This mainly includes the purchase of the European marketing rights for the blood pressure treatments Pritor® and PritorPlus® and expenditures for the expansion of our polymers production facilities at Caojing, China. A payment of €41 million for the late-stage development product alfimeprase under our agreement with Nuvelo Inc. is also included here. It is capitalized as an intangible asset.

Cash outflows for acquisitions, totaling €20 million, mainly include the purchase price paid for the biotech company Icon Genetics AG. The higher interest receipts, as well as the higher interest disbursements reflected in the financing cash flow, are primarily due to amounts received from, or paid to, tax authorities.

Sales by Region and Segment (by Market)	Europe				North America				Asia/Pacific				Latin America/Africa/Middle East				Total Segment			
	2005	2006	% yoy	adj. % yoy	2005	2006	% yoy	adj. % yoy	2005	2006	% yoy	adj. % yoy	2005	2006	% yoy	adj. % yoy	2005	2006	% yoy	adj. % yoy
€ million																				
1st Quarter																				
Bayer HealthCare	**895**	**1,019**	**+ 13.9**	**+ 13.9**	**641**	**852**	**+ 32.9**	**+ 21.1**	**326**	**366**	**+ 12.3**	**+ 8.2**	**273**	**344**	**+ 26.0**	**+ 13.5**	**2,135**	**2,581**	**+ 20.9**	**+ 15.1**
Pharmaceuticals	390	450	+ 15.4	+ 15.3	259	356	+ 37.5	+ 24.3	209	223	+ 6.7	+ 4.3	94	119	+ 26.6	+ 14.3	952	1,148	+ 20.6	+ 15.2
Consumer Care	241	279	+ 15.8	+ 16.5	136	175	+ 28.7	+ 17.3	29	42	+ 44.8	+ 34.1	117	146	+ 24.8	+ 12.7	523	642	+ 22.8	+ 16.8
Diabetes Care, Diagnostics	200	223	+ 11.5	+ 11.1	176	248	+ 40.9	+ 29.1	57	65	+ 14.0	+ 9.9	28	35	+ 25.0	+ 13.4	461	571	+ 23.9	+ 17.9
Animal Health	64	67	+ 4.7	+ 3.9	70	73	+ 4.3	+ 3.8	31	36	+ 16.1	+ 7.3	34	44	+ 29.4	+ 14.1	199	220	+ 10.6	+ 3.5
Bayer CropScience	**775**	**766**	**– 1.2**	**– 1.7**	**484**	**538**	**+ 11.2**	**+ 0.2**	**228**	**236**	**+ 3.5**	**– 0.9**	**257**	**231**	**– 10.1**	**– 22.3**	**1,744**	**1,771**	**+ 1.5**	**– 4.1**
Crop Protection	639	623	– 2.5	– 3.2	340	380	+ 11.8	+ 0.9	205	207	+ 1.0	– 3.4	233	203	– 12.9	– 24.9	1,417	1,413	– 0.3	– 5.8
Environmental Science, BioScience	136	143	+ 5.1	+ 5.5	144	158	+ 9.7	– 1.5	23	29	+ 26.1	+ 22.2	24	28	+ 16.7	+ 3.1	327	358	+ 9.5	+ 3.4
Bayer MaterialScience	**1,186**	**1,222**	**+ 3.0**	**+ 2.9**	**653**	**785**	**+ 20.2**	**+ 9.8**	**473**	**516**	**+ 9.1**	**+ 3.1**	**232**	**288**	**+ 24.1**	**+ 14.5**	**2,644**	**2,811**	**+ 10.5**	**+ 5.8**
Materials	411	431	+ 4.9	+ 4.3	204	236	+ 15.7	+ 5.9	236	285	+ 20.8	+ 13.8	72	83	+ 15.3	+ 11.0	923	1,035	+ 12.1	+ 7.6
Systems	775	791	+ 2.1	+ 2.2	449	549	+ 22.3	+ 11.6	237	231	– 2.5	– 7.5	160	205	+ 28.1	+ 16.1	1,621	1,776	+ 9.6	+ 4.8
Total region (incl. reconciliation)	3,109	3,308	+ 6.4	+ 6.2	1,763	2,179	+ 22.2	+ 11.2	1,038	1,130	+ 8.9	+ 3.9	774	877	+ 13.3	+ 1.6	6,704	7,494	+ 11.8	+ 6.7

adj. = currency-adjusted

In the first quarter of the previous year, cash outflows for acquisitions mainly comprised approximately €1.9 billion for the consumer health business of Roche. Cash inflows of €1,000 million from financial assets were also registered in that quarter, mainly due to the scheduled repayment of loans by Lanxess and the expiration of derivatives. Cash receipts from the sale of property, plant and equipment totaling €256 million in the first quarter of 2005 mainly related to the divestiture of the plasma business in the United States.

Net cash used in financing activities

The principal components of the €187 million (Q1 2005: €430 million) cash outflow for financing activities were €228 million in interest payments, €124 million for the net repayments of debt and €11 million for dividend payments to minority stockholders of subsidiaries. At the same time, a cash inflow of €176 million resulted from the reimbursement of advance capital gains tax payments made on intragroup dividends in 2004.

Including marketable securities and other instruments, the Bayer Group had liquid assets of €3,163 million as of March 31, 2006. Of this amount, €299 million was held in escrow accounts to be used exclusively for payments relating to civil law settlements in antitrust proceedings. In view of the restriction on its use, this liquidity was not deducted when calculating net debt.

Key Cash Flow Data € million	1st Quarter 2005	1st Quarter 2006
Gross cash flow*	1,101	1,190
Changes in working capital	(1,327)	(1,062)
Net cash provided by (used in) operating activities (net cash flow, continuing operations)	(226)	128
Net cash provided by (used in) operating activities (net cash flow, discontinued operations)	(32)	0
Net cash provided by (used in) operating activities (net cash flow, total)	(258)	128
Net cash provided by (used in) investing activities (total)	(947)	(192)
Net cash provided by (used in) financing activities (total)	(430)	(187)
Change in cash and cash equivalents due to business activities (total)	(1,635)	(251)

* for definition see Bayer Group Key Data on page 2

Net Debt	March 31, 2005	March 31, 2006
€ million		
Noncurrent financial liabilities as per balance sheets (including derivatives)	6,874	7,419
Current financial liabilities as per balance sheets (including derivatives)	2,502	1,332
– Derivative receivables	(478)	(170)
Financial liabilities	8,898	8,581
– Liquid assets as per balance sheets less amount not freely available	(1,783)	(2,864)*
Net debt	7,115	5,717

* €2,864 million = €3,163 million – € 299 million

Employees

On March 31, 2006 the Bayer Group had 93,600 employees, 300 more than on March 31, 2005. Headcount was 100 lower than at year end 2005. This slight decline was basically the net result of headcount reductions at CropScience and the service companies, partly offset by increases at MaterialScience and HealthCare.

The number of employees in North America was virtually unchanged compared with December 31, 2005. There were appoximate increases of 400 in Asia-Pacific and 100 in the Latin America/Africa/ Middle East region. The number of employees in Europe declined by 600.

Personnel expenses showed a 7.2 percent year-on-year rise in the first quarter of 2006, to €1,617 million. Adjusted for currency effects, the increase came to 3.5 percent.

Legal Risks

As a global company with a diverse business portfolio, the Bayer Group is exposed to numerous legal risks.

Legal proceedings currently considered to involve particularly significant risks are outlined below. The litigation referred to does not necessarily represent an exhaustive list.

Lipobay/Baycol: As of March 31, 2006, the number of Lipobay/Baycol cases pending against Bayer worldwide was approximately 5,000 (approximately 4,900 of them in the United States, including several class actions). As of March 31, 2006, Bayer had settled approximately 3,100 Lipobay/ Baycol cases worldwide without acknowledging any liability and resulting in settlement payments of approximately US$ 1,150 million. Bayer will continue to offer fair compensation to people who experienced serious side effects while taking Lipobay/Baycol on a voluntary basis and without concession of liability. In the United States five cases have been tried to date all of which were found in Bayer's favor.

After more than four years of litigation we are currently aware of fewer than 50 pending cases in the United States that in our opinion hold a potential for settlement, although we cannot rule out the possibility that additional cases involving serious side effects from Lipobay/Baycol may come to our attention. In addition, there could be further settlements of cases outside of the United States.

A further €48 million charge to the operating result was recorded in 2005 in respect of settlements already concluded or expected to be concluded and anticipated defense costs. In addition, Bayer recorded charges of €4.7 million to the operating result in the first quarter of 2006 in respect of settlements expected to be concluded and anticipated defense costs.

PPA: Bayer is a defendant in numerous product liability lawsuits relating to phenylpropanolamine (PPA), which was previously contained in a cough/cold product of the company supplied in effervescent-tablet form. The first PPA lawsuits were filed after the U.S. Food and Drug Administration recommended in the fall of 2000 that manufacturers voluntarily cease marketing products containing this active ingredient. Plaintiffs are alleging injuries related to the claimed ingestion of PPA.

As of March 31, 2006, approximately 200 lawsuits were pending in U.S. federal and state courts against Bayer, of which approximately 130 name Bayer as the only manufacturing defendant. In addition, approximately 275 dismissed claims are currently still on appeal to a United States Court of Appeals. That court has recently entered final orders dismissing appeals, affirming dismissal, and remanding one claim back to Mississippi state court. No lawsuits have been filed outside the United States.

Three state cases have proceeded to trial. Two have resulted in defense verdicts for Bayer. In one case, the plaintiff was awarded damages of US$ 400,000. This case was settled in July 2005 while on appeal.

As of March 31, 2006, Bayer had settled 289 cases resulting in payments of approximately US$ 46.5 million, without acknowledging any liability. In the fiscal year 2005, Bayer recorded expenses in the amount of €62 million for settlements already concluded or expected to be concluded and expected defense costs.

Bayer will defend itself vigorously in all Lipobay/Baycol and PPA cases in which in our view no potential for settlement exists or where an appropriate settlement cannot be achieved.

Since the existing insurance coverage with respect to the Lipobay/Baycol and PPA cases is exhausted (insurance coverage for PPA exists for up to 5 percent of future costs), it is possible – depending on the future progress of the litigation – that Bayer could face further payments that are not covered by the accounting measures already taken. We will regularly review the possibility of further accounting measures depending on the progress of the litigation.

Cipro®: 39 putative class action lawsuits, one individual lawsuit and one consumer protection group lawsuit (which has been dismissed) against Bayer involving the medication Cipro® have been filed since July 2000 in the United States. The plaintiffs are suing Bayer and other companies also named as defendants, alleging that a settlement to end patent litigation reached in 1997 between Bayer and Barr Laboratories, Inc. violated antitrust regulations. The plaintiffs claim the alleged violation prevented the marketing of generic ciprofloxacin as of 1997. In particular, they are seeking triple damages under U.S. law. After the settlement with Barr the patent was the subject of a successful re-examination by the U.S. Patent and Trademark Office and of successful defenses in U.S. Federal Courts. It has since expired.

All the actions pending in federal court were consolidated in federal district court in New York in a multidistrict litigation (MDL) proceeding. On March 31, 2005, the court granted Bayer's motion for summary judgment and dismissed all of plaintiffs' claims in the MDL proceeding. The plaintiffs are appealing this decision. Further cases are pending before various state courts. Bayer believes that it has meritorious defenses and intends to defend these cases vigorously.

Rubber, polyester polyols, urethane: Proceedings involving the former rubber-related lines of business

Investigations and proceedings by the E.U. Commission and the U.S. and Canadian antitrust authorities for alleged anticompetitive conduct involving certain products in the rubber field are pending. In two cases Bayer AG reached agreements with the U.S. Department of Justice in 2004 to pay fines, amounting to US$ 66 million for antitrust violations relating to rubber chemicals and US$ 4.7 million for those relating to acrylonitrile-butadiene rubber (NBR). In December 2005, the E.U. Commission imposed a fine of €58.9 million for antitrust violations in the area of rubber chemicals. The respective amount was paid at the end of March 2006. Further investigations by the authorities are ongoing.

Numerous civil claims for damages including class actions are pending in the United States and Canada against Bayer AG and certain of its subsidiaries as well as other companies. The lawsuits involve rubber chemicals, EPDM, NBR and polychloroprene rubber (CR). Bayer has reached agreements or agreements in principle to settle a number of these court actions. Some of these agreements or agreements in principle remain subject to court approval. These settlements do not resolve all of the pending civil litigation with respect to the aforementioned products, nor do they preclude the bringing of additional claims.

Proceedings involving polyester polyols, urethanes and urethane chemicals

Bayer Corporation reached agreement with the U.S. Department of Justice in 2004 to pay a fine of US$ 33 million for antitrust violations in the United States relating to adipic-based polyester polyols. A similar investigation is still pending in Canada. Similar actions are pending in Canada with respect to polyester polyols.

Proceedings involving polyether polyols and other precursors for urethane end-use products

Bayer has been named as a defendant in multiple putative class action lawsuits involving allegations of price fixing of, inter alia, polyether polyols and certain other precursors for urethane end-use products. At the beginning of 2006 Bayer reached an agreement, subject to court approval, to settle all of the class action cases relating to claims from direct purchasers of polyether polyols, MDI or TDI (and related systems). The foregoing settlements do not resolve all of the pending civil litigation with respect to the aforementioned products, nor do they preclude the bringing of additional claims. In February 2006 Bayer was served with a subpoena from the U.S. Department of Justice seeking information relating to the manufacture and sale of these products.

Impact of antitrust proceedings on Bayer

In consideration of the portion allocated to Lanxess, expenses in the amount of €336 million were accrued in the course of 2005 which led to the establishment of a provision for the previously described civil proceedings in the amount of €285 million as of December 31, 2005. This provision has been partially adjusted upon payment of certain settlement amounts and stood at €250 million as of March 31, 2006. After payment of the fine imposed by the E.U. Commission in the rubber chemicals proceeding Bayer still recognized a provision of €21 million as of that date in respect of the rubber-related E.U. proceedings noted above, although a reliable estimate cannot be made as to the actual amount of any additional fines.