ALTANA

>>> FUTURE PERSPECTIVES

Employees shaping changes

Annual Report 2004

AT A GLANCE

> ALTANA Group	2004	2003	
	in € million	in € million	Δ%
Sales	**2,963**	2,735	8
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**738**	686	8
Earnings before interest and taxes (EBIT)	**617**	563	10
Earnings before taxes (EBT)	**624**	580	8
Return on sales (EBT)	**21.1 %**	21.2 %	
Net income	**391**	345	13
Cash flow from operating activities	**427**	425	0
Total assets	**2,699**	2,532	7
Equity	**1,661**	1,445	15
Equity ratio (in %)	**61.5 %**	57.1 %	
Capital expenditure	**226**	237	-5
Research expenses	**445**	412	8
Number of employees	**10,783**	10,402	4
Figures per ALTANA share	in €	in €	Δ%
Dividend	**0.95**[1]	0.83	14
Net income*	**2.88**	2.53	14
Cash flow from operating activities	**3.14**	3.12	1

1 Management recommendation

* Glossary

Herbert Quandt House

ALTANA

100 % ALTANA Pharma	100 % ALTANA Chemie
	BYK-Chemie GmbH
Therapeutics Gastrointestinal and respiratory prescription drugs (inter alia)	**Additives & Instruments** Paint additives Plastics additives Testing and measuring instruments
	ALTANA Electrical Insulation GmbH
Imaging Contrast media for imaging procedures	**Electrical Insulation** Wire enamels Impregnating resins Casting compounds
	ALTANA Coatings & Sealants GmbH
Self-medication (OTC) Non-prescription, over the counter drugs	**Coatings & Sealants** Packaging coatings Sealing compounds Industrial coatings

COMPANY PROFILE > ALTANA AG is an international pharmaceutical and chemical group with sales of roughly € 3 billion and almost 11,000 employees all over the world. With a return on sales (EBT) of 21%, ALTANA is one of the most profitable pharmaceutical and chemical companies in Europe.

> **The ALTANA Group** is composed of the strategic management holding company ALTANA AG, based in Bad Homburg, and the two operating divisions, ALTANA Pharma and ALTANA Chemie. This structure enhances the flexibility of the individual divisions and enables targeted development.

> **ALTANA Pharma AG**, based in Constance, concentrates on innovative prescription therapeutics. Its core business comprises gastrointestinal, respiratory, and cardiovascular preparations. In its research, ALTANA Pharma focuses on gastrointestinal (gastroenterology), respiratory tracts (respiration/anti-inflammation), and cancer (oncology). Due to high research and development expenses, intelligent alliances, and the concentration on profitable markets, we have an outstanding position in global competition.

> **ALTANA Chemie AG**, headquartered in Wesel, has established itself as a global provider of innovative, environmentally compatible solutions and the corresponding special products for coatings manufacturers, coatings and plastics processors and the electronics industry. The product range includes additives, specialty coatings, sealing and casting compounds, electrical insulation material, impregnating agents as well as testing and measuring instruments. With these products, ALTANA Chemie has been successful in selected niche markets worldwide. All three of its business units are among the leading manufacturers in their markets.

ALTANA Group

>>> **FUTURE PERSPECTIVES.** A strategy geared to achieve a sustained increase in corporate value should not only keep profitability in mind but also the aspect of creating future potential. This includes the level of awareness, reputation, corporate culture, business relations, innovative strength and know-how. These immaterial factors of success increasingly gain in importance for our future corporate growth. Therefore we increase the brand awareness of ALTANA, invest in Research and Development, in technologies and the further education and training of our staff. Whether product developments will enable us to gain market shares and to generate profits, depends upon our employees, their qualification, their capability to establish relations to potential customers and cooperation partners, their commitment and willingness to consider ever new challenges as a chance for their personal development as well as for the corporate performance.

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Dr. Nikolaus Schweickart
Chairman of the Management Board

Dear Shareholders,

Following a year of transition, ALTANA is in good shape. In 2004, we invested considerably in the strategic sustainability of your company, thus paving the way for further growth. Thanks to the two promising respiratory candidates ALVESCO® and DAXAS® stemming from our own research, the pharmaceutical business can operate on a broader, even more sustainable foundation in the future. And following the portfolio adjustments, ALTANA Chemie is well prepared to open up new regional markets.

ALTANA's 28th business year was also successful in economic terms. For the ninth consecutive year I can report record values, not least regarding ALTANA's profitability. The company achieved excellent business results despite significant investments in the future, the ongoing weakness of the dollar, a quite instable business environment and negative influences due to German health reforms. So are we growing according to plan? We can state that our strategy of sustainable growth through internationalization and innovation is bearing fruit. In addition, our strategy is enabling us to react appropriately to new challenges and to cushion the impact of burdens from the German market.

The success of our strategy is closely tied to values such as innovative ability, partnerships, customer orientation, brand awareness, corporate reputation and intercultural expertise. These values cannot be identified as figures on our income statement but nonetheless have much more of an impact on the market value of ALTANA which is indeed much higher than the company's equity. Why are these immaterial values so enormously important? They are indicators of the company's ability to continue to boost its productivity in the future. A strategy geared to values must therefore not be restricted to material assets. This applies particularly to knowledge-based companies like ALTANA.

ALTANA is growing thanks to innovations, not generics, not me-too products. Key factors include the creativity, know-how and expertise of our staff and management. These are the company's true value drivers. But innovations are only successful in the long run if the entire company grows and develops from them. Due to its innovation-driven dynamic growth, ALTANA has changed substantially over the last decade. Such a transformation is, on the one hand, an adaptive reaction to a business environment that is changing faster and faster, but on the other hand an opportunity to help shape that environment. In order to achieve the latter, one must not only have expertise, but also assume responsibility. The commitment of our employees is essential for the corporate success of ALTANA. While a strategy lays down the general framework for decision-making processes, it does not provide concrete instructions for action. Dear shareholders, you can form your own impression of the commitment of our staff and management, to which the title of this year's annual report alludes, on the pages to follow.

How does an innovative climate emerge, a climate of wanting to help shape things? High demands are placed on the willingness to perform and the capabilities of the employees of a company emerging from the structures of a medium-sized business and intending to position itself in the "first league" of an international competitive environment. It is not one-dimensional hierarchical thinking but rather corporate organization and action which are needed. Delegation is a central principle here. That means one has great freedom in fulfilling tasks, but on the other hand works independently and assumes responsibility. Another essential principle is the establishment of networks. A company can only exploit knowledge and experience if the staff is integrated in goal-forming and decision-making processes, if an exchange takes place between colleagues, partners and customers. That, in turn, requires the capability to work in a team. And flexible work models, transparent structures, and "breathing" processes turn modules, business units and functions into a competitive, resilient whole.

Bucking the trend in 2004, ALTANA again created jobs – even in Germany. What are conditions like for innovations in our home market? Investments in Research and Development are declining. What is going wrong? An example: biopatent guidelines. Their implementation in Germany has been delayed for the last four years. As a result, researchers are moving to the U.K., where they have easier access to leading technologies. Another example: mandatory discount and reference prices for patent-protected drugs. Such measures are hollowing out intellectual property. Our highly qualified staff is going particularly to the U.S. Why? They find better possibilities for professional development, are attracted by better working conditions at universities, and there are no paralyzing public structures that serve as deterrents. ALTANA has made efforts to work against this brain drain, among other things, by setting up university chairs such as the one for bioinformatics at the University of Constance. Know-how is a strategic resource for us, but also for Germany as a knowledge-based economy!

I would like to express my gratitude to our staff and management worldwide for another successful business year and my recognition of their achievements. I think, dear shareholders, that you will share the pleasure at the success of your company, a success reflected by a double-digit dividend increase for the ninth year in a row: ALTANA's NINTH.

Chairman of the Management Board

ALTANA AG

>>> **JOINTLY SHAPING THE DEVELOPMENT OF ALTANA.** Tangible and financial assets, the reputation of the company and its products, as well as the abilities and knowledge of the staff are three fundamental sources of the corporate value. The combination of these elements distinguishes ALTANA from its competitors. Our reputation and our employees are intangible assets that play an essential role in improving our competitive position. ALTANA has everything it needs to turn the strategy chosen into competitive advantages and thus achieve a sustained increase in corporate value.

ALTANA AG
Headquartered in
Bad Homburg v.d.H.,
Germany
Holding Company
62 employees

"In the last three years we have profiled ALTANA as a high-value brand in the dialogue with our specific target groups – a uniform corporate image worldwide and an international image campaign form the basis of our long-term brand strategy."

Claudia Jürgens, Corporate Image Manager

>>> **LEVEL OF AWARENESS AS A SUCCESS FACTOR.** On the occasion of the company's 25th anniversary in 2002, ALTANA initiated a branding campaign to increase the level of awareness and to position the brand. The first step was an effort to give the company a uniform corporate identity worldwide. With the "think on" image campaign, ALTANA presented its philosophy, values, objectives, and expertise in order to give the ALTANA brand a "face" and to stand out from the competition. The values that distinguish ALTANA are financial stability, long-term growth, innovative products, a presence in strategically important markets, and its commitment to society. A strong corporate brand is the result of a long process embracing all areas of corporate communications.

>>> **TRANSPARENT MANAGEMENT AS A SUCCESS FACTOR.** ALTANA is subject to three accounting standards at the same time – the German Commercial Code (HGB), and the international standards IAS/IFRS, and U.S. GAAP. International standards are becoming increasingly complex and are being further developed dynamically. Also ALTANA's growth is giving rise to complex accounting issues, e.g. through cooperation agreements regarding the marketing of new pharmaceutical products. As a result, communication has to run across all departments. To be able to provide reliable information without delay, new employees were hired in the accounting department, a new state-of-the-art data processing system was introduced, internal and external accounting were merged, processes between the ever-growing number of "teammates" were optimized, and further education and training measures were offered company-wide.

"In recent years, we have taken a number of measures to quickly provide reliable data to the capital market, to ALTANA's Management Board, and to corporate control bodies, thus meeting our commitment to openness and transparency."

Frank Richter, Head of Group Accounting

Interview with Claudia Jürgens and Frank Richter

>>> INCREASED REQUIREMENTS FOR ALTANA'S CORPORATE COMMUNICATIONS.

Apart from professional management and a precise strategy, credibility is an important factor for an appropriate assessment of the company and a positive corporate image. With a steadily sharpened corporate image we intend to strengthen the trust in ALTANA and to increase the company's credibility.

MS. JÜRGENS, HOW IS THE UMBRELLA BRAND ALTANA SUPPOSED TO BENEFIT THE COMPANY?

Jürgens: The competitive environment of ALTANA has changed significantly in recent years. The listing on the New York Stock Exchange and the admission to the DAX 30 additionally move ALTANA in the focus of public interest. This necessitates a sharpening and positioning of the brand ALTANA. The top priority is to increase awareness of the company and to establish a positive image with our most important target groups: the financial community, important decision and opinion makers and customers. Thus we contribute to the brand value of the company.

WHERE DOES ALTANA STAND IN TERMS OF AWARENESS AND BRAND PROFILE THREE YEARS ON?

Jürgens: As independent, regularly conducted evaluations of all communications measures have shown, ALTANA is on the right track. The company has a very good reputation; its popularity ratings and credibility have improved considerably. Naturally, we have not yet achieved the awareness values we are striving for – three years is not enough. But the constantly growing media presence, leading positions in qualitative media rankings, and increasing awareness and image figures show us that we are moving in the right direction.


At the same time we have already managed to sharpen and update our profile, and to achieve a growing identification of the employees with the company. This excellent result may certainly be attributed to the fact that ALTANA combines different communications divisions under one roof: Media Relations, Investor Relations and Corporate Image jointly work on ALTANA's corporate image and brand value.

MR. RICHTER, THE CAPITAL MARKET SEEMS TO HONOR ACTUAL ACHIEVEMENTS LESS THAN THOSE EXPECTED IN THE FUTURE. WHAT CONTRIBUTION CAN GROUP ACCOUNTING MAKE WITH ITS BACKWARD-LOOKING VIEW?

Richter: Balance sheets and income statements reflect whether and how ALTANA has achieved its strategic aims. Has the company kept its word? In terms of the transparency of the statements, the explanations in the Notes have surely become more important. One example is accounting of "milestone payments." Depending on the policy, one arrives at very different results, although nothing has changed regarding cash flow. If we manage to achieve high quality and transparency over a period of many years, so that we are comprehensible to the capital market, then I think we can make a valuable contribution to strengthening the credibility of ALTANA. Which does not mean that the share price can not drop now and then.

INTANGIBLE ASSETS ARE BECOMING MORE AND MORE IMPORTANT, WHICH IS APPARENT FROM THE DIFFERENCE BETWEEN BOOK AND MARKET VALUE. IS IMPORTANT INFORMATION THAT INVESTORS NEED TO MAKE AN ASSESSMENT OF ALTANA WITHHELD FROM THE BALANCE SHEETS?

Richter: Take pharmaceutical research, for example. These investments in the future are recognized as expenditure. What value should be given to it as long as it is not yet certain whether value can really be created with it? If the expenditure was activated over a development period of eight to ten years, non-approval of a product in a given year might result in expenditure endangering the existence of the company. Due to the fact that there are still big evaluation problems, our own intangible assets – unlike purchased products, for example – are not activated. Securities, however, are already recognized at a fair value.

Ms. Jürgens, Mr. Richter, thank you very much for the interview.

THE INTERVIEW WAS CONDUCTED BY DR. ELKE G. KRÄMER.

CHANGEABLE FINANCIAL YEAR FOR THE ALTANA SHARE

> Product candidates affected share price most

> Performance over five years: ALTANA share +21.6 % p.a., DAX -9.4 % p.a.

> Long-term increase in value convincing: +19.9 % p.a. in 10 years

> ALTANA AG market capitalization at year-end: € 6.5 billion

> **Comparative performance ALTANA/DAX from January 1 – December 31, 2004**

> **2000 – 2004**

In the 2004 financial year, numerous uncertainties darkened the mood on the world stock markets, which only brightened up following a year-end rally and new index highs. Contrary to the general trend, the ALTANA share got off to an excellent start, but starting in June it suffered several significant setbacks, from which it recovered considerably at the end of the year.

The hope at the beginning of the year that there would be an upswing in the global economy disappeared as early as March due to flagging economic growth and an uncertain political climate. The unstable situation in the Middle East and Iraq, coupled with the ongoing danger of terrorist attacks, resulted in growing insecurity among investors. Discussions about interest rates also had an impact on investment activity. Rising crude oil prices and the strong euro against the U.S. dollar affected the capital markets even more. In March and May, the German stock market index DAX fell to under 3,800 points. In August it plummeted to 3,618 points, its low for the year, before starting to recover by the end of October. The international stock markets received new impetus in November from the U.S. presidential election, but particularly from the temporary oil price decline. The resulting buoyant mood drove the DAX up to 4,272 points at the end of December, its year high and its highest level since July 2002. The Dow Jones also rallied at the end of the year, climbing to 10,868 points, its highest level in four years. The DAX closed the year at 4,256 points, 7.3 % higher than at the end of 2003. In comparison, the Euro STOXX 50 was up by 6.9 %. The Dow Jones concluded the year at 10,783 points, only 3.1 % higher than in the prior year.

PRODUCT CANDIDATES AFFECT ALTANA SHARE PRICE MOST

In 2004, the overall performance of the ALTANA share was primarily affected by details about the progress in connection with preparations for the market and approval of the two product candidates ALVESCO® and DAXAS®.

On account of news about the first market approval of ALVESCO®, (Ciclesonide*) in Australia and promising study data on DAXAS® (Roflumilast*), the price rose in the first months of the year, bucking the general trend. On March 15, the ALTANA share hit its year's high of € 54.35.

In June, investors took profits and due to a lack of impetus, there was buying resistance. The downswing starting in July was predominantly a result of details on the approval of ALVESCO®, on the one hand, and added burdens still expected to arise from German health-reform policies at that time on the other. The share then recovered after the full-year forecast for the ALTANA Group was confirmed in September and it became clear that the new reference price regulation* would not generate additional net costs. The new reference price system, which affects our top sales driver PANTOZOL®, replaced the 16 % mandatory discount in January 2005. On account of reports on the current status of development and approval of ALVESCO® and DAXAS® in the U.S., the share price decreased sharply at the end of October. Delays in both projects met with great disappointment by a majority on the capital markets. The result: a downgrading of investment recommendations. The number of buying recommendations fell from 22 in 2003 to 13. The share price posted its year's low, € 39.31 per share, on October 29. A significant recovery began only in mid-December. The upswing was triggered by the conclusion of the Mutual Recognition Procedure for ALVESCO® in Europe, meaning that there were no more obstacles to marketing the respiratory drug at the beginning of 2005.

Empty research pipelines, marketing stops due to side effects of drugs, and resulting demands for compensation

* Glossary

had burdened the pharmaceutical sector throughout the financial year. Many investors reacted to recent negative news with redeployments of assets and stock picking* in the pharmaceutical sector. ALTANA stood out, and the share benefited as a result. Thanks to an ongoing sharp rise, the ALTANA share closed the year on December 30 at € 46.51. Following this changeable price development, the overall performance of the share was -2.4 %.

ALTANA SHARE – AN EXCELLENT LONG-TERM INVESTMENT

Due to its volatility* and overall performance in 2004, the ALTANA share is considered attractive as a medium- to long-term investment, corresponding to the time frame of ALTANA's corporate strategy, which is geared to a sustained increase in value. In the last five years the return altogether amounted to 21.6 % p.a. based upon the respective year-end prices. Over a period of

> ALTANA share

in €	2004	2003
Net income[1]	**2.88**	2.53
Cash flow from operating activities[1]	**3.14**	3.12
Dividend[1]	**0.95**[2]	0.83
Market capitalization (at year-end)	**6.5 billion**	6.7 billion
Number of shares outstanding (in thousand)		
annual average	**135,858**	136,284
at year-end	**135,381**	136,267
Carrying value*	**11.83**	10.30

> Frankfurt Stock Exchange (FWB), Xetra

in €[1]	2004	2003
High	**54.35**	59.59
Low	**39.31**	35.03
Price at year-end	**46.51**	47.65
Security code number		ISIN DE0007600801
Ticker symbol		ALT
Reuters code		ALTG.DE
Bloomberg code		ALT GR

> New York Stock Exchange (NYSE), American Depositary Receipt (ADR)

in U.S. $[1,3]	2004	2003
High	**66.28**	69.75
Low	**50.33**	38.45
Price at year-end	**63.00**	60.30
Security code numbers		CUSIP 02143N103
		ISIN US02143N1037
Ticker symbol		AAA
Reuters code		AAA.N
Bloomberg code		AAA US
ADR-Ratio		1:1

[1] All figures refer to a single share
[2] Management recommendation
[3] Data since listing on NYSE (May 22, 2002)

* Glossary

> **Comparative performance p.a. (in%)**

Investment period	1 year	5 years	10 years
ALTANA[1]	-1.2	21.6	19.9
DAX	7.3	-9.4	7.3

[1] Including dividend (without corporation tax credit)

ten years, ALTANA shareholders achieved a growth in value of 19.9 % p.a. on average. The DAX in comparison recorded a 9.4 % p.a. depreciation over a five-year period, and over a ten-year period its increase in value totaled 7.3 % p.a.

DAILY TRADING VOLUME ACHIEVES A NEW RECORD HIGH

In financial 2004, a total of 150 million ALTANA shares were traded on the German stock exchanges, somewhat less than in the prior year (2003: 156 million shares). The daily trading volume hit a new record high. In a phase of stronger price movement at the end of October, 4,123,880 ALTANA shares were bought and sold on one single day. The average trading volume per day was 582,689, thus slightly less than in the prior year (2003: 618,324). At the end of the year, ALTANA was ranked number 29 in terms of market capitalization* and 26 regarding total trading volume (2003: 27 respectively 21) in the official German stock exchange list.

LISTING ON THE NYSE

The price development of the ALTANA share on the New York Stock Exchange (NYSE) corresponded to the trend on the German stock markets. It reached its year high of U.S. $ 66.28 on March 13, only to decline in the months to follow, recording its year's low of U.S. $ 50.33 on October 29. The share closed 2004 at U.S. $ 63.00, up by 4.5 % over the prior year. Taking into account the exchange rate difference, the ALTANA share decreased by 3.0 %.

The ALTANA share is traded on the New York Stock Exchange as American Depositary Receipts (ADRs*). The number of ADRs amounted to 1,884,522 at the end of December. The average trading volume per day declined slightly in comparison with 2003 to 5,476 ADRs.

INTERNATIONAL SHAREHOLDER STRUCTURE

The issued capital* of ALTANA AG consists of a total of 140.4 million no-par value shares. 50.1 % are held by our majority shareholder, Susanne Klatten; the remaining 49.9 % are free float*. Deducting the shares owned by ALTANA AG, an average of 135.9 million shares were freely negotiable in 2004.

An analysis of the shareholder structure carried out in June 2004 found that more than 50 million shares are owned by institutional investors. This corresponds to roughly 36 % based on the nominal capital*, and more than 76 % based on free float. In the study, 358 institutional investors from 30 countries were identified. At around 45 % (2003: 41 %), institutional investors from the U.S. not only owned the highest percentage of shares (roughly 22.5 million of more than 50 million), but also their proportion increased the most. The two next-largest share packets were held by institutional investors from our domestic market Germany, with roughly 21 % (2003: 21 %), and the U.K., with roughly 19 % (2003: 17 %). On June 30, 2004, six institutional investors from the U.S., two from Germany, and two from the U.K. were among the top 10.

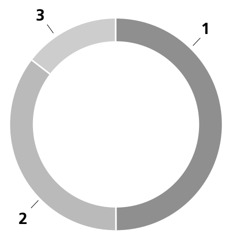
The Supervisory Board members – excluding Susanne Klatten – and the Management Board members each altogether hold less than 0.1 % of the nominal capital. A list of stock options held by Management Board members can be found in the Notes to the Financial

> **Market capitalization**

in € million

* Glossary

> **Shareholder structure**
(reference date June 30, 2004)



		%
Majority shareholder Susanne Klatten	1	50.1
Institutional investors	2	35.6
Other (private shareholders, proprietary possession, unidentified)	3	14.3

Statements. Executive employee representatives in the Supervisory Board can obtain stock options within the framework of the employee incentive plan SOP.

ROUGHLY 40 % OF THE EMPLOYEES ARE ALTANA SHAREHOLDERS

Some 4,300 of the roughly 10,800 employees are ALTANA shareholders. Via the ALTANA Investment Plans (AIP) and management Stock Option Plans (SOP), ALTANA employees directly participate in the company's long term increase in value (further details on page 73). Of a total of 7,296 authorized employees, 2,745 participated in the AIP in 2004, amounting to a subscription rate of 37.6 %.

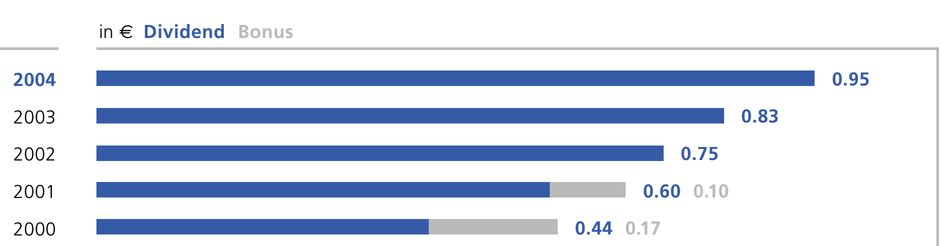
NINTH DIVIDEND INCREASE IN SUCCESSION

In keeping with our earnings-oriented dividend policy, the Management and Supervisory Boards will propose to the Annual General Meeting on May 4, 2005 to distribute a dividend of € 0.95 for the past financial year per share. Due to the increase of 14 %, the total dividend will amount to € 133 million (2003: € 117 million). Based on the year-end price, the dividend return* amounts to 2.0 %.

INVESTOR RELATIONS

In 2004 ALTANA's investor relations (IR) faced many challenges. With its two innovative products ALVESCO® and DAXAS®, ALTANA Pharma is developing into a more wide-ranging pharmaceutical company. Analysts and investors attentively observed this process. Many investors were unsettled by delays in the approval and marketing preparations of the two respiratory candidates, not least in light of all the negative news regarding the pharmaceutical industry. All investor relations interest groups' increased need for information was met by a multitude of measures such as one-on-ones, telephone and investor conferences, as well as roadshows. ALTANA presented itself at a total of 15 roadshows and 14 investor conferences in Europe, the U.S. and Asia. The focus of the investor relations activities was to strengthen institutional and private investors' trust in the company and its long-term value-oriented growth strategy. ALTANA's corporate performance impressed the Institute for Economic Research at the University of Saarbrücken, among others. Within the framework of the German business magazine FOCUS MONEY's "Company of the Year" competition, 137 industry and trade companies were evaluated based on "profitability" and "a clear balance sheet." ALTANA finished in second place among companies listed on the DAX 30 index.

> **Dividend per share**



* Glossary

We regard topical communication as one of the most important principles of good investor relations work. The Internet is a medium that has become increasingly important for informing all capital market participants simultaneously. Via webcasts, ALTANA gives also private investors the opportunity to follow all investor relations events – telephone, press conferences and analyst meetings – live. All of our presentation materials are available to private investors via Internet at the same time as they are at the disposal of institutional investors and financial analysts. With up to 47,000 visits per month, the ALTANA homepage achieved about 30 % more visits than in 2003. In 2004, our investor relations and media pages were visited 230,000 times, 41% up on the prior year's figure. New features such as interactive financial reports opening up new possibilities for utilization have made our websites more attractive.

More than 800 shareholders used the Annual General Meeting, held on May 5, 2004 at the Congress Center in Frankfurt, as an opportunity to obtain information directly from the company.

In financial 2005, ALTANA intends to continue trustworthy dialogue with current and potential investors and analysts in the hope of contributing to a fair assessment of the ALTANA share.

CORPORATE GOVERNANCE AT ALTANA

Effective corporate management and control (corporate governance) today are almost as important for investors' decisions as the economic performance of a company or that of its share. The German Corporate Governance Code has established standards regarding transparency as well as good corporate management based on internationally acknowledged standards.

DECLARATION OF COMPLIANCE WITHOUT EXCEPTION

ALTANA complies with all of the "recommendations" of the German Corporate Governance Code in the version currently valid as of May 21, 2003, and follows all the "suggestions." As a globally operating company, it is important for ALTANA through this voluntary commitment to strengthen the trust of its shareholders, investors, customers, employees, and the public at home and abroad in the company. Good and responsible corporate management has always been part of ALTANA's corporate philosophy.

On November 17, 2004, the Supervisory and Management Boards of ALTANA AG issued the annual "declaration of compliance" (in accordance with section 161 of the German Stock Corporation Act). The declaration that ALTANA has complied and will comply with the Code's recommendations without exception, has been published on the Internet so that it is accessible to all shareholders.

CONTINUED IMPROVEMENT OF TRANSPARENCY

Up until the Annual General Meeting (AGM) in May 2004, ALTANA had followed all of the "suggestions" except for one: instead of the entire AGM, only the speech made by the Chairman of the Management Board was broadcast on the Internet. First, an action for annulment was issued against the amendment to the articles of incorporation as established by the AGM 2003 relating to the transmission of the Meeting in pictures and words. The claim was dismissed by the court of first instance and later withdrawn at the appellate instance. In 2005, shareholders will be able to watch the AGM on the Internet for the first time.

CLOSE COOPERATION BETWEEN MANAGEMENT AND SUPERVISORY BOARDS

The Boards cooperate well and effectively with regard to a sustained increase in corporate value. The Management Board informed the Supervisory Board regularly, without delay and comprehensively, about business proceedings, important business matters, corporate planning and its strategic further development, as well as the state of affairs of the Group including the risk situation. The report of Supervisory Board provides more detailed information on these issues on pages 146 ff.

There were no conflicts of interest between members of the Management and Supervisory Boards which would have had to be disclosed to the Supervisory Board without delay.

SUCCESS-ORIENTED COMPENSATION OF MANAGEMENT AND SUPERVISORY BOARDS

Management Board members receive compensation in accordance with the compensation system introduced in 2002, which aims at an appropriate relation between fixed and variable components. Furthermore, they receive stock options as a component with a long-term incentive effect.

The members of the Supervisory Board receive fixed and variable compensation. Chairman-ship and membership in the Supervisory Board and the Supervisory Board committees are compensated individually in accordance with the German Corporate Governance Code. The compensation of Management Board members has been individualized since the publication of the Annual Report 2002, that of Supervisory Board members since 2003. Detailed information is provided on pages 126 ff.

RESPONSIBLE RISK MANAGEMENT

Within the framework of our value-oriented Group management, systematic risk management ensures that risks are recognized, identified, and evaluated at an early stage so that suitable preventive and safety measures can be taken. Our risk management system is audited in accordance with section 317 (4) of the German Commercial Code (HGB) and continually adjusted to suit changing conditions. Details can be found in the ALTANA risk report (pages 75 ff).

INCREASED REQUIREMENTS ON THE HANDLING OF INSIDER KNOWLEDGE

With the Act on the Improvement of Investor Protection (AnSVG), the German legislative body has introduced changes and new regulations relating to insider law, ad hoc disclosure, the duty to report directors' dealings as well as the prohibition of market manipulations, among others. All "insiders" must in the future be included on an insider list. Such a list is being kept by ALTANA. The extension of the term "insider information" from "facts" to "circumstances" which will occur in sufficient probability in the future, might lead to an expansion of events requiring ad hoc reporting. Section 15a of the German Securities Trading Act (WpHG) requires that all of ALTANA's executives report any buying or selling of ALTANA shares. This also applies to securities transactions with a link to the ALTANA share, such as buying or selling warrants on the ALTANA share. These executives have regular access to insider information and are authorized to make important corporate decisions. A thorough inspection of the facts showed that at ALTANA in the future as well only members of the Management and Supervisory Boards will continue to be subject to disclosure requirements.

IMPLEMENTATION OF U.S. INVESTOR PROTECTION REGULATIONS

As a company listed on the New York Stock Exchange, ALTANA is subject to U.S. capital market regulations, in particular to the Sarbanes-Oxley Act (SOA) and the corresponding rules and regulations of the Securities and Exchange Commission (SEC). In accordance with section 302 ("disclosure controls and procedures"), the Chairman of the Management Board (CEO) and the Chief Financial Officer (CFO) of ALTANA AG provide written declaration of the material accuracy of the annual financial statements submitted to the SEC. At the end of 2003, ALTANA began implementing the regulations of section 404 ("internal controls over financial reporting"), which are effective as of 2005. The auditor will test the efficacy of our internal control system for the first time for the 2005 business year.

In accordance with the corporate governance rules of the NYSE, we publish a report on the Internet showing our corporate governance rules that deviate from NYSE regulations but comply with German law and the German Corporate Governance Code.

VOLUNTARY COMMITMENT TO SOCIAL AND ENVIRONMENTAL STANDARDS

ALTANA joined the UN Global Compact initiative, whose members voluntarily comply in their corporate policy with social and environmental standards as well as the protection of human rights. The Global Compact does not contain a specific code of conduct, but ALTANA has created its own "code of conduct," which calls on all employees to act lawfully and ethically and aims to raise their awareness of certain issues, such as antitrust and insider regulation, environmental protection and safety, as well as discrimination.

THE MANAGEMENT BOARD OF ALTANA AG




Dr. Nikolaus Schweickart
(61)
Degree in Law

Member of the ALTANA Management Board since 1987
Chairman of the Board since 1990

Dr. Hermann Küllmer
(61)
Degree in Business Administration

Member of the ALTANA Management Board since 1990
Chief Financial Officer

Dr. Hans-Joachim Lohrisch
(56)
Degree in Chemistry

Member of the ALTANA Management Board since 1999
Head of the Pharmaceuticals division

Dr. Matthias L. Wolfgruber
(51)
Degree in Chemistry

Member of the ALTANA Management Board since 2002
Head of the Chemicals division

EXECUTIVE BODIES

Supervisory Board

Justus Mische
(Chairman)

Marcel Becker*
(Deputy
Chairman)

Susanne Klatten
(Deputy
Chairwoman)

Dr. Uwe-Ernst Bufe

Yvonne D'Alpaos-Götz*

Dr. Rango Dietrich*

Ulrich Gajewiak*

Ralf Giesen*

Prof. Dr. Dr. h.c. mult.
Wolfgang A. Herrmann

Dr. Thomas Martin*

Prof. Dr. Heinz
Riesenhuber

Dr. Klaus-Jürgen
Schmieder

Management Board

Dr. Nikolaus
Schweickart
Chairman
Bad Homburg v.d.H.

Dr. Hermann Küllmer
Chief Financial Officer
Bad Homburg v.d.H.

Dr. Hans-Joachim
Lohrisch
Head of the
Pharmaceuticals division
Constance

Dr. Matthias L.
Wolfgruber
Head of the
Chemicals division
Wesel

Senior General Managers

Dr. Thomas Gauly

Klaus Malkomes

General Counsel

Dr. Rudolf Pietzke

*Employee representative

ALTANA Pharma

>>> **STRENGTHENING OUR MARKET POSITION WITH A SECOND FAST-GROWING BUSINESS AREA.** The fact that a product is innovative does not necessarily mean it will be successful on the market. In addition to scientific challenges, we are facing increasing competitive pressure, growing requirements on the part of approval authorities, increased cost pressure on drugs and ever shorter residual terms for patents. With high investments geared to the future we have created the basis that our two respiratory candidates ALVESCO® and DAXAS® might generate profits in the long run like our blockbuster Pantoprazole.

ALTANA Pharma
Headquartered in Constance, Germany
Prescription drugs
8,200 employees

"Managing global product development programs is a constant communicative challenge. In 2004, the international project team reached two more major milestones – application for E.U. approval and agreement on the U.S. strategy."

Dr. Daniela S. Bundschuh, Senior Director, Global Program Leader DAXAS®

>>> **STRATEGIC PROCESS MANAGEMENT AS A SUCCESS FACTOR.** There is great interest in PDE4 inhibitors* as a new therapy approach regarding inflammation-related respiratory diseases. Bringing DAXAS® on to the market quickly, if possible as the very first PDE4 inhibitor, is a decisive factor for its market success. This requires efficient management of a project that has become increasingly complex: Today, many different processes ranging from pre-clinic* to market introduction occur in parallel, are spread over more and more locations due to our increasing internationalization, and in case of cooperations can even exceed the limits of the company. The biggest challenge, however, are mostly external influences like new regulatory standards or the development of competitive products, which might require new studies.

* Glossary

>>> CLINICAL RESEARCH AS A SUCCESS FACTOR. Clinical studies are an essential pre-requisite for the market approval as well as the market success of a new product. Around 40 % of the total development costs are attributable to this final development step, which should also show whether our products fulfill the aim of “adding value to patients’ lives.” The new active substance and the innovative therapeutic approach alone do not improve the quality of patients’ lives suffering from respiratory diseases; the form of application is also a crucial factor. The Ciclesonide product group, comprising ALVESCO® as a metered-dose inhaler, will in the future also be available to patients as a nasal spray and a fixed combination product for further indications and groups of patients.

"Together with the German colleagues and our development partners, we have gained an excellent understanding of what has to be done to maximize the potential of ALVESCO® and DAXAS® in the short and the long term."

Dr. Tushar Shah, Senior Vice President Scientific and Clinical Development (U.S.)

Interview with Dr. Daniela Bundschuh and Dr. Tushar Shah

>>> **COMPETENT PARTNER IN THE RESPIRATORY AREA.** The complexity of the drug development process requires interdisciplinary, international teams. One of the responsibilities of Dr. Daniela Bundschuh and Dr. Tushar Shah is to optimally exploit the potential of these teams in view of the common strategic aim.

DR. BUNDSCHUH, HOW IS THE DYNAMIC GROWTH OF ALTANA PHARMA PERCEPTIBLE FOR YOU?

Dr. Bundschuh: First of all, ALTANA is listed on the DAX and so it is much more in the focus of public awareness. New colleagues who came to us from large competitors are more accustomed to this kind of attention. They bring a different kind of thinking and different experiences to the company. And this has an impact on ALTANA's corporate culture. It simply takes time to develop a common line. On the whole, there is a growing need for cooperation and communication, also because we have become more international. With the relocation of Corporate Marketing Respiration for instance, part of my project team has been transferred to the U.S. And then of course there are cultural differences.

DR. SHAH, YOU CAME TO ALTANA PHARMA A YEAR AND A HALF AGO FROM ONE OF THE TOP FIVE PHARMACEUTICAL COMPANIES. WHAT WERE THE REASONS BEHIND YOUR DECISION?

Dr. Shah: It was an opportunity to help the company establish a new, own organization in the U.S. and to incorporate my know-how in drug development and in the field of respiratory diseases to a larger extent.

HAVE YOUR EXPECTATIONS BEEN MET?

Dr. Shah: We have made considerable progress in a relatively short period of time. We have managed to acquire experienced top people from large companies for important management positions. We have established the U.S. development programs for the new drugs, negotiated them with the FDA and ensured that the requirements of the market and the authorities are taken into account. We have initiated two major Roflumilast studies, several multi-center studies for Ciclesonide nasal spray, and completed patient recruitment fast and with low costs. In addition, we have supported planning for products in early phases of development.

APART FROM INTERNAL ORGANIZATIONAL RESTRUCTURINGS, PARTNERSHIPS HAVE CHANGED CONSIDERABLY OVER THE YEARS AS A RESULT OF ALTANA PHARMA'S EXPANSION STRATEGY.

Dr. Bundschuh: Absolutely. ALTANA Pharma is in the process of building up its own organizations in growth-relevant markets such as the U.S. and Japan. We have had experience with authorities through the approval of Pantoprazole and Ciclesonide, as well as marketing and sales experience, but mainly in Europe. Our partner Pfizer, for instance, is not only known as the world's largest pharmaceutical company, but also for its strong marketing and sales position in the U.S. Thus we have the opportunity to obtain market and marketing know-how, to explore opportunities and risks, in order to become established in the U.S. and to make ALTANA Pharma well known.

WHAT IMPACT DOES IT HAVE ON COOPERATION WHEN THE PARTNERS INVOLVED DIFFER GREATLY IN SIZE?

Dr. Bundschuh: Initially, one is inclined to think that the larger and more successful company uses the right approach. Since we do not possess the same resources, we always have to ask ourselves: is it in line with our strategy? Thus you also discover your own strengths more clearly. One of them is our many years of Research and Development experience with PDE4 inhibitors. And so we are leading regarding the strategy and process of approval.

Dr. Shah: We are acknowledged as a valuable partner on account of the expertise of our people and our efficient organization. But of course a company with a multitude of products has different priorities with regard to life cycle management than a company with two or three products. Therefore it is important to have our own U.S. organization with the right people and expertise, in order to further optimize future partnerships.

Dr. Bundschuh, Dr. Shah, thank you very much for the interview.

THE INTERVIEW WAS CONDUCTED BY DR. ELKE G. KRÄMER.

STRATEGIC FOCUS 2004: PREPARATIONS FOR APPROVAL AND MARKET LAUNCH OF PRODUCT CANDIDATES

> Major milestones reached with our innovative respiratory therapeutics ALVESCO® and DAXAS®

> Significant sales growth driven by blockbuster Pantoprazole

> Increase in earnings despite high investments and negative effects of German health policy

> Internationalization strategy consistently pursued

> 498 jobs created in Germany and at locations abroad

ALTANA Pharma can look back on a successful business year 2004. Despite adverse factors, sales rose to € 2.1 billion, while earnings increased to € 532 million. Pantoprazole was again the growth driver. Major milestones were reached in the development process of our two respiratory medications. With an EBIT margin of 25.2 %, ALTANA Pharma is one of the most profitable companies in Europe.

OUR GROWTH STRATEGY

ALTANA Pharma is on the verge of becoming a diversified pharmaceutical company. Our core business are innovative prescription drugs. Pantoprazole, our gastrointestinal medication, has been the engine of our dynamic growth so far. With the launch of ALVESCO® as the first drug emerging from the Ciclesonide* product group and the product candidate DAXAS® (Roflumilast*) stemming from our own Research and Development, we intend to prove our expertise in the field of respiratory diseases as well.

The internationalization of our business is an important prerequisite for optimal exploitation of the product potential. We concentrate on large, fast-growing markets, particularly Europe, the U.S., and Japan, where we would like to achieve an increased awareness of ALTANA Pharma. To guarantee the success of our products in the relevant markets, we work together with strong cooperation partners.

PROGRESS IN 2004

> **Important milestones reached with new products.** In January, our license partner Teijin Ltd. submitted an application for the approval of our novel inhaled corticosteroid* ALVESCO® (Ciclesonide) for the Japanese market. At the end of February we received the first worldwide market approval of ALVESCO® in Australia. The British regulatory authorities granted approval in April, and their Brazilian and Mexican counterparts at the end of August. Our U.S. cooperation partner Sanofi-Aventis received an approvable letter* for ALVESCO® from the U.S. Food and Drug Administration (FDA*) in October. At the beginning of December the Mutual Recognition Procedure (MRP*) in Europe was successfully completed, enabling us to market ALVESCO® in important European markets starting in 2005. Further approvals followed, among other countries, in Germany. In January 2005, we launched ALVESCO® as a metered-dose inhaler in the U.K. and in February in Germany.

"With the implementation of our growth strategy we have made considerable progress in 2004. We have achieved important successes in the approval process and in the market preparation of our innovative respiratory therapeutics, thus decisively improving the point of departure for future increases in value. The new products enable us to enlarge our innovative profile substantially."

Dr. Hans-Joachim Lohrisch, President and CEO ALTANA Pharma AG

Our innovative PDE4 inhibitor* DAXAS® was submitted for European approval in February. Together with our cooperation partner Pfizer, we carry out further important phase III* studies in the U.S. on asthma and COPD* indications. In Japan, we started so-called

* Glossary

bridging studies* on asthma with our partner Tanabe Seiyaku which are required to file for market approval.

- **Further indication for main sales driver Pantoprazole.** Since 2005, GERD* patients in the first European countries can take Pantoprazole on demand. Thus Pantoprazole can be employed on a broader basis.
- **Further expansion of U.S. organization.** The marketing and sales, clinical development, and regulatory affairs functions were expanded in Florham Park, N.J., to support activities around the development and marketing of ALVESCO® and DAXAS® in the U.S. The U.S. organization will be further extended step by step based on process advancements of the two product candidates.
- **Establishment of our own organizations in the Pacific region started.** In Japan, the second-largest pharmaceutical market, ALTANA Pharma has been represented since January by its own company, which together with our Japanese partner Tanabe Seiyaku will initially focus on the development and, following approval, the marketing of DAXAS® in Japan.

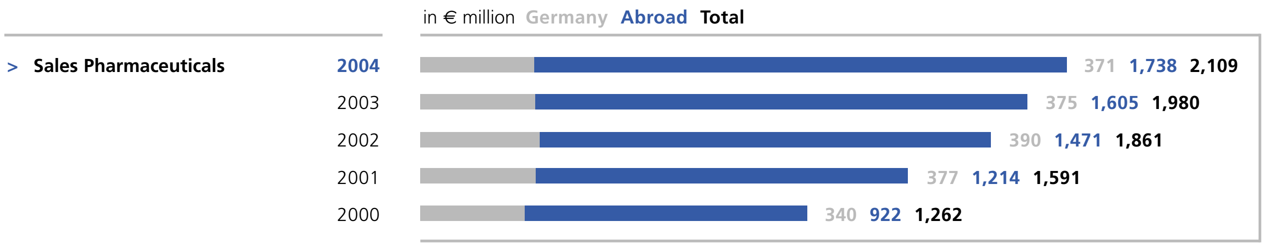
  After price negotiations are completed, the still young company in Australia will also market ALVESCO®, which was granted market approval in February 2004, in addition to Pantoprazole. Preparations are underway.
- **Supply chain management steadily developed.** After Singen, Poland, and Brazil, we mainly invested in expanding our Oranienburg site and in the new factory in Ireland in 2004. Capital expenditure on property, plant and equipment amounted to € 139 million. With the expansion of the Oranienburg factory and the new plant in Cork (Ireland), our tablet production capacities have increased substantially. The second modern production site enables us to react flexibly to growing market demands and to guarantee supply of our most important products, Pantoprazole, and later DAXAS®.
- **Construction start of new medical chemistry research institute in India.** With the new research facility we will expand our capacities for active pharmaceutical ingredient (API) synthesis. Outsourcing was ruled out for cost reasons. We chose Mumbai because it is already home to an ALTANA Pharma production site and, moreover, because we can benefit from present Indian know-how in the field of synthetic chemistry.

BUSINESS PERFORMANCE 2004: PROFITABILITY INCREASED DESPITE BURDENS

Our growth strategy, which builds on innovation and internationalization and is geared to earnings, is bearing fruit. In 2004 net sales of the Pharmaceuticals division rose by 7 % to € 2,109 million (2003: € 1,980 million). Without exchange rate effects, operating sales grew by 9 %.

As expected, higher expenditure for the development and market launch preparations of the two product candidates, as well as the mandatory discount applicable in Germany on non-reference price drugs*, had a negative impact on earnings performance. The burden from the price regulation in Germany was € 37 million. Nevertheless, operating earnings before interest and taxes (EBIT) climbed to € 531 million, 5 % higher than the prior year. The EBIT margin of 25.2 % is a top figure compared to the pharmaceutical industry in Europe as a whole. Earnings before taxes (EBT) amounted to € 532 million (2003: € 520 million). Thus the return on sales* totaled 25.2 % as well (2003: 26.3 %). The high operating return measured in terms of EBITDA stood at 29.0 %, reflecting the important contribution of the Pharmaceuticals division to the cash flow of the Group as a whole.

* Glossary



POSITION EXPANDED IN GROWTH-RELEVANT MARKETS

Our growth is driven by our dynamic business in foreign markets. While sales in Germany, our domestic market, declined (by 1%), international business rose by 8% to €1,738 million. At present, 82% of our net sales are generated outside of Germany.

STRONG POSITION IN EUROPE BOLSTERED

In European countries outside of Germany, ALTANA Pharma recorded a very satisfactory sales growth of 14% and further strengthened its traditionally strong position in the region. Net sales totaled €679 million (2003: €597 million).

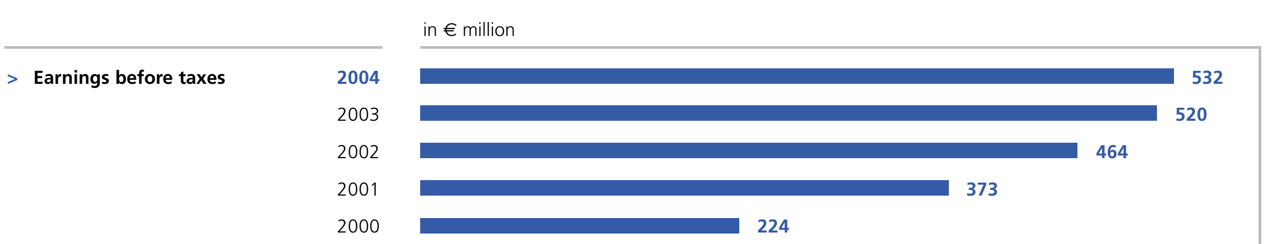
In the U.K., we reacquired the marketing rights for PROTIUM® (Pantoprazole) and will market our gastro-intestinal product in future ourselves.

IMPORTANCE OF DOMESTIC MARKET GERMANY WANING

Despite the continued high demand for PANTOZOL® (Pantoprazole), sales in Germany declined by 1% to €371 million. The reason: drastic savings measures in health care. The state-imposed mandatory discount on non-reference price*, patent-protected drugs was increased from 6% to 16% in 2004. As of January 1, 2005, new reference prices* are effective which also apply to patent-protected drugs, involving our main sales driver PANTOZOL®. The mandatory discount, in turn, was reduced to 6%. ALTANA Pharma has filed a suit at the Social Court in Berlin against the classification of PANTOZOL® as part of a reference price group. In Germany PANTOZOL® is patent-protected until 2009. We consider inclusion of PANTOZOL® in a reference price group to be a violation of patent protection. This is a false signal for Germany as an innovative business location. The percentage of ALTANA Pharma sales generated in Germany fell further to 18%.

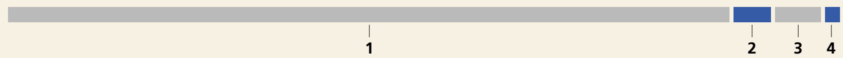
U.S. BUSINESS GROWTH STABLE

In North America we achieved sales of €749 million in the last 12 months (2003: €732 million). Our net sales in the U.S., the world's largest and most important pharmaceutical market, amounted to €647 million, 1% higher than in 2003. At present, sales in the U.S. account for nearly 31% of our business volume.



* Glossary

> Sales by business unit



in € million		2004	2003	Δ%
Therapeutics	1	**1,839**	1,724	7
Imaging	2	**109**	106	3
Self-medication (OTC)	3	**115**	104	11
Other	4	**46**	46	–
Total		**2,109**	1,980	7

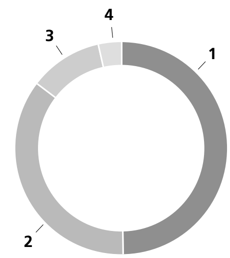
> Sales Therapeutics by application area

in € million		2004	2003	Δ%
Gastrointestinal	1	**1,367**	1,241	10
Respiratory	2	**59**	59	-1
Other	3	**413**	424	-3
Total		**1,839**	1,724	7

> The five best selling products

in € million	Sales
Pantoprazole	1,216
Contrast media	105
Ebrantil®	67
Ferro	29
Riopan®	28

> **Sales by region**



in € million		2004	2003	Δ%
Europe	1	1,050	972	8
thereof Germany		371	375	-1
North America	2	749	732	2
thereof U.S.		647	638	1
Latin America	3	235	213	10
Other regions	4	75	63	18
Total		2,109	1,980	7

In 2004, Latin America benefited from the boom market in crude oil and raw materials. The positive development is reflected by a sales increase of 10 %. But also the strategically important acquisition of the OTC product Neosaldina® in Brazil contributed to the sales growth. The region accounts for 11 % of ALTANA Pharma's total sales.

CONCENTRATION ON INNOVATIVE DRUGS AS GROWTH DRIVERS

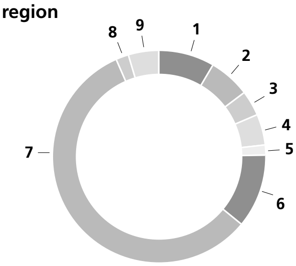
The core business of ALTANA Pharma is the development and marketing of "therapeutics," prescription drugs. With our strategic core business Therapeutics we recorded a sales growth of 7 %, to achieve € 1,839 million, in financial 2004 (2003: € 1,724 million). Therapeutics now account for 87 % of ALTANA Pharma's total sales.

GASTROINTESTINAL THERAPEUTICS: PANTOPRAZOLE CONTINUES TO GROW DYNAMICALLY

With sales of € 1,367 million, gastrointestinal therapeutics are by far our most successful indication and the main pillar of our therapeutics business. Our blockbuster, the proton pump inhibitor* (PPI) Pantoprazole, accounts for 66 % of therapeutics sales.

Pantoprazole is available in 90 countries around the globe. Together with our partners we generated worldwide market sales of € 2.5 billion in 2004, thus recording an increase of 6 %. 52 % of global market sales were generated in the U.S., the most important single market. U.S. sales of Pantoprazole totaled € 1,281 million in 2004. Pantoprazole is sold there under the name PROTONIX® by our American partner Wyeth, which – despite high competitive pressure – achieved a sales increase of 6 % in U.S. dollars in year-to-year terms. In the U.S., PROTONIX® is available for intravenous emergency as well as for oral treatment as 20 and 40 mg tablets. Despite competition from generics* (Omeprazol), the share of PROTONIX® in new PPI prescriptions rose from 19.9 % to 21.9 % from end of 2003 to end of 2004, and the share in total prescriptions from 21.5 % to 22.9 %.

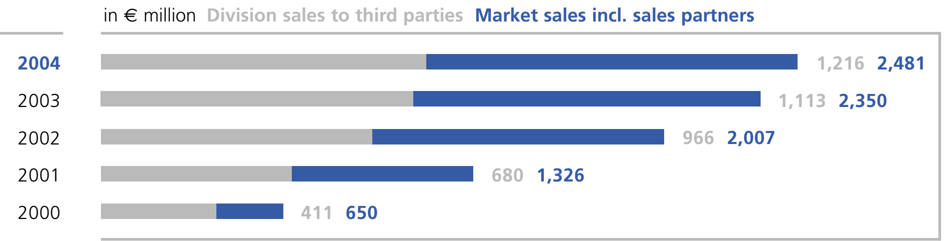
> **Market sales Pantoprazole by region**



in € million		2004	2003	Δ%
Germany	1	210	193	9
France	2	155	114	36
Italy	3	95	79	20
Spain	4	116	94	23
U.K.	5	38	34	13
Rest of Europe	6	277	237	17
U.S./Canada	7	1,428	1,456	-2
Latin America	8	48	46	3
Other Regions	9	114	97	17
Total		2,481	2,350	6

* Glossary

> **Sales Pantoprazole**



In Germany, where Pantoprazole is sold by ALTANA under the trade name PANTOZOL®, sales were up by 9%, and in other European countries sales grew by 22%.

The high demand worldwide makes Pantoprazole the most successful patent-protected medication from German research. Pantoprazole is now market leader in 11 countries, attesting to a convincing product profile. Our own sales increased considerably in the last 12 months by 9% to € 1,216 million.

Since it was brought on to the market 10 years ago, more than 300 million patients with acid-related gastro-intestinal illnesses such as reflux disease (GERD*) have been treated with Pantoprazole. The aim of the therapy is to achieve a sustained release of symptoms and an improvement of the patients' quality of life.

RESPIRATORY THERAPEUTICS: GROWING IMPORTANCE WITH NEW PRODUCTS

The respiratory therapeutics business area with the proven medications Euphyllin®/Euphylong® and Broncho-Vaxom® achieved sales totaling € 59 million in 2004. With ALVESCO® and DAXAS®, originating from our own Research and Development, this business area will become considerably more important for corporate growth in the years to come.

ALVESCO® is a new-generation inhaled cortico-steroid* with novel active substance properties. Inhaled corticosteroids are considered to be the foundation of asthma treatment. They reduce inflammatory processes causing chronic disease and are therefore used for long-term control of asthma.

With ALVESCO® ALTANA Pharma is entering the interesting and highly competitive market of chronic respiratory diseases. According to estimates, some 300 million people worldwide suffer from bronchial asthma, five million of them in Germany, and the number is growing. Since the beginning of 2005, the metered-dose inhaler ALVESCO® was offered first in the U.K. and in Germany; further market introductions will follow. After the successfully completed MRP procedure* in December 2004, we expect approvals in other European countries in the course of the year.

DAXAS® was submitted for European approval in February 2004. It would be the first PDE4 inhibitor approved for COPD and asthma. Submission to the American regulatory authorities is in preparation. Chronic obstructive pulmonary disease (COPD) is often a result of smoking and, like asthma, a chronic inflammatory disease. If the current development continues, COPD will be the third most common cause of death in Europe in 2010.

At present, the joint market for asthma and COPD therapeutics has a volume of more than U.S. $ 17 billion worldwide and is growing steadily. The Ciclesonide product group and our innovative PDE4 inhibitor DAXAS® are considered to have blockbuster* potential.

INNOVATIVE CONTRAST MEDIA AS STABLE COMPONENT IN OUR PORTFOLIO

The modern non-ionic X-ray contrast media Imeron® and Solutrast®, as well as the innovative magnetic resonance contrast media ProHance® and MultiHance®,

* Glossary

are mainstays of our product portfolio in some European countries. The Imaging business unit increased sales by 3 % to € 109 million in 2004. The growth was achieved exclusively abroad.

OTC RANGE STRENGTHENED

By acquiring Neosaldina® we decisively expanded our OTC* business in Brazil. As a high-quantity product, the pain remedy Neosaldina® contributes to significantly heightening pharmacists' awareness of ALTANA Pharma. Sales of Neosaldina® played a decisive role in the business unit's 11% sales increase. In financial 2004, € 115 million was generated with OTC products.

We view our OTC range as an opportunity and a supplement to our therapeutics business. If suitable, new products from our own development or purchased products will be added to our portfolio to improve our regional market position.

OUR RESEARCH AND DEVELOPMENT STRATEGY

Adding value to patients' lives – our objective is to improve patients' quality of life through innovative drugs that enable them to lead a more active, longer, and healthier life. We primarily grow based on our own efforts and are an innovation-driven company, and so for years now we have invested around 20 % of our net sales generated from prescription drugs in researching new therapy approaches and in developing drugs. As a result, our research budget has increased continuously, amounting to € 407 million in 2004 (+ 8 %). Measured against sales generated by therapeutics, the figure is 22 %.

ALTANA Pharma is one of the few German pharmaceutical companies that successfully operates a research center in its home market covering the complete development cycle from researching of new active principles, development of new active substances, conducting clinical studies, all the way to the finished drug.

CONCENTRATION ON A FEW WELL-DEFINED FIELDS OF RESEARCH

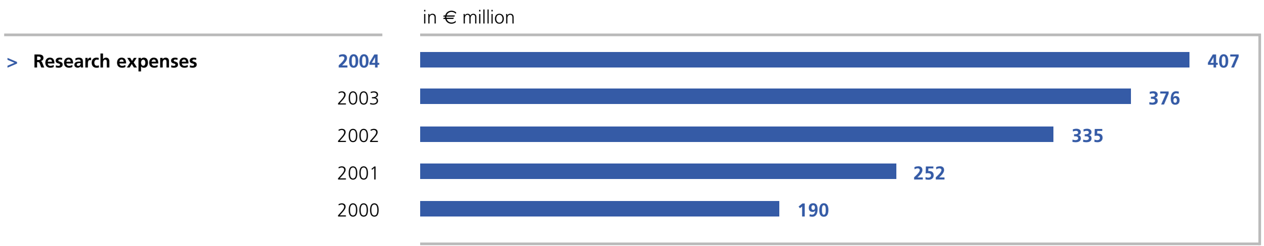
Our Research and Development focuses on gastrointestinal and respiratory diseases, two indication areas where there is still a great need for therapies. In the field of oncology we work together with different research partners. In 2004, we made considerable progress in finding and validating medically relevant targets* for drug development, so that now leads* for medications are sought which are possible pre-clinical project candidates.

By concentrating on just a few indication areas, ALTANA Pharma can explore them in depth and thus keep up effectively with large competitors – as Pantoprazole, our launch of ALVESCO® and the product candidate DAXAS® convincingly attest.

OUR STRENGTHS

- Many years of experience researching gastric acid inhibitory principles and finding novel acid inhibitors.
- In the field of phosphodiesterases (PDEs) we are one of the world's leading researching companies in the pharmaceutical industry. This class of substances plays an essential role in a multitude of inflammatory diseases.
- We possess extensive substance libraries and established research methods forming a solid basis for the development of new product candidates.
- Via a number of successful cooperative ventures and the internationalization of our research, we have access to all technologies relevant to drug research and development and benefit from the "creative climate" of the world's most important research locations. One example is Boston, where we maintain the ALTANA Research Institute (ARI*) for genomics* and proteomics*.

* Glossary



OUR RESEARCH AND DEVELOPMENT PIPELINE

In 2004 we made good progress in our research and development projects.

RESPIRATORY PROJECTS

> The agent Ciclesonide is a so-called prodrug, which means that it is not activated until it reaches the lungs, thus reducing side effects. ALVESCO®, the metered-dose inhaler of Ciclesonide, has been approved in more than 10 countries. With an approvable letter* the FDA* indicated to our development partner Sanofi-Aventis that it is basically willing to approve the asthma preparation to be marketed in the U.S. A concerted effort is being made to answer any open questions. In Japan we develop ALVESCO® together with our partner Teijin. We also have a marketing agreement with both partners, Sanofi-Aventis and Teijin, for the respective markets.

> **Ciclesonide – platform for a whole product group.** We are working on a preparation combining Ciclesonide and the long-acting bronchodilator* Formoterol. The project is progressing well. Phase II studies* began in November 2004.

The "Ciclesonide nasal" project, a nasal spray to treat allergic diseases such as hay fever, is also progressing according to plan. First phase II studies in the U.S. yielded very good results; phase III studies* are currently at a very advanced stage.

> So far there has been no therapeutic approach for remedying chronic obstructive pulmonary disease (COPD*) in a satisfactory and lasting way. Due to their anti-inflammatory properties, PDE4 inhibitors* are especially well suited for the treatment of inflammatory respiratory diseases such as COPD and asthma. Our orally administered PDE4 inhibitor DAXAS® (Roflumilast*) has proved in clinical studies to be effective for treating COPD. From today's point of view, it might be the first PDE4 inhibitor to be approved for both indications – COPD and asthma. While DAXAS® has already been submitted for approval in Europe, the U.S. application for approval is in preparation together with our co-operation partner Pfizer with whom we also develop DAXAS® for a multitude of further pharmaceutical markets. For Japan, we concluded a development and marketing agreement with Tanabe.

> **Roflumilast and other PDE4 inhibitors.** In recent years the focus has been on developing a PDE4 inhibitor for the treatment of the two inflammatory respiratory diseases asthma and COPD. The result of this research is Roflumilast. Our more than 20 years of experience with phosphodiesterase inhibitors will make it easier for us to find further candidates from this group of substances.

* Glossary

GASTROINTESTINAL PROJECTS

- **Proton pump inhibitors.** Around 20 to 30 % of the population in industrial nations suffers from some kind of acid-induced stomach disease. Within the framework of the life cycle management of our proton pump inhibitor* Pantoprazole, further forms of application are being worked on. In addition, the drug's efficacy for additional indications is being examined.
- **Acid Pump Antagonist (APA).** Soraprazan, an interesting and novel acid inhibitor, is currently in phase II*. Soraprazan takes effect very quickly, which suggests that it can swiftly alleviate symptoms of acid-related gastrointestinal diseases. This is to be proven in clinical studies. Further project candidates resulting from APA* research are expected.

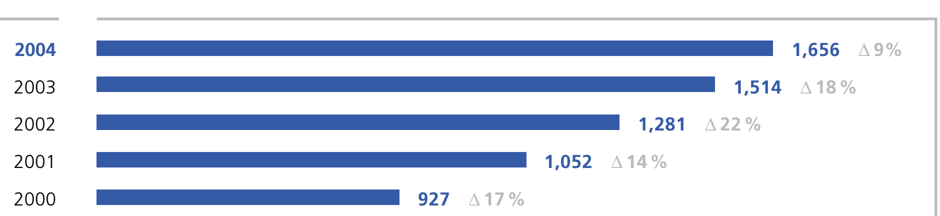
AS A COMPANY DRIVEN BY KNOWLEDGE WE NEED QUALIFIED STAFF

Our dynamic growth and the increasing internationalization of our business have fundamentally changed the work of Human Resources (HR) at ALTANA Pharma. Our recruitment activities, which in the past primarily focused on the German labor market, were geared more and more to pharmaceutical-relevant labor markets outside of Germany. Today we are looking for suitable employees worldwide. At the same time, human resources has developed into a veritable business partner. By ensuring that important standardized processes are adhered to worldwide in accordance with necessities, we make an essential contribution to the overall success of ALTANA Pharma. Our human resources work has three focuses:

- **Recruitment and succession planning.** In the last four years 1,700 new jobs have been created worldwide. In financial 2004 alone we hired 1,392 new employees and integrated them into work processes. As a growth-oriented company, ALTANA Pharma needs employees and managers who identify with our corporate values, drive forward processes and projects in line with the corporate strategy and objectives, and think and operate on an intercultural level. On the highly competitive international labor markets we want to attract the best staff we can for our company. Through challenging tasks, interesting promotion opportunities, and attractive

> **ALTANA Pharma Employees**

> **Employees Research and Development**



* Glossary

compensation packages and other fringe benefits, we try to interest promising candidates in our company. Within the framework of transfers, promotions, and general fluctuation, management positions that become vacant are largely filled internally.

> **Management and personnel development.** Further education and training of all employees, regardless of the function and hierarchy, is of central importance for a company driven by innovation and knowledge. In 2004 we invested € 7.2 million worldwide in internal and external training measures.

ALTANA Pharma views itself as a learning organization. Consistent qualification and promotion aim to help our staff meet ever new challenges arising in their work and thus contribute to ALTANA Pharma's international competitiveness. Human Resources supports them by providing the necessary training measures. The further education and training measures are geared to individual and collective qualification demand analyses, taking into account the employees' needs today and in the future. The general and specialized further training measures are carried out in cooperation with experienced local and internationally oriented further training facilities. Further training of our management takes place at internationally renowned business schools.

We have a great need for junior and executive staff members, which is intentionally met only in part from outside the company. Hence talent management is extremely important for us. In order to find the right staff and managers for higher tasks across the company, we have established a human resources process worldwide that begins at the level of local companies with a selection procedure, the so-called Local Talent Review (LTR). The candidates who are identified are subsequently evaluated by the so-called International Talent Review (ITR). If this review is successful, it is followed by further training measures, participation in personnel development circles, or new tasks at home or abroad.

All of the talent management measures are subsumed under the ALTANA Pharmacademy which includes all measures, starting from on-the-job training, to summer schools, management courses for executives as well as participation in local and international personnel development circles. With these circles we create a pool of highly qualified up-and-coming staff members for national and international specialized and management tasks. In the circles we convey international leadership know-how, foster intercultural awareness, and support the formation of networks as a platform for an exchange of knowledge and experience.
The management board regularly carries out so-called management reviews, which focus on filling important management positions, such as the managing director of a local company, as well as management development questions.

> **Compensation and fringe benefits.** Through attractive compensation packages, fringe benefits, modern incentive systems, and general benefits, we try to attract our employees and highly-qualified staff to the company. These components are coupled with the implementation of our corporate strategy and the achievement of corporate objectives.

OUTLOOK 2005

One big challenge of the 2005 business year is the market launch of ALVESCO®. Within the framework of the mutual recognition procedure, 20 European countries have agreed to approve ALVESCO®. In the course of the year further market introductions are planned in Europe as well as other parts of the world.

Due to the dynamic sales performance of Pantoprazole and initial earnings from ALVESCO®, ALTANA Pharma will continue to grow in 2005. Since the new reference price regulation* will initially apply to PANTOZOL®, we expect the sales trend in our home market Germany to be restrained.

Despite increasing investments into the research of new active substances, the development of new drugs, and the market launch of ALVESCO® as well as the market preparation for DAXAS®, we anticipate to achieve a stable earnings level in 2005. The internationalization of our business, the introduction of new products, and the intensification of Research and Development will result in a further increase of our personnel requirements. Depending on our economic development, we will also create new jobs in 2005.

* Glossary

ALTANA Chemie

>>> **STRONGER WITH A COHERENT DIVISIONAL STRUCTURE.** In order to achieve a sustained increase in value of ALTANA Chemie in the future as well, we further develop structures and processes and promote the company to join forces. This will enable us to exploit synergy potential, to make use of scale effects, and to share knowledge, expertise, and "best practices" across the division. To this end, we merged companies and sites and parted with non-core businesses in 2004. While joining our strengths we have retained the decentralized structure and its advantages – maximum proximity to customers, high flexibility, and short decision processes – within a clear strategy provided by ALTANA Chemie.

ALTANA Chemie
Headquartered in Wesel, Germany
Specialty Chemicals
2,521 Employees

"Following a construction period of just 18 months, we have been able to provide our customers in China with wire enamels and impregnating resins in the accustomed high quality from our new plant in Zhuhai since October 2004."

Linbao Liu, Managing Director ALTANA Electrical Insulation Zhuhai and Tongling SIVA (China)

>>> **LOCAL MANAGEMENT AS A SUCCESS FACTOR.** Many decisions have to be made locally, close to our customers and the market. More than language barriers have to be overcome. Our local executives are ambassadors for the company with regard to decision-makers in politics and business. Our decentralized structure provides the scope they need to operate; our strategy and aims form the framework for their corporate decisions. Along with Shanghai and Nanjing, Zhuhai is expected to become one of China’s most important chemical production sites. ALTANA Electrical Insulation is the first German specialty chemicals company in this region. In Southern China 40 % of China’s domestic product is generated. We anticipate an annual growth rate of 20 to 30 % for the Zhuhai plant, similar to the two plants in Tongling near Shanghai.

>>> RESEARCH NETWORK AS A SUCCESS FACTOR. The Research and Development in the area of wire enamels of ALTANA Electrical Insulation is spread over facilities in Hamburg (Germany), Ascoli Piceno (Italy), St. Louis (U.S.), Tongling (China), and Pune (India). The global Research and Development team meets twice a year to exchange information about current projects and to coordinate research activities. Some topics require a bundling of many competences in order to realize innovative solutions with high benefits for the customers. Such development projects are carried out jointly across regions and technologies. Other projects are determined by regional customer requirements, for which a local presence and a corresponding knowledge of the market and clients is required. But colleagues in other places can benefit from these experiences as well.

"My job is based on the values of team orientation, responsibility, and professionalism. In competent teams I develop ideas with my colleagues, both locally and worldwide, which improve the quality and performance of our products."

Dr. Giovanna Biondi, Research and Development Manager, Deatech s.r.l. (Italy)

Interview with Linbao Liu and Dr. Giovanna Biondi

>>> **LOCAL OPERATION, GLOBAL NETWORK.** With a corporate strategy making it possible to adapt to different cultures and to the peculiarities of a given market, ALTANA Chemie intends to use the benefits of its internationalization and of scale effects as well as to exploit the advantages of local operation.

MR. LIU, IN CONTRAST TO THE MATURE MARKETS OF WESTERN EUROPE AND NORTH AMERICA, ABOVE-AVERAGE SALES INCREASES CAN BE ACHIEVED IN THE BOOMING CHINESE MARKET. HOW IS ALTANA ELECTRICAL INSULATION POSITIONED TO THIS END?

Liu: We are the number one wire enamels manufacturer in China and the technology leader in wire enamels and impregnating resins. In 2004, our net sales grew by 30 % despite the considerable rise in raw material prices. In order to extend our market position, we invested almost €10 million to build a new production facility in Zhuhai. At the Tongling plant only wire enamels have been produced so far. With the Zhuhai site we have now also started producing and marketing impregnating resins. Wire enamels and impregnating resins are used, among other things, in components for household appliances and consumer electronics equipment. In this sector China is increasingly developing into the dominating market for manufacturers.

THE ZHUHAI PLANT WENT INTO OPERATION ONLY 18 MONTHS AFTER THE DECISION WAS MADE TO BUILD IT. WHAT WERE THE MOST IMPORTANT SUCCESS FACTORS?

Liu: Apart from a detailed site evaluation, our good contacts to the authorities and the experience we had building the plant in Tongling may be mentioned. Of decisive importance were on the one hand the great freedom we had and on the other hand the access to


the know-how and the resources of a global market leader. We benefited immensely from the experience of our Italian and American team colleagues, from the "best practices." Thanks to state-of-the-art technologies from Europe and the U.S., we will be able to offer our international customers in Asia the same product quality from local production.

BUILDING THE FACTORY IS JUST THE FIRST STEP. BUILDING UP THE ORGANIZATION IS MORE IMPORTANT IN THE LONG TERM. HOW ARE YOU TACKLING THIS TASK?

Liu: We are constantly searching for qualified staff on the market. At the same time, we offer internal staff training programs. In addition, experienced people from Tongling or Manchester are coming to Zhuhai in exchange, to ensure the know-how transfer regarding technology, quality assurance and conformance, as well as customer advice. Moreover, we are part of the global corporate network, centrally coordinating and processing for instance raw material purchase, Research and Development and IT.

DR. BIONDI, GROWTH IN THE MATURE EUROPEAN MARKET IS BEING ACHIEVED BY INCREASING MARKET SHARES, FOR EXAMPLE THROUGH THE ACQUISITION OF THE ELECTRICAL INSULATION BUSINESS OF SCHENECTADY. WHAT CONSEQUENCES DID THAT HAVE FOR YOU AT DEATECH?

Dr. Biondi: To realize synergies, Schenectady's wire enamel production in Slinfold, U.K., was integrated into the Deatech and Syntel plants, which had been merged previously. This required, in turn, that a number of processes were standardized such as, for instance, quality management or processes such as raw material purchase had to be established for all sites. Moreover, technologically sophisticated products were added which necessitated a product portfolio optimization at Deatech.

GROWTH IMPETUS ALSO COMES FROM NEW PRODUCTS AND TECHNOLOGIES. WHAT ARE YOU WORKING ON AT THE MOMENT?

Dr. Biondi: We are in the process of exploring the opportunities arising for us from nanotechnology. Development of abrasion-resistant wire enamels or wire enamels with a heightened insulating effect is conceivable. With these steps, costs could be cut and simultaneously advantages for components could be gained. At the same time it is necessary to identify applications for which the customer is prepared to accept technology-related added costs.

Dr. Biondi, Mr. Liu, thank you very much for the interview.

THE INTERVIEW WAS CONDUCTED BY DR. ELKE G. KRÄMER.

STRATEGIC FOCUS 2004: CONSISTENT ORIENTATION TOWARDS CORE COMPETENCES AND STRUCTURAL OPTIMIZATIONS

> Net sales total € 854 million (+13 %), earnings before taxes achieve € 116 million (+37 %)

> Profitability improved considerably – EBITDA margin roughly 19 %

> Strong expansion of Asian business

> Swift and successful integration of acquired businesses

> Operational excellence of the company driven forward

> Number of employees declined due to divestments in the Coatings & Sealants business unit by 4 %

Despite a significant rise in raw material costs and the strong euro, ALTANA Chemie posted high sales and earnings increases in 2004. With a 13 % sales growth and earnings climbing by 37 %, ALTANA Chemie stood out positively from the competitive environment. The company again improved its EBITDA margin, which is now around 19 %, underlining its assertion that it is one of the world's most innovative, fastest growing, and most profitable specialty chemicals companies.

OUR GROWTH STRATEGY

The aim of ALTANA Chemie is to be highly profitable and at the same time to grow faster than the industry average. To achieve this goal, we concentrate on three business units in the specialty chemicals sector – Additives & Instruments, Electrical Insulation, and Coatings & Sealants, in which we hold respectively strive for top positions in relevant markets. Of decisive importance here are customer orientation, problem-solving expertise, and an organization geared to innovations.

We specialize in improving the performance of our customers' products and simplifying their manufacturing process. As a supplier of innovative, environmentally compatible solutions with the corresponding special products, we invest large sums in marketing and service, as well as in Research and Development, in which our expenditure is higher than the industry average. This includes investments in technologies that will play an essential role in the development of innovative products and solutions for coatings, plastics, and electrical insulation applications. In the process, we concentrate on optimizing material and surface properties.

ALTANA Chemie operates globally, like its customers. We have consistently geared our business and product portfolio to strong value-creating businesses and to the requirements of specific customer industries. In addition to new products, solutions, applications, and technologies, the growth of our target markets boosts our organic corporate growth. ALTANA Chemie therefore also relies on regional expansion, for instance in Asia. We grow from our own strengths and from targeted acquisitions, with which we expand existing fields of business and open up new ones. Criteria for acquisitions include strategic fit, a clear contribution to earnings, competent management, and clear corporate governance.

> "The outstanding performance and expertise of our executives and staff have to be acknowledged in particular since they enabled us to perform the strategic and operational reorganization at such an accelerated pace. And – which is of utmost importance – they have never lost their relations to the outside, the focus on our customers."
>
> Dr. Matthias L. Wolfgruber, President and CEO ALTANA Chemie AG

PROGRESS IN 2004

- **Portfolio adjustment and consolidation driven forward.** In order to fully exploit synergies within the individual business units and to make better use of scale economies, businesses were discontinued that no longer belong to our core activities, and companies and locations such as Deatech/Syntel, Sterling/Epoxylite, and Rhenatech/Beck were consolidated.
- **Uniform Strategy Evaluation Process introduced on a company-wide basis.** This process enables a structured strategy development and targeted further progress, early recognition of opportunities and risks in the market and competitive environment, as well as analysis of new business and acquisition possibilities.

> **Increased activities in the field of nanotechnology.** In March 2004 ALTANA Chemie entered into an exclusive, long-term development partnership with the American company Nanophase Technologies Corporation. This included a 7 % share in the company amounting to U.S. $ 10 million. Nanophase is the leading manufacturer of nanomaterials relevant to our business applications.

> **Global purchase established.** The development and implementation of an efficient global purchasing process including a grouping of demands, supplier management and close integration of Research and Development enables us to react to changes in the procurement market in time and in an efficient way.

BUSINESS PERFORMANCE 2004: ALTANA CHEMIE GROWS ON A BROAD BASIS

In financial 2004, net sales of ALTANA Chemie rose substantially from € 755 million to € 854 million. Sales were 13 % higher than during the same period in the prior year, and 16 % higher when adjusted for exchange rate effects. 4 % of this growth was attributable to the net effect of acquisitions and divestments.

Germany recorded a 12 % sales increase to achieve € 120 million. Sales in Europe climbed by 10 % to € 454 million. The strongest growth was again achieved in Asia, with sales rising by 26 %, and when adjusted for currency effects, by 30 %. Despite the market shift toward Asia, sales in North America amounted to € 131 million, up by 5 % (adjusted for currency effects +18 %). International sales rose by 13 % to € 734 million, accounting for 86 % of ALTANA Chemie's total sales, as in the prior year.

All three business units recorded an increased demand in their sales markets. Additives & Instruments again developed particularly vigorously, posting the highest organic growth, at 13 %. Electrical Insulation acquisitions contributed 18 percentage points to the 29 % sales increase. On account of divestments within the framework of portfolio adjustments, Coatings & Sealants posted a slight sales decline of 3 % compared to the prior year. As to the continued business a 7 % increase was achieved.

Earnings before taxes (EBT) rose by 37 % to € 116 million in the past 12 months. In addition to the good performance of all the business units, the disproportionate earnings growth of ALTANA Chemie was due to the successful integration of the Schenectady business into Electrical Insulation as well as measures implemented to boost productivity. The changes in the goodwill reporting standards (IFRS 3) which came into effect at the beginning of 2004 had a positive effect on income (€ 15 million). The EBITDA margin, unaffected by these changes, rose from 17.8 % to 18.6 %.

With a clear double-digit sales increase and a constantly high EBITDA margin of almost 20 %, ALTANA Chemie is setting standards compared to the industry.

ADDITIVES & INSTRUMENTS: FOCUSING ON INNOVATIVE SOLUTIONS

PROGRESS IN 2004

> **Market positions strengthened by cooperative ventures.** By selling its French distribution company, BYK-Chemie entered into a long-term supply and sales agreement with SPCI, a subsidiary of Internatio-Müller-Chemical Distribution (IMCD). SPCI specializes in marketing specialty chemicals used in the coatings and plastics sector. BYK-Chemie, the management company of the business unit Additives & Instruments (A&I), expects this agreement to result in significant marketing synergies.

Together with Acmos Chemie GmbH + Co. in Bremen, BYK-Chemie develops products in the area of release agents with improved properties and better environmental compatibility. The cooperative agreement also enables Acmos Chemie to market the products.

> **Worldwide network of technical service laboratories expanded.** BYK-Chemie opened new technical service laboratories in China and Brazil. As in the two modern laboratory buildings in Shanghai and Guangzhou, all fundamental technical service problems our customers in the paint and plastics industry are facing can be tackled locally in São Paulo from where the entire Latin American market will be served. Further laboratories are to be built in northern China and India in the foreseeable future.

> **Sales Specialty Chemicals**

in € million Germany **Abroad** **Total**

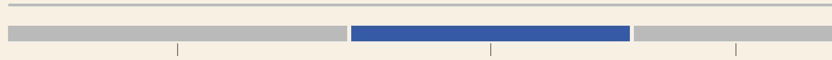
> **Earnings before taxes**

in € million

> **Sales by region**

in € million		2004	2003	Δ%
Europe	1	**454**	413	10
thereof Germany		**120**	107	12
Asia	2	**195**	154	26
North America	3	**131**	125	5
Latin America	4	**43**	35	22
Other regions	5	**31**	28	12
Total		**854**	755	13

> **Sales by business unit**



in € million		2004	2003	Δ%
Additives & Instruments	1	**348**	308	13
Electrical Insulation	2	**291**	225	29
Coatings & Sealants	3	**215**	222	-3
Total		**854**	755	13

> **New innovative products brought on to the market.** The new nanoparticle dispersions NANOBYK-3600 and NANOBYK-3601 improve the scratch and abrasion resistance of coating surfaces such as those of parquet floors and PVC substrates. They are the first marketable products that have emerged from the research and development cooperation with the American nanotechnology corporation Nanophase.

BYK-Chemie has also added new additives to its product portfolio, for instance an easy-to-clean product called Silclean, and thus further expanded its market presence.

The BYK-Chemie subsidiary BYK-Gardner brought three new innovative measuring instruments on to the market: the “wave-scan universal” for the quality control of car bodies, the “spectro-guide” for measuring color and gloss at the same time, and the thickness gage “byko-test MP0R.”

> **Expansion of Wesel site continued.** A new BYK-Chemie additives production facility has gone into operation. The company invested more than € 65 million to expand production. With the addition of 12 new reactors, the manufacturing capacity was increased from around 50,000 to roughly 90,000 tons a year.

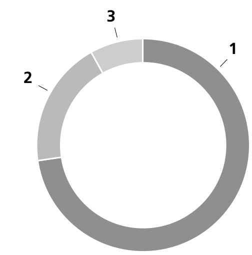
The planning for a new distribution center has started. Work on the finished goods warehouse is scheduled to start end of 2005. It is expected to be completed by the end of 2006.

ADDITIVES & INSTRUMENTS BUSINESS PERFORMANCE 2004: STRONG ORGANIC GROWTH

As in the prior years, the Additives & Instruments business unit made the largest contribution to ALTANA Chemie’s annual sales, 41 %, amounting to € 348 million. Additives sales increased to € 320 million (+13 %), and instruments sales totaled € 28 million (+10 %). Net sales of Additives & Instruments were 13 % higher than in 2003, in local currencies a plus of as much as 16 %.

Our additives business posted considerably stronger growth than the paint and plastics market. Around three-fourths of additives sales were achieved with paint additives. Sales of these products rose by 13 % to

> **Sales Additives & Instruments**



in € million		2004	2003	Δ%
Paint and wax additives	1	**253**	225	12
Plastics additives	2	**67**	58	15
Testing and measuring instruments	3	**28**	25	10
Total		**348**	308	13

€ 228 million. The plastics additives business grew even more, up by 15 %.

The most important single market for Additives & Instruments is the U.S., followed by Germany where sales increased by 11 %. 87 % of our sales were generated outside of our home market. The additives business benefited from the economic upswing in the U.S. and the heavy increase in demand in China.

ADDITIVES & INSTRUMENTS GROWTH STRATEGY

A clear competitive advantage of the Additives & Instruments business unit is the wide range and its spectrum of expertise, which is reflected by the product portfolio. The latter ranges from wetting and dispersing additives for even distribution and stabilization of solid materials in liquids, to defoamers and air-release additives, which destroy air bubbles in coatings and plastics. The leading position in the individual product areas will be further strengthened in the future through innovative products and solutions, as well as through a customer-oriented marketing structure. In the last 12 months Additives & Instruments brought a multitude of new products on to the market, including the first nanotechnology-based additives. In order to develop effective, customer-oriented, highly innovative products, research, technical service, production, and marketing are closely linked. Around a fourth of Additives & Instruments' 935 employees worldwide work in research and development and technical service laboratories. Supplementing the additives, BYK-Chemie's subsidiary BYK-Gardner offers measuring and testing instruments that can be used to measure the surface properties of coatings and plastics. Thus, BYK-Chemie is the only supplier of system solutions for various applications in the coatings and plastics industries. Like BYK-Gardner®, BYK-Chemie® is a leading international brand within the respective industrial environment.

LEADING POSITION IN PAINT ADDITIVES

BYK-Chemie, the management company of Additives & Instruments, is the world's market leader in the field of highly specialized paint and plastics additives. Additives are chemical substances, small amounts of which are added to coatings and plastics in order to improve their property profile and simplify production and processing. Since certain effects can only be achieved with additives, they have become an indispensable component in the manufacture of state-of-the-art coatings and plastics.

ALTANA ELECTRICAL INSULATION: FOCUSING ON LIQUID ELECTRICAL INSULATION MATERIALS

PROGRESS IN 2004

> **With new acquisition focus on liquid electrical insulation materials continued.** Through its U.S. subsidiary P.D. George, ALTANA Electrical Insulation (AEI) acquired the electrical insulation business of Ranbar Electrical Materials (U.S.) in January. The transaction comprised the know-how including patents and technologies as well as the customer list. Thus the business unit added impregnating resins, overprint varnishes, and casting compounds to its product portfolio, strengthened its position in the U.S. with the access to more key customers, and increased P.D. George's utilization of production capacity.

> **Operating structure optimized during integration of acquisitions.** At the end of 2003/beginning of 2004, the two Italian subsidiaries Syntel and Dea Tech SIVA of ALTANA Electrical Insulation were merged and since then have operated under the name Deatech s.r.l. The two locations, Ascoli Piceno and Quattordio, took over the European wire enamel production from the Schenectady acquisition.

In January, Epoxylite, a company based in Bradford (U.K.) that distributes impregnating resins and casting compounds, was integrated into the Manchester-based Sterling Technology, which will further develop the Epoxylite product line.

In March, the electrical insulating sleeves and covers business of the subsidiary Rhenatech Elektroisoliersysteme was sold to the Spanish firm Relats. Rhenatech terminated business activities in Kempen in the late fall of 2004. Following a streamlining of the Rhenatech and Beck product program, the continued impregnating agents and casting compounds will be combined in a new sales line by Beck Electrical Insulation. According to current plannings, the subsidiary Wiedeking, located in Kempen, will be merged with Beck retroactively as of the beginning of 2005. Beck will be in charge of development, production, and marketing. The Wiedeking production site will help Beck provide service to local customers.

Thanks to these structural optimization measures, synergies within the Electrical Insulation business unit can be better exploited in the future. Its product range has been optimized so that it perfectly meets the requirements in the target areas of electrical engineering and electronics.

> **Second state-of-the-art production site went into operation in China.** Following a year and half of construction, production of wire enamels and impregnating resins began in October in Zhuhai near Hong Kong. The initial annual capacity of the plant will be 25,000 tons. The second production location of the business unit after Tongling helps cater to the strong demand and enormous market potential in the Asian region, especially in China. The Zhuhai plant's production complex already houses technical service laboratories.

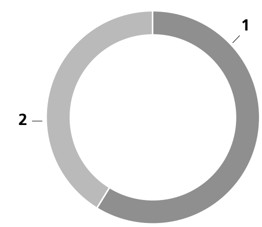
ALTANA ELECTRICAL INSULATION BUSINESS PERFORMANCE 2004: ACQUISITIONS BOOST SALES

ALTANA Electrical Insulation (AEI) recorded a strong sales increase in 2004. The business unit generated sales of € 291 million worldwide, a 29 % growth over the prior year. As a result, the unit accounted for 34 % of ALTANA Chemie's annual sales (2003: 30 %). Apart from the good business performance, the disproportionate growth is primarily due to the successful integration of the electrical insulation business acquired from Schenectady. The takeover enabled the business unit to bolster its position in all important markets. The acquisition-related contribution to the sales growth totaled 18 percentage points. Adjusted for acquisition and exchange rate effects, sales of ALTANA Electrical Insulation were 12 % higher than in 2003.

59 % of the business unit's sales in 2004 were generated by wire enamels, amounting to € 171 million (+21 %). Impregnating resins and casting compounds accounted for 41 % of total sales, achieving € 120 million (+ 43 %).

Nearly all of the European companies managed to post double-digit sales increases. The business performance in the U.S. market was burdened by an ongoing shift towards Asia and negative exchange rate effects. The operating sales losses in the U.S., however, could be compensated for entirely by the growth of subsidiaries in Asia, whose net sales rose by 40 % to € 82 million.

> Sales Electrical Insulation



in € million		2004	2003	Δ%
Wire enamels	1	171	141	21
Impregnating resins/ Casting compounds	2	120	84	43
Total		291	225	29

ALTANA ELECTRICAL INSULATION GROWTH STRATEGY

ALTANA Electrical Insulation is concentrating on liquid electrical insulation materials such as overprint varnishes, dipping varnishes, resins, and casting compounds, and seeks to attain a leading position in these niche markets in Europe, Asia, South America, and North America. In the European and North American markets, which are saturated to a considerable extent, realizing synergy potential was a top priority in 2004. In Asia, however, the business unit seeks to distinguish itself from competitors with technologically sophisticated wire enamels and impregnating resins. One example are the coatings of fine and ultra-fine magnet wires for electronic applications. Studies predict that the electronics industry in China will grow faster in the coming years than in the rest of Asia, and with an annual growth rate of 14 % on average, will achieve a sales volume of around U.S. $ 459 billion by as early as 2010. The new factory in Zhuhai in southeast China boosts the position of ALTANA Electrical Insulation in the region. The unit plans to supply its Asian customers increasingly from both Chinese production sites, driving forward the expansion of its Asian business. With the acquisition of the Schenectady electrical insulation business, the presence in all the important markets, particularly in South America, Europe, and India, was further expanded. Apart from a sufficient presence in the market, the commitment of local executives and staff is important for our business. Both factors enable us to act quickly and efficiently on location which is decisive for our future growth.

PREFERRED SUPPLIER IN THE ELECTRICAL INSULATION INDUSTRY

ALTANA Electrical Insulation develops, produces, and distributes wire enamels, impregnating resins, casting compounds, and moulding resins used, among other things, in electric motors, transformers, generators, capacitors, printed circuit boards, and sensors. These components are found in electrical household appliances, automobile engines, TV sets, wind power wheels, computers, and lamps. ALTANA Electrical Insulation is represented in all important markets, with a market, service, and innovation orientation. As a result, the business unit is the preferred supplier of the electrical insulation industry and an important partner of large international customers around the world.

ALTANA COATINGS & SEALANTS: FOCUSING ON PACKAGING

PROGRESS IN 2004

> **Withdrawal from industrial coatings business on target.** In January, ALTANA Coatings & Sealants (ACS) sold its joint venture stake to the minority shareholder of Watson-Rhenania Pittsburgh (U.S.). This was followed at the beginning of July by the sale of the coil coating business of ALTANA Coatings & Sealants' French subsidiary Rhenacoat S.A. to the Dutch-Japanese joint venture Akzo Nobel Nippon Paint. At the beginning of August, the 51 % stake in Salchi Rhenacoat s.r.L., Milan, was sold and transferred to the Italian fellow partner, a private family holding company. In January 2005, an agreement was achieved regarding the sale of the Austrian subsidiary Rembrandtin Lack Ges.m.b.H. to EK Mittelstandsfinanzierung AG.

> **Initial step into the Latin American market.** In March, the Spanish ALTANA Coatings & Sealants subsidiary La Artistica concluded a licensing agreement with the Uruguayan company Promak. At its Montevideo site, Promak will henceforth produce water-based sealants for the South American market previously manufactured by La Artistica in Europe.

ALTANA COATINGS & SEALANTS BUSINESS PERFORMANCE 2004: DIVESTMENTS SLOW SALES GROWTH

On account of divestments, net sales generated by the Coatings & Sealants business unit were slightly lower than in the prior year, totaling € 215 million (2003: € 222 million) whereas the continued business recorded a 7 % growth. Its contribution to ALTANA Chemie's annual sales correspondingly fell from 29 % to 25 %.

82 % of its products were sold in Europe. In financial 2004, the business unit achieved sales growth of 3 % in the E.U., generating € 150 million. Its sales in the home market Germany amounted to € 51 million, a 2 % increase over 2003. Sales in China, another important market, totaled € 9 million. ALTANA Coatings & Sealants also supplies China from its own production site in Shunde.

ALTANA COATINGS & SEALANTS GROWTH STRATEGY

As a specialist, ALTANA Coatings & Sealants focuses on sophisticated solutions in the area of flexible packaging. As a result, the business unit consistently withdrew further from commodity, non-core business industrial coatings in the course of 2004. Packaging coatings and sealants now account for more than 70 % of the unit's sales.

ALTANA Coatings & Sealants intends to create sustainable growth potential in three ways: through regional expansion, by shifting its focus towards strengthening market segments and through innovation. In the area of flexible packagings – unlike rigid packagings – new potential for chemical solutions constantly arise. Products with a high innovation rate and a great need for technical support enable higher profit margins. Examples include packagings made of different combinations of material, such as plastic/paper, metal/paper, and metal/plastic, as well as plastic foils. Due to the increasing complexity as to the manufacture of packagings and the growing demand for innovative solutions regarding flexible packagings and more stringent customer requirements, ALTANA Coatings & Sealants has decided to boost its expertise as a provider of system solutions. For example, in addition to sealing compounds, ALTANA Coatings & Sealants offers its customers manufacturing equipment that is specifically tailored to environmentally friendly, water-based sealants. ALTANA Coatings & Sealants will intensify its research to meet these needs.

The business unit always develops solutions and corresponding special products in close cooperation with its customers. As a result, the business unit expects to receive considerable growth impetus from a stronger local presence and especially from a close proximity to its customers outside of Europe. Activities in China will be stepped up as well.

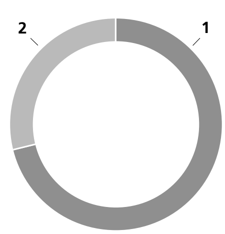
ALTANA Coatings & Sealants sees itself as being well placed to expand its leading market positions in well-defined application areas in Europe and worldwide. This applies especially to water- and UV-based overprint finishes for folding cardboards and paper, foil coatings and sealing coats as well as to PVC-free closure liner compounds and can end sealants.

STRONG POSITION IN THE E.U. COATINGS MARKET

The main customer of products developed, manufactured, and marketed by ALTANA Coatings & Sealants is the packaging industry. ALTANA Coatings & Sealants has a strong position when it comes to overprint finishes and has the leading technology position regarding rapidly growing coatings for flexible packagings. The coatings we develop guarantee, for instance, that filling material and packaging material made of metal, paper, cardboard, or plastic do not have an adverse impact on one another, that the contents are kept fresh for a longer period of time and that the packaging has an attractive appearance.

ALTANA Coatings & Sealants is one of the leading providers worldwide of closure liner compounds and can end sealants and considers itself to be number one when it comes to water-based can end sealant technology. With our sealants and compounds individual parts of a packaging are sealed so that for instance in the case of bottles or cans the filling remains in the packaging.

> **Sales Coatings & Sealants**



in € million		2004	2003	Δ%
Packaging	1	**153**	151	1
Industrial coatings	2	**62**	71	-13
Total		**215**	222	-3

OPPORTUNITIES FOR FUTURE GROWTH

> **Growth driver Asian region.** Asia, and particularly China, is the most important growth region for our specialty chemicals business. In 2004, all three ALTANA Chemie business units posted their highest sales growth in China. Annual local sales, achieved by 214 employees, amounted to € 81 million, a 23 % increase over the same period in the prior year. In the last five years we have more than doubled our net sales in China which now comprise 9 % of ALTANA Chemie's total sales.

The chemical industry accounts for 10 % of China's gross domestic product and is thus a very important economic factor in the country. While annual growth of 2.7 % is predicted until 2015 for the chemical market worldwide, a yearly expansion of 5.4 % is forecast for China. Even today, China uses 15 % of the world's chemical products and is thus the second-largest consumer ahead of Germany, among others. By 2015, the number of people who use chemical products is expected to increase tenfold, from 70 to 700 million. The need is enormous in the booming market, which is in part responsible for the market shifts from the U.S. and Europe to Asia, and especially to China.

In order to cater to the rapidly growing domestic demand, as well as to ensure great proximity to customers (which is extremely important for us), we increased our local presence further in 2004. Following production sites in Shunde and Tongling, our fourth manufacturing plant went into operation in Zhuhai in southeast China. In addition, the three business units Additives & Instruments, Electrical Insulation, and Coatings & Sealants have sales offices and technical service laboratories. We consider ourselves to be optimally positioned to benefit from the economic boom in China. Our many years of experience are an advantage. We have been active in the region since the 1970s and have had our own company there since the 1980s. We will supply our customers in Asia increasingly from China. Since 1995 ALTANA Chemie has invested some € 50 million in new production sites in Asia, and further investments are planned.

With roughly 500 employees, we generated sales of €195 million in Asia in 2004, 23 % of our total sales. The favorable business performance has created new jobs even in Germany, for instance in central research.

> **Growth driver Research and Development/service.** ALTANA Chemie is a technological leader in many areas today, for instance concerning wire enamels and water-based can end sealants. To maintain this position or even extend our competitive advantage, we invest almost 5 % of our net sales in Research and Development (R&D). In the next two years we plan on boosting these investments – which are high compared to the industry as a whole – to 6 %. Normally, the Research and Development projects "come from the market". In other words, market requirements determine in large part the object of research. Furthermore, promising topics scheduled in the long run and with extraordinary potential are also dealt with. We see growth potential for our business particularly in high-end markets*, and for this reason we are focusing on this area.

Our products are developed for specific applications and system solutions, requiring that we work in close cooperation with our customers. The interface between customer, technical service, and researcher are our technical service laboratories. They are equipped in such a way that we can offer our customers comprehensive technical service on the spot and carry out tests under real conditions – a clear service advantage that our customers appreciate. Due to their importance for the success of our specialty chemicals business, we have built up a worldwide network of technical service laboratories, which we continue to expand in line with our dynamic corporate development.

Around 20 % of our employees work in research, development, and technical service. Some of them work on global Research and Development projects of interest across companies. Others focus on local Research and Development projects, for local customers, or a specific market. This results in a specialized local research department that benefits our customers as much as possible. The local know-how is gathered all over the company and made available to all subsidiaries worldwide via a Knowledge Management System. In this way, we intend not only to fully exploit synergies within the individual business units, but also between different business units.

> **Growth driver technology.** ALTANA Chemie has been able to improve its market position in recent years by guaranteeing itself access to new promising technologies, among other things, through competent partners such as Nanophase Technologies Corporation. The American nanotechnology company possesses an enormous spectrum of nanomaterials and patent-protected technologies. Combined with our market, formulation and application know-how, this technology can be used efficiently. Nanotechnology-based products do not replace existing products, but rather enable us to expand our product range or to open up entirely new application areas. In the future, nanomaterials will play an essential role in the development of innovative products and system solutions for coatings, plastics, and electrical insulation applications.

Together with Nanophase, we will develop new materials that can be used in products manufactured by all three business units. Additives & Instruments was the first to benefit from this fruitful collaboration. After just a few months, this business unit introduced marketable products, additives that make coatings harder and more scratch-resistant. In the Coatings & Sealants business unit a novel barrier coating was developed with the aid of nanotechnology reducing the gas permeability of plastic containers considerably. In addition, the use of tailored nanoparticles opens up completely new prospects in the optimization of compounds and sealants, as well as packaging materials for other application areas.

> **Growth driver acquisitions.** According to the Chemicals division, it is possible to achieve an organic growth of 7 % to 8 % annually. To be able to maintain this pace, which is high compared to the industry as a whole, increasing investments in Research and Development as well as tapping new markets are required. Moreover we grow through targeted acquisitions to supplement existing fields of business with complementary products and technologies and to enter new business areas that are geared to system solutions and innovations.

* Glossary

> **Growth driver workforce.** 2,521 employees worldwide contributed to ALTANA Chemie's corporate success in 2004. Average sales of € 331 thousand were generated per staff member. This high figure compared to the industry as a whole, as well as the low employee fluctuation, reflect our employees' outstanding performance, their satisfaction, and their identification with the company. This is attested by the first company-wide survey, in which 76 % of the workforce took part. In addition to its leading market and technology-related position in relevant markets and its business performance, many employees assessed the company's reputation and culture as an essential factor for their identification and motivation. Pursuing corporate aims and inner commitment are just as important for a successful implementation of our growth strategy as the appreciation of the top management and the acceptance of the management model. Key points of our management model include management by objective, flat structures, managers as entrepreneurs, and locally staffed managements. Accordingly, our corporate culture is characterized by a great scope for creativity, high personal responsibility, fast decision-making processes, and a high degree of flexibility and cultural openness. Hence new employees have to be compatible with us not only in terms of their qualifications.

As the company has grown and the organization become more complex, the challenges facing the individual employees as well as ALTANA Chemie have grown. Necessary changes not only have to be supported, but also initiated. Leadership as well as education and training play an important role. In February 2004, we launched an international Management Development Program (MDP) to prepare especially talented, competitive, and committed employees intensely for future management tasks. The 18-month further training program consists of four components: training, project work, mentoring, and intercultural exchange. The program gives employees new insights into our company and also promotes the creation of internal communications networks. On account of the international character of this program, it fosters social skills and an understanding of markets and customers.

Within the framework of qualifications and personnel development, we offer our staff and executives a number of internal and external further education and training measures as well as career opportunities. The training measures are determined in a personal meeting between the employee and his head of department. This program has been operating on a company-wide basis since 2004.

Through an attractive, performance-related, success-oriented compensation system linked to our strategy of sustained increase in corporate value and employee participation in the company's performance, we intend to bind our employees with their know-how in the long run.

OUTLOOK 2005

According to forecasts, the growth momentum in our marketplaces will slightly slow down in comparison to the prior year. We still anticipate that the above-average growth expected for the U.S. and China will stimulate the demand for specialty chemicals products. With the euro remaining strong, we expect for 2005 as well that the growth impetus will mainly come from foreign markets. For the year 2005 as a whole, we anticipate to grow both organically as well as through strategic acquisitions. Based on the operating and strategic measures introduced the sales performance will be accompanied by a further increase in earnings.

Research and Development will remain a focus of investment.

ALTANA Corporate Citizenship

>>> AIMED PROMOTION OF POTENTIALS.

Corporate Citizenship is part of ALTANA's corporate philosophy. We regard investments into the social environment of our locations worldwide as investments in the future. Our corporate success depends on more than economic factors. Standards of education and training, political conditions, and cultural diversity are just as important. In order to be sustainable and effective, our corporate citizen concept, like our corporate strategy, is geared to the long term.

> ALTANA Cultural Forum

- ALTANA Art Collection
- Art Exhibitions at Sinclair House
  - > Per Kirkeby "Nature and Form. Retrospective of Drawings and Watercolors" November 25, 2003 to January 11, 2004
  - > Antoni Tàpies "Works on Paper 1943 – 2003" February 10 to April 25, 2004
  - > Thomas Kohl "Over the Plains" Works 1992 – 2004" May 11 to July 18, 2004
  - > Henri de Toulouse-Lautrec "Noblesse of the Ordinary" November 23, 2004 to January 17, 2005
- National and International Cooperations
  - > "GERMAN ART • From an American Perspective" at the Städel Museum, Frankfurt am Main September 14 to November 14, 2004
  - > Per Kirkeby "Nature and Form. Retrospective of Drawings and Watercolors," German Academy Villa Massimo, February 12 to March 19 and Municipal Art Museum Singen, May 28 to August 15, 2004
- Cultural Sponsorship
  - > ALTANA Städel Foundation, Frankfurt am Main
  - > Acquisition of the "Elles" series of lithographs of Henri de Toulouse-Lautrec by the Kupferstich-Kabinett Collection in Dresden

> Herbert-Quandt-Stiftung The Foundation of ALTANA AG

- 22nd/23rd Sinclair House Debates
  - > "Society Without a Future? Population Decline and Ageing as a Political Challenge" May 7/8, 2004, Bad Homburg
  - > "The Courage to Lead – the Burdens of Freedom. Is Politics Capable of Presenting the Truth?" November 12/13, 2004, Bad Homburg
- Trialogue of Cultures
  - > "Europe's Middle East? Bosnia-Herzegovina and the Dayton Agreement in Perspective" October 4/5, 2004, Berlin
- Discussion Circles "Thoughts on the Future"
  - > "German Trade Unions in the 21st Century" Discussion with Prof. Michael C. Burda March 3, 2004, Berlin
  - > "NATO ahead of Harmel II" Discussion with former General Klaus Naumann March 18, 2004, Berlin
  - > "Society Without a Future?" Discussion with Dr. Frank Schirrmacher April 30, 2004, Berlin
  - > "Political Leadership as a factor of reform" Discussion with Sir Roger Douglas November 11, 2004 Berlin

> ALTANA Forum for Education and Science

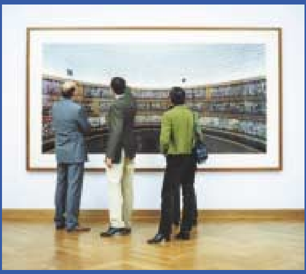
- Promotion of Excellence in Science and Research
  - > Herbert Quandt university chair in "International Management," Otto Beisheim Graduate School of Management (WHU), Koblenz
  - > ALTANA university chair in "Bioinformatics," University of Constance
  - > Graduate program "Molecular Medicine and Biology of the Lung," University of Gießen
  - > Graduate program "Biomedical Research of Active Substances," University Hospital, Constance
  - > Frankfurt Institute for Advanced Studies (FIAS), Frankfurt am Main
  - > ALTANA Pharma Prize, University of Constance, June 15, 2004
  - > "Zukunftspreis" – prize awarded by the German President (Stifterverband)
- Fostering a Competitive and Responsible Elite
  - > Schloss Hansenberg boarding school, Rheingau/Hesse
  - > International School, Kreuzlingen/Constance
  - > Exchange scholarships for up-and-coming Eastern European scientists, TU Dresden and University of Constance
  - > Exchange and education program for teachers

As to a survey of our activities and more detailed information please refer to our brochure "CULTURE THRIVES ON COMMITMENT" (2004) or to www.altana.com (Corporate Citizenship)

"I think it is important to be involved in the life around me, to actively participate, to assume responsibility, to change things. ALTANA meets these requirements through its cultural and social commitment. Moreover, art provokes all kinds of emotions and thus a mood that also inspires me when I am working."

Dr. Hildegard Boss, Research Scientist

>>> **PROMOTING INVOLVEMENT.** Sustainability requires forward-looking thinking and action. The future prospects of ALTANA as a company and of the community in which we are operating depends upon people being active together, wanting to achieve something, assuming responsibility. ALTANA seeks to help create a climate in which creativity, talents, and personalities can unfold. This does not only improve the quality of life in general; it is a prerequisite for finding innovative answers to urgent challenges in a time of great upheavals.



>>> DIFFERENTIATING INVOLVEMENT IN A PLANNED WAY. Sustained corporate success requires fertile cultural soil. With our involvement in schools and universities, our promotion of university chairs, graduate programs, and research awards, we intend to help create a future elite in terms of responsibility and competition. Via a think tank we foster scientific and intercultural dialogue and provide decision-makers with the gathered know-how. With the promotion of art, we inspire people to reflect on experience and encourage them to get off the beaten track of ideas.

"Culture is fertile soil for people and society. Promoting it – that is, promoting creativity, an eagerness to learn, a desire to discover – means contributing to the network of tradition and departure, preservation and renewal, society and individual, constituting our community."

Dr. Albrecht Graf von Kalnein,
Executive Board Member Herbert-Quandt-Stiftung

ALTANA Cultural Forum

>>> **TRANSFER OF CREATIVITY.** 30,000 people attended the exhibition "GERMAN ART · From an American Perspective" mounted by the ALTANA Cultural Forum at the Städel Museum in Frankfurt in 2004. The event met with a positive response from the national media as well.

MODERN ART UNITES

"GERMAN ART" was the most outstanding event in 2004, not least on account of the dimensions of the project. The exhibition consisted of 36 large-format works on canvas, installations, objects, and photos by 14 well-known German artists of the postwar generation. These works, all on loan from the Saint Louis Art Museum (SLAM), were supplemented by 230 drawings, watercolors, photos, and graphic prints from European collections, the majority of which had not previously been on public display. In most of the works from Saint Louis, artists such as Beuys, Baselitz, Kiefer, and Lüpertz dealt with recent German history since 1933.

The idea for the exhibition was born about a year earlier with ALTANA's sponsorship of "GERMAN ART – Now" at the SLAM. The 40 works of German artists on display contributed to the SLAM's reputation of having the most representative collection of German art of the past four decades in the U.S. Thirty-six of these works were temporarily re-imported by the ALTANA Cultural Forum and made accessible to the general public at the renowned Städel Museum in Frankfurt. This kind of "sustained transatlantic cooperation" is a novelty in the work of the ALTANA Cultural Forum and is to be extended to other U.S. art institutes in the future. Initial contacts have been made with the New Gallery and the

The final phase following more than one year of preparations. After the artworks were delivered, the team of the ALTANA Cultural Forum had two weeks to arrange the opening of "GERMAN ART" with the exhibition architect, the light technicians, the painting and paper restorers, as well as the "hanging team."

Sigmar Polke's "Potato House" (1967) is an ironic reflection on German middle-class life. But the tuber also stands for the post-war generation's longing for normality, its desire to forget.

Metropolitan Museum of Art in New York. With the latter it has already been agreed to support the "Max Ernst: A Retrospective" exhibition planned for April 2005.

HIGH QUALITY REQUIREMENTS

Two exhibitions – "Antoni Tàpies. Works on Paper 1943 – 2003" and "Henri de Toulouse-Lautrec. Noblesse of the Ordinary" – staged at the ALTANA Cultural Forum's own exhibition venue*, the Sinclair House in Bad Homburg, also attracted large numbers of visitors. Tàpies, who was born in 1923, is regarded as the most important living Spanish artist. His works on paper, which form an important and extensive complex within his oeuvre, were on view in Germany for the first time. With his graphic work, Toulouse-Lautrec had a strong influence on the image of Paris and the "Belle Epoque". The over 100 works came from the collection of the Kupferstich-Kabinett in Dresden, which was initiated during the artist's lifetime and is one of the oldest, most comprehensive, highest-quality collections of its kind.

The "Art and Literature" series was resumed with "Thomas Kohl. Over the Plains. Works 1992 – 2004." The exhibition of Kohl, born in 1960 and a student of Gerhard Richter, reflects the artist's current artistic concerns. In a series of 27 paintings the "landscape painter" Kohl deals with the novella fragment "Lenz" (1835) by Georg Büchner.

In 13 artists' rooms 30,000 "GERMAN ART" visitors, including ALTANA employees, got an impression of the thematic focuses and work developments of 14 well-known artists of the postwar generation.

*www.altana-ausstellungen.de

Herbert-Quandt-Stiftung

>>> **TRANSFER OF INSIGHTS.** The forthcoming 25th anniversary of the foundation in 2005 and the generation change in the management – in March Dr. Albrecht Graf von Kalnein (41) succeeded Wolfgang Assmann (60) – served as an occasion for a strategic stocktaking and course adjustment.

THINK TANKS

In the future, the Herbert-Quandt-Stiftung[1] will continue to focus on pressing current issues in both international conferences, the "Sinclair House Debates" and the "Trialogue of Cultures". Important themes addressed in 2004 included population decline and ageing, political leadership and reforms, as well as the inter-religious dialogue in Bosnia-Herzegovina. The events did not only meet with a good response by the media; among decision-makers the foundation now has a reputation as being a think tank due to its professional work and the substantial information provided by its publications. As a result, it is invited to participate in important conferences and events.

In the last two years the foundation has succeeded in building a strong network with young executives in Berlin. This makes it easier to identify relevant themes for its forums, to give impetus to sociopolitical debates in the German capital and thus contribute to opinion making. Since 2004 the Sinclair House Debates have been prepared institutionalized together with up-and-coming executives from science and politics, who introduce the subject matter to the participating circle of experts from politics, science, industry, and the Church. These studies are published separately in the "Thoughts on the Future" series, but are also an integral part of the "Sinclair House Debates" brochures. The foundation's publications, which include analyses and approaches for meeting complex challenges, are to be distributed in a more targeted way in the future.

At the end of June 2004, the first discussion was held in Berlin on political leadership in democracies. The brainstorming session in a small group was followed by further work meetings, among others a conference lasting several days where the discussion paper for the 23rd Sinclair House Debate was drawn up.

[1] For further information on the Herbert-Quandt-Stiftung and publications please refer to www.herbert-quandt-stiftung.de

Up-and-coming executives met with New Zealand's reform politician Sir Roger Douglas in Berlin to exchange ideas in advance of the 23rd Sinclair House Debate.

The initial aim of the "Trialogue of Cultures," established by the foundation in 1996, was to bring together representatives of the three Abrahamic religions. To improve communication and understanding, the emphasis was on inter-religious themes. Today, however, the situation has changed and the Trialogue is devoted more to sociopolitical issues. As for instance not only Bosnia-Herzegovina demonstrates, the sources of conflict between Christians, Jews and Moslems are rooted in political and sociopolitical conditions rather than in religious differences.

MODEL PROJECTS

One aim of the foundation's work is to bridge the gap between academic research and actual practice by deriving concrete, sustainable projects from the results of the forums. One focus is "education and training." In 2004 the foundation launched the model project "Early Start – German and Intercultural Education in Kindergartens" together with partners. In 2005, there will be a school competition regarding the implementation of the recommendations from the study on European curricula. The exchange program for up-and-coming journalists will be extended. As a result, not only will Germans go to Israel, but journalists from Israel and the Palestinian territories will go to Germany.

In mid-November the theme of "The Courage to Lead – the Burdens of Freedom. Is Politics Capable of Presenting the Truth?" was discussed by a large circle at Sinclair House. In addition to Sir Roger Douglas, the participants included the former Saxon Prime Minister Prof. Kurt Biedenkopf and personalities from politics, the media and science.

ALTANA Forum for Education and Science

>>> **TRANSFER OF KNOWLEDGE.** The reorganization of the forum undertaken in 2004 enables ALTANA to further develop individual sponsorship areas. In the future, "university and research" will play a major role in our work.

EXCELLENCE IN SCIENCE AND RESEARCH

The economic growth of industry and society, and particularly of a knowledge-based society, depends increasingly on research. ALTANA would like to help improve the level of education and quality of research, two components that are essential for innovativeness and competitiveness. For decades, thousands of the best up-and-coming German scientists have moved abroad. The most commonly cited reasons for this "brain drain" are the poor possibilities to develop professionally, inadequate working conditions, and paralyzing structures at German universities. ALTANA supports future-oriented concepts that break down outmoded traditions and structures. Graduate programs, for example, represent a novel type of organization designed to pool the research potential of universities and companies. Young academics receive a very good education with a focus on practical experience and an international orientation. We provide funding to set up innovative university chairs in order to broaden the spectrum of curricula and research. An example is the ALTANA university chair in Bioinformatics & Information Mining at the University of Constance. The chair deals with forward-looking methods of evaluating large quantities of data and information. Another exemplary program that has gained worldwide recognition is the Frankfurt Institute for Advanced Studies (FIAS), with which ALTANA is fostering stronger interdisciplinary basic research. We honor top achievements, whether by awarding

At the ALTANA university chair in Bioinformatics & Information Mining[1] Prof. Michael Berthold and his staff work on methods of mechanical learning to evaluate huge quantities of data and information, existing in fields like genomics* and proteomics*.

[1] www.inf.uni-konstanz.de/bioml/
* Glossary

"On the one hand, I was attracted by the research freedom connected with a long-term university chair, and on the other hand by the chance of being able to help revamp the German university landscape." Prof. Dr. Michael Berthold, on the occasion of the podium discussion "brain drain, brain gain" in Berlin.

the ALTANA Pharma Prize or by supporting the "Deutsche Zukunftspreis." An important selection criterion for the latter is implementation into market-relevant products that create jobs.

A COMPETITIVE AND RESPONSIBLE ELITE

In addition to the national education system and within the framework of public-private partnerships (PPP) ALTANA seeks to train a future competitive and responsible elite by supporting scholarship and teaching exchange programs. Our involvement is not limited to financial sponsorship. An example: the Schloss Hansenberg boarding school. ALTANA provides possibilities for practical training in Germany and abroad to the pupils, invites them to press conferences, and organizes visits to factories. Management board members and executives are also committed personally, so that the knowledge the pupils gain does not remain at the theoretical level. The student exchange programs at the University of Constance and the Technical University of Dresden were expanded. The Dresden program is to be extended from Central and Eastern European to South American partner universities. In 2004 responsibility was transferred from the Herbert-Quandt-Stiftung to ALTANA, which offers possibilities for practical training to the students in order to strengthen their relation to the company.

Methods are developed for ALTANA Pharma by means of which "related" data and information from different sources can be brought together and microscopic photos of cells and cell structures can be evaluated. The methods will help to understand the genesis of a disease, and heighten the exploitation of information in each experiment.

ALTANA CONTINUES ON THE ROAD TO SUSTAINABLE SUCCESS

> Net sales rise by 8% to almost € 3 billion

> Earnings before taxes up by 8 % to € 624 million

> International business remains the growth engine: +10 %; 83 % of net sales

> Expenditure on property, plant and equipment and Research and Development expenses stepped up further

> Number of employees worldwide climbs to nearly 11,000

> Clear dividend increase, the ninth in succession

The ALTANA Group continued the trend of prior years, concluding financial 2004 again with outstanding figures: With a nominal sales growth of 8% – in local currencies +11% – and earnings before taxes up by 8%. Thus, at the Annual General Meeting we can propose a dividend increase of 14% to € 0.95 per share. ALTANA's good profitability and financial situation strengthen the company for future challenges and further growth.

GENERAL ECONOMIC AND SOCIOPOLITICAL CONDITIONS

DYNAMIC GLOBAL ECONOMIC SITUATION

Recovery of the global economy picked up speed in 2004 despite the rising prices of raw materials and energy. According to current estimates, the world's gross domestic product increased by 4.7%. The recovery was reflected especially by the global trade volume, which grew by 9%.

The global economy was driven by the U.S. and the East Asian threshold countries, and particularly by China. The high U.S. growth rate of 4.4% was primarily attributable to the substantial increase in corporate investments; private consumption was more moderate due to slightly rising interest rates. The Japanese economy expanded at a surprisingly strong rate, by 4.2%, benefiting from the high demand from the U.S. and other Asian countries. In spite of the now more restrictive economic policy, the Chinese economy continues to grow rapidly (+9%).

Latin America overcame its years of stagnation and, thanks to currency depreciations and high exports, returned to a growth course. The economies of the countries in Central and Eastern Europe also expanded at a significantly faster rate than the prior year.

The economy of the euro region recovered noticeably, in keeping with the worldwide upswing, but on the whole remained moderate. Due to ongoing weak domestic demand, the euro region also lags behind the other E.U. member states. In spite of the strong increase in exports, the euro region's inclination to invest was not significantly stronger; not least weak private consumption and general uncertainty have so far prevented the improved external situation from having an impact on investments. The economy of the euro zone is expected to grow by 1.8% in 2004, that of Germany by 1.7%. The appreciation of the euro cost the euro region around 0.1 percentage points of growth in 2004.

GLOBAL PHARMACEUTICAL MARKET POSTS SLOWER GROWTH

The 13 most important pharmaceutical markets, which comprise around 90% of the world's pharmaceutical market, grew according to the IMS Health by 6% (based on the U.S. dollar) to U.S. $ 348 billion in 2004. The significant growth was a result of increasing demand and the introduction of innovative drugs.

North America, the largest pharmaceutical market comprising 53% of the global market, again recorded one of the highest growth rates, 8%, although it did not reach double digits as in 2003. Expiring patents led to an increase in the market shares of generics*. North American pharmaceutical sales totaled U.S. $ 185 billion. The sales volume in the U.S. rose by 8%, in Canada by 9%. The top five European pharmaceutical markets – Germany, France, the U.K., Italy, and Spain – grew on average by 4% to U.S. $ 87 billion. In Europe, growth was slowed again by price-regulatory measures taken by different national governments. In Germany, the mandatory discount pertaining to non-reference price drugs* was increased from 6% to 16% in 2004. The German pharmaceutical market grew by only 1% to U.S. $ 25 billion. The Japanese pharmaceutical market expanded as well by 1% to U.S. $ 58 billion. The three most important Latin American markets recorded growth of 14% in U.S. dollars.

* Glossary

SPECIALTY CHEMICALS BUSINESS BENEFITS FROM ECONOMIC UPSWING

The recovery of the global economy had a positive effect on part of the German chemical industry. The Association of the German Chemical Industry (VCI) expects a growth in production of 1.5 to 2 % for the whole of 2004. The revival of the economy particularly benefited those segments of the industry whose products were related to industrial processing. Fine and specialty chemicals posted a production increase of 4.5 %. The sales volume of the German chemical industry rose by 3.5 % to € 141.2 billion, with the boost in production and higher prices contributing to the result. Despite the strong euro, there was stronger impetus from markets outside of Germany, with sales growth up by 6 % to € 74.8 billion. The demand in Germany increased by around 1 %. On account of the strong euro and the weak demand in Germany, the high raw material costs could be passed on only to a limited extent. The result was increasing margin pressure. The employment rate in the chemical industry fell by 4 %.

SOCIOPOLITICAL ENVIRONMENT

Since January 1, 2005, patent-protected drugs have been subject to reference prices* in Germany (maximum amount reimbursed). Previously, it was possible to freely decide on the price of patent-protected pharmaceuticals, with the aim to promote research on new active substances and to ensure the necessary refinancing of rising research expenses. The reference price regulation*, however, limits patent protection and thus reduces remuneration for the research carried out. In 2005 reference price groups for further patent-protected drugs are to be formed and, as with patent-free generics, maximum amounts reimbursed are to be determined. This is weakening Germany as a location for innovation and research. The situation is similar regarding the planned E.U. chemicals policy. The current directive draft is expected to lead to additional costs, as a result of which some 40 % of small-volume raw materials will disappear from the market, cutting off the basis for innovations. Furthermore, on account of elaborate toxicological studies the introduction of new products will be delayed by up to 12 months. The aims of the new E.U. chemicals directive, namely, to protect the environment and human health as well as to strengthen the innovativeness and competitiveness of the European chemical industry, can only be achieved in part with the present draft. The planned directive would result in bureaucratic overregulation and thus in competitive and innovative disadvantages. However, the new focus of the so-called "Lisbon Strategy" of the E.U. on growth and employment provides hope that sustainable compromises are possible in the advisory sessions to be held in 2005.

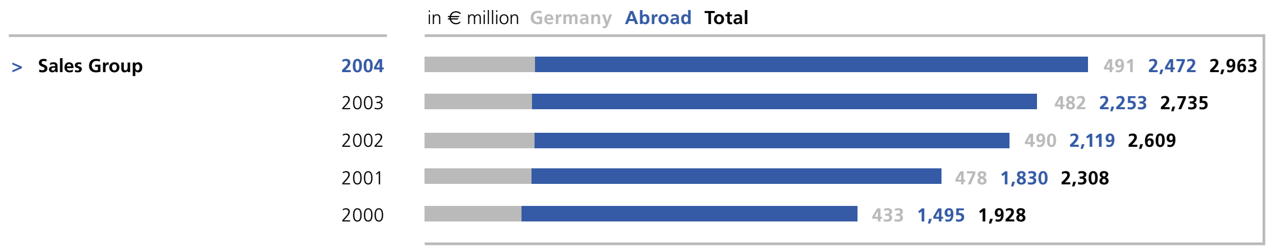
> "In spite of impairments due to exchange rate effects, ALTANA was again able to substantially increase sales and earnings in 2004. The returns on profit and capital were again top figures. This development is particularly gratifying against the background of the high investments currently being made and geared to the future."
>
> Dr. Hermann Küllmer, Chief Financial Officer of ALTANA AG

ADDED VALUE THROUGH SUSTAINABLE SUCCESS

ALTANA's value-oriented corporate policy aims at improved competitiveness and profitable growth. Our long-term strategy, which is geared to a sustainable increase in the value of the company, includes ecological and sociopolitical potential.

Financial performance alone is not enough for a good reputation. Good corporate governance, sustainability, and corporate responsibility are integral components that complement one another. But economic success is a decisive prerequisite for assuming ecological and social responsibility.

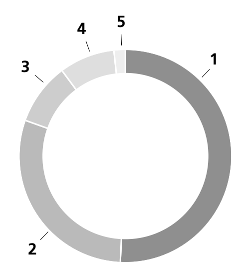
* Glossary



ALTANA'S BUSINESS VOLUME INCREASES DUE TO INTERNATIONAL ACTIVITIES

In financial 2004 the ALTANA Group achieved net sales of around € 3 billion, a new record figure, corresponding to an 8 % increase. ALTANA generated 83 % of its annual sales outside of Germany. Our international business recorded growth of 10 % to € 2,472 million in 2004. The business of our Asian subsidiaries developed most dynamically, growing by 26 % to € 250 million. Our business in European markets outside of Germany and in Latin America also posted double-digit sales growth. In European markets outside of Germany, sales rose by 12 % to roughly €1 billion, in Latin America by 12 % to € 278 million. Due to currency effects, North American sales posted only single-digit growth, up by 3 % to € 880 million. In Germany, sales were 2 % higher than in the prior year, at € 491 million.

> **Sales by region**



in € million		2004	2003	Δ%
Europe	1	1,504	1,385	9
thereof Germany		491	482	2
North America	2	880	857	3
Latin America	3	278	248	12
Asia	4	250	197	26
Other regions	5	51	48	7
Total		2,963	2,735	8

ALTANA PHARMA SALES SURPASS THE 2 BILLION EURO THRESHOLD

Net sales in the Pharmaceuticals division were up by 7 % to € 2.1 billion, comprising more than two-thirds of the ALTANA Group's total sales volume for the year. Adjusted for exchange rate influences, operating sales rose by 9 %.

International business rose by 8 % to € 1.7 billion, accounting for 82 % of ALTANA Pharma's annual sales. The strongest growth was achieved in European markets outside of Germany, where sales were up by 14 % to € 679 million. North American business was burdened by the weak U.S. dollar; sales rose only slightly by 2 % to € 749 million. Sales in Latin America climbed by 10 %. In Germany, the sales volume fell by 1 % to € 371 million. Cost-cutting measures in German health care led to a decrease in sales and earnings. The 16 % mandatory discount accounted for losses of € 37 million.

The Pharmaceuticals division's core business of Therapeutics recorded sales of € 1.8 billion. The top selling product, the innovative gastrointestinal drug Pantoprazole (PANTOZOL®/PROTONIX®), generated almost € 2.5 billion worldwide (including all sales partners), corresponding to a 6 % increase. ALTANA's own sales of Pantoprazole totaled € 1.2 billion, a 9 % increase over the prior year.

> **Pharmaceuticals**

in € million	2004	2003	Δ %
Sales	**2,109**	1,980	7
Germany	**371**	375	-1
Abroad	**1,738**	1,605	8
Earnings before interest, taxes,			
depreciation and amortization (EBITDA)	**613**	584	5
Earnings before taxes (EBT)	**532**	520	2
Capital expenditure	**165**	141	18
Research expenses	**407**	376	8
Employees (Dec. 31)	**8,200**	7,702	6

ALTANA CHEMIE SHOWS EXTRAORDINARY DYNAMIC STRENGTH

The Chemicals division was able to boost sales significantly to €854 billion, an increase of 13% in year-to-year terms, which was considerably higher than the industry average. Operating sales, not taking into account exchange rate and acquisition/divestment effects, rose by 12%. Hence ALTANA Chemie accounted for roughly one-third of the ALTANA Group's net sales in 2004. Business in Germany grew by 12% to €120 million. Sales outside of Germany amounted to €734 million, 13% up on the prior year, and continued to account for 86%. While business in Asia (+26%) and Latin America (+22%) developed disproportionately, the sales growth in European markets outside of Germany amounted to 9%, and in North America to 5% (18% in local currencies).

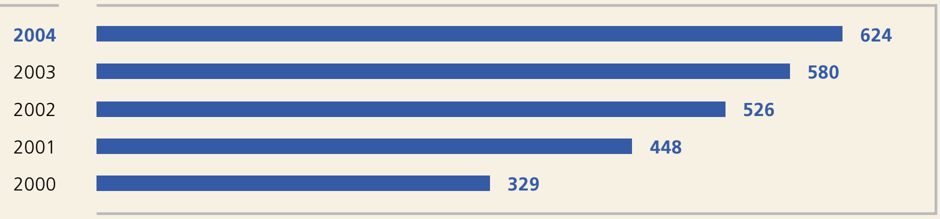
All three business units contributed to the Chemicals division's strong sales growth. The highest sales were generated by Additives & Instruments, €348 million (+13%), followed by Electrical Insulation, at €291 million (+29% or +12% in terms of operating sales), and Coatings & Sealants, totaling €215 million (-3% or +7% in terms of operating sales).

> **Specialty Chemicals**

in € million	2004	2003	Δ %
Sales	**854**	755	13
Germany	**120**	107	12
Abroad	**734**	648	13
Earnings before interest, taxes,			
depreciation and amortization (EBITDA)	**159**	135	18
Earnings before taxes (EBT)	**116**	85	37
Capital expenditure	**60**	86	-31
Research expenses	**38**	36	6
Employees (Dec. 31)	**2,521**	2,634	-4

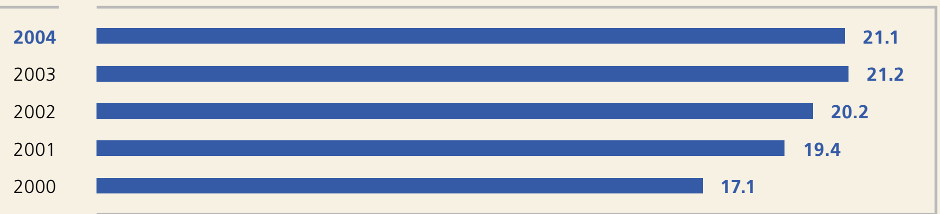
> **Earnings before taxes**

in € million



> **Return on sales* before taxes**

in %



> **Sales and earnings by division**

in € million	Sales		Earnings before taxes		Return on sales in %	
	2004	2003	**2004**	2003	**2004**	2003
Pharmaceuticals	**2,109**	1,980	**532**	520	**25.2**	26.3
Chemicals	**854**	755	**116**	85	**13.6**	11.2
Holding	–	–	**-24**	-25	–	–
Group	**2,963**	2,735	**624**	580	**21.1**	21.2

> **Structure of consolidated income ALTANA Group**

	2004		2003	
	in € million	in %	in € million	in %
Net sales	**2,963**	**100.0**	2,735	100.0
Operating income*	**617**	**20.8**	563	20.6
Financial income	**7**	**0.3**	17	0.6
Earnings before taxes (EBT)	**624**	**21.1**	580	21.2
Income before minority interests	**391**	**13.2**	345	12.6
Net income	**391**	**13.2**	345	12.6
Earnings per share (in €)	**2.88**	**–**	2.53	–

* Glossary

> Key return figures

in %	2004	2003
Return on sales		
before interest, taxes, depreciation and amortization	**24.9**	25.1
before interest and taxes	**20.8**	20.6
before taxes	**21.1**	21.2
after taxes	**13.2**	12.6
Return on equity		
before taxes	**40.2**	43.1
after taxes	**25.2**	25.6
Total return on capital before taxes	**24.1**	24.5

ALTANA EXCEEDS EARNINGS FORECAST

In the 2004 business year the profitability of the ALTANA Group was boosted again. Earnings before taxes (EBT) exceeded expectations, totaling € 624 million. Both earnings and sales rose by 8 %. The return on sales* amounted to 21.1 %, corresponding to the prior year. Operating income, measured in terms of EBIT, increased by 10 % to € 617 million. At 20.8 %, the EBIT margin was slightly higher than in 2003.

DIVIDEND INCREASED BY 14 %

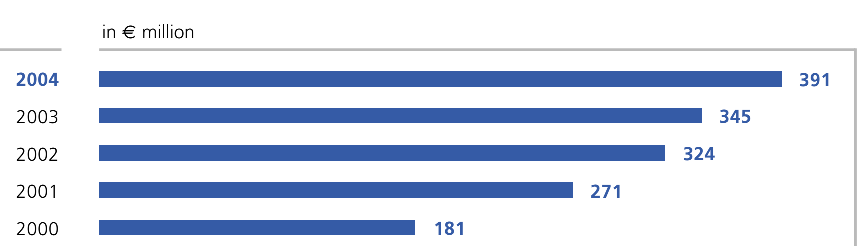
As in the preceding years, ALTANA shareholders will fully participate in the increase in earnings of the company. The net income grew by a double-digit figure due to the lower tax rate. As a result, the Management and Supervisory Boards will propose a dividend of € 0.95 per share at the Annual General Meeting on May 4, 2005. This corresponds to an increase of 14 % over the prior year. The total amount distributed will add up to € 133 million. In relation to the net income*, the distribution rate will be 34 %.

RETURN ON CAPITAL AND VALUE ADDED AGAIN OUTSTANDING

An important strategic aim of ALTANA is to realize above-average returns on the capital the company invests. The main control instrument for all areas of the company is ROCE* (Return on Capital Employed), a key figure which relates operating performance to capital employed.

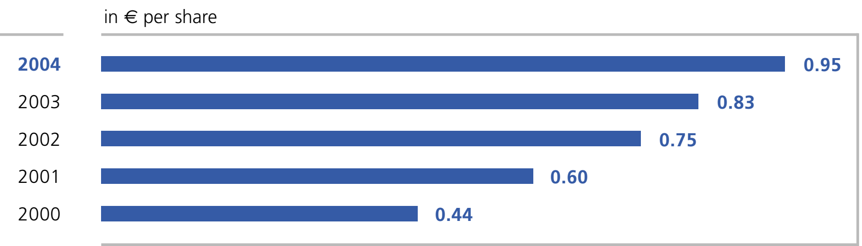
The method of determining the value added was slightly modified in the 2004 business year. Cash and cash equivalents were deducted from, and provisions for pensions added to, the interest-bearing operating capital. Hence the financing effect of the pension accruals is taken into account. In accordance with the changes in operating capital, adjustments were made to operating performance. Due to the fact that the cash and cash equivalents exceed the pension obligations, the adjustment results in an increase of the ROCE at the Group level. Based on the old method of calculation, the ROCE amounts to 22.2 % instead of the 27.4 %

> Net income



* Glossary

> **Dividend performance**



recorded now for 2003. At the level of the corporate divisions, the new method of calculation led to only slight changes in the ROCE (ALTANA Pharma Δ -2.7 %; ALTANA Chemie Δ + 0.4 %). In the following, all of the figures are determined based on the new method for calculating ROCE.

In 2004, ALTANA again achieved an impressive return on the capital employed. Extensive investments led to an increase of 15 % to € 1,506 million in the operating capital, which in the case of ALTANA consists almost solely of equity. Operating earnings rose by 10 % to € 397 million, yielding an operating return of 26.3 %. In the short or medium term, the growth strategy pursued will have a negative effect on returns of the capital employed, as earnings will follow the investments with a certain time lag.

The increase in operating capital at the Group level is attributable in equal parts to the investment activities of ALTANA Pharma and ALTANA Chemie. ALTANA Pharma's capital base grew by 10 % to € 860 million (operating performance amounted to € 341 million), resulting in a return on capital of 39.6 %, thus confirming

> **Statement of value added of the ALTANA Group**

in € million	**2004**	2003
Operating capital (annual average)		
Equity	**1,557**	1,355
Pension provisions and accruals	**259**	251
Debt	**77**	106
Cash and cash equivalents and securities	**-580**	-582
Eliminated goodwill and cumulated goodwill amortization	**193**	185
	1,506	1,315
Operating performance		
Operating income	**617**	563
Correction pension provisions and accruals	**15**	15
Goodwill amortization	**–**	16
	632	594
Calculatory taxes	**235**	234
	397	360
Return on capital (= operating performance / operating capital)	**26.3 %**	27.4 %
Cost of capital	**8.0 %**	8.0 %
Relative value added (= return on capital – cost of capital)	**18.3 %**	19.4 %
Absolute value added (= relative value added x operating capital)	**276**	255

> **Key figures by division**

in € million	Pharmaceuticals		Chemicals		Group	
	2004	2003	**2004**	2003	**2004**	2003
Operating capital	**860**	781	**678**	592	**1,506**	1,315
Operating income	**341**	315	**78**	65	**397**	360
Return on capital	**39.6 %**	40.4 %	**11.5 %**	11.0 %	**26.3 %**	27.4 %
Cost of capital	**8.0 %**	8.0 %	**8.0 %**	8.0 %	**8.0 %**	8.0 %
Relative value added	**31.6 %**	32.4 %	**3.5 %**	3.0 %	**18.3 %**	19.4 %
Absolute value added	**272**	253	**24**	18	**276**	255

the prior-year's level of 40 %. ALTANA Chemie substantially increased both its capital base (+14 % to €678 million) and the earnings figure (+19 % to €78 million), while the return on capital rose by 0.5 points to 11.5 %.

In 2004, ALTANA was again one of the most profitable companies in Germany. The profitability of the capital entrusted to us by our shareholders considerably exceeds the capital costs derived from capital market data, and provided with an adequate risk margin, by 8 %. The value added created beyond the capital costs amounts to €276 million. If one compares the performance achieved with an alternative risk-free investment according to the newly developed ERIC® method (Earnings Less Riskfree Interest Charge), the secure returns are exceeded seven-fold. Based on ERIC® and the traditional capital markets methods, ALTANA is again among the companies with the highest growths in value.

2004 BALANCE SHEET: SOUND ASSET AND CAPITAL STRUCTURE

In 2004, total assets of the ALTANA Group rose by 7 % to €2,699 million. Due to high capital expenditure and further investments in intangible assets, fixed assets rose by 11 % to €1,048 million. As of December 31, 2004, fixed assets accounted for 39 % of total assets.

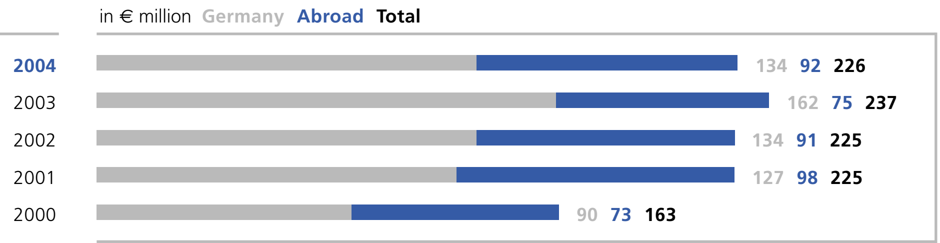
Current assets including cash and cash equivalents climbed by 4 % to €1,651 million in the same period. On the balance sheet date, cash and cash equivalents and securities totaled – unchanged from the prior year – €580 million, 21 % of total assets.

The capital structure changed slightly. At the end of the year, the equity of the ALTANA Group amounted to €1,661 million. The equity ratio rose to 62 %. However, the share of liabilities in the total assets fell to 18 %. Provisions and accruals remained almost unchanged at 21 % of total assets, amounting to €566 million.

> **Structure of consolidated balance sheet**

		2004		2003
	in € million	in %	in € million	in %
Fixed assets	**1,048**	**38.8**	943	37.2
Current assets	**1,071**	**39.7**	1,009	39.9
Cash and cash equivalents	**580**	**21.5**	580	22.9
Total assets	**2,699**	**100.0**	2,532	100.0

> **Capital expenditure Group**



CASH FLOW COVERS INVESTMENT AND FINANCING ACTIVITIES

In financial 2004 the cash flow from operating activities amounted to € 427 million (2003: € 425 million) covering the funds for the high investments and the financing activities. The cash flow used in investing activities totaled € 192 million, less than in the prior year (€ 298 million), primarily due to the acquisition of the electrical insulation business of Schenectady International Inc. in 2003. The cash outflow in regard of financing activities increased due to the higher dividend payment, repayment of long-term debt, and a higher balance from the purchase and sale of treasury shares, rising from € 152 million to € 202 million. At year-end, the ALTANA Group's liquidity consisting of securities and cash and cash equivalents amounted to € 580 million (2003: € 580 million). Financial debts only comprised 2 % of the total assets (2003: 4 %).

INVESTMENTS IN FUTURE GROWTH

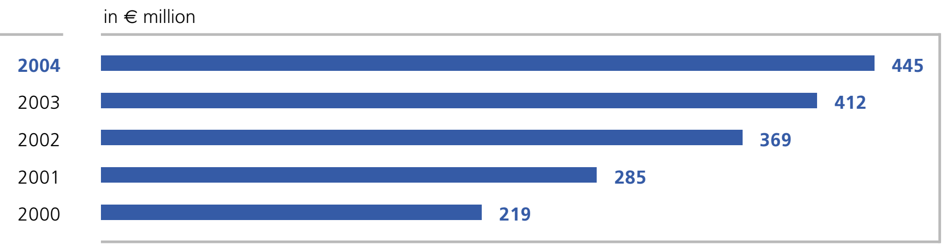
ALTANA invested € 226 million in property, plant and equipment and intangible assets in 2004. In the Pharmaceuticals division, 30 % more was invested in property, plant and equipment than in the prior year. Among the most important investment projects were the expansion of the research facilities at the Constance location, the completion of substance production facilities at the Singen location, the expansion of production sites in Oranienburg, the building of the new production facility in Ireland, and the construction of the new research institute in India. In Oranienburg and Ireland the production capacities for oral drugs are being extended. With the plant in Ireland, ALTANA Pharma will possess a second production site for solids, which will heighten its market supply flexibility. At the same time, the Supply Chain Management was further developed.

In the Chemicals division, investments in property, plant and equipment amounted to € 43 million (2003: € 53 million). They were primarily earmarked for the expansion of the additives production facility at the Wesel location as well as the new Electrical Insulation production site in Zhuhai, China, near Hong Kong. A further € 17 million was invested in intangible assets. The biggest single investment of about € 8 million was the acquisition of the electrical insulation business of Ranbar Electrical Material Inc., U.S.

> **Structure of consolidated balance sheet**

	2004		2003	
	in € million	in %	in € million	in %
Equity	**1,661**	**61.5**	1,445	57.1
Provisions and accruals	**566**	**21.0**	553	21.8
Liabilities	**472**	**17.5**	534	21.1
Total liabilities	**2,699**	**100.0**	2,532	100.0

> **Research expenses Group**



RESEARCH AND DEVELOPMENT

Innovations are decisive growth drivers. As a result, we again boosted our investments in Research and Development (R&D) in financial 2004. Research and Development expenses amounted to € 445 million (+ 8 %). € 407 million (+ 8 %) was allocated for pharmaceutical research, € 38 million (+ 6 %) for chemical research.

With a research ratio comprising 22 % of ALTANA Pharma's therapeutics sales and almost 5 % of ALTANA Chemie's sales, both divisions record high figures in an international comparison.

NEW JOBS CREATED

As of December 31, 2004, ALTANA employed 10,783 people worldwide, a 4 % increase on the prior year. Around 5,000 employees worked for German companies, some 5,800 for companies outside of Germany. Bucking the general trend, ALTANA again created new jobs; 142 new positions were established in Germany (+ 3 %), and 239 at our companies outside of Germany (+ 4 %). In 2005, too, ALTANA plans to hire new staff worldwide.

At the end of 2004 ALTANA Pharma had 8,200 employees worldwide (2003: 7,702), 6 % more than in the prior year. The need for new personnel was particularly high in Research and Development, as well as in marketing and sales. The workforce in North America increased to 1,090. In Germany, there were 3,702 employees (2003: 3,575), a 4 % increase on 2003.

At year-end 2004, 2,521 people worked for ALTANA Chemie worldwide, 4 % less than in the prior year. The decrease is primarily attributable to divestments in the Coatings & Sealants business unit. Adjusted for divestments, the workforce was increased by 2 %. 1,194 people were employed by German companies, 2 % more than in 2003. The number of staff members in companies outside of Germany fell by 9 % to 1,327, accounting for 53 % of ALTANA Chemie's total personnel. Excluding divestment effects, the number of employees outside of Germany increased by 3 %.

> **Employees by region**

	2004	2004 in %	2003	2003 in %
Europe	**7,273**	**67.5**	7,179	69.0
thereof Germany	**4,958**	**46.0**	4,816	46.3
North America	**1,416**	**13.1**	1,332	12.8
Latin America	**1,439**	**13.3**	1,300	12.5
Other regions	**655**	**6.1**	591	5.7
Total	**10,783**	**100.0**	10,402	100.0

SOCIAL AND SOCIOPOLITICAL RESPONSIBILITY

ALTANA's personnel and group strategy are intertwined. As a result, the interests of the shareholders, the management, the staff, and our customers have been brought together.

NEW BENCHMARK INDEX-ORIENTED MODEL INTRODUCED

Since 1999, ALTANA has offered its executives a stock option plan (SOP). The aim is to give key personnel additional incentive to help further increase the corporate value. So that the options can be exercised and do not expire, according to German stock law performance conditions have to be taken. Up until SOP 2003, the following applied: earnings had to grow by at least 20 % in the first two years of the plan. With SOP 2004, this "internal" hurdle was replaced by an "external" hurdle: the ALTANA share has to develop better than a benchmark index within a certain time frame. Due to the structure of the company, a weighted mixed index combining Dow Jones Stoxx Healthcare (up to 70 %) and Dow Jones Stoxx Chemicals (up to 30 %) was selected. This benchmark-oriented model, which is used by the majority of DAX-listed companies with option plans, complies with the recommendations of the German Corporate Governance Code. External studies confirm the sophistication of this concept.

SOP participants are determined by the Management Board, and in so far as the Management Board is affected by the Supervisory Board. In order to participate in the plan, one has to make a considerable investment – namely 5, 15, 50 or 150 thousand euros in ALTANA shares, depending on the group in question. Employees are not allowed to sell these ALTANA shares while they are affiliated with the ALTANA Group.

EMPLOYEES PUT THEIR TRUST IN ALTANA

Since the year 2000, ALTANA has offered its employees in Germany and a large part of those working outside of Germany an employee incentive plan granting warrants as well. Every entitled employee can invest up to 10 % of his annual salary in ALTANA shares and in return receives a subsidy of up to €450 a year depending on the earnings. Per share of investment a free warrant is granted, which after a blocking period of two years can be exercised within a time frame of two years, provided that the price of the ALTANA share has risen above the warrant price. The employee cannot sell the shares for a period of two years.

With this offer combining share acquisition at preferential terms with a warrant, ALTANA underlines its trust in the value-increasing contribution of every employee toward the success of their company and thus the Group as a whole. We are very proud of the high participation rates, which were between 40 and 60 % of all those entitled to take part. Every year 2,600 to 3,400 staff members have participated in the respective plan. The employees' average annual investment in ALTANA shares, the prerequisite for receiving warrants, lay between €1,500 and €2,800. The extent of the investment expresses the employees' special confidence in the company's development.

RETIREMENT PLAN WELL RECEIVED

As of October 2002, ALTANA has offered its German employees an intelligent and novel retirement plan. Employees who opt for the "AltersvorsorgeAktiv mit ALTANA" plan (AAA for short) can invest part of their gross income, i.e. before income tax and in some cases social security contributions as well are deducted, for retirement (so-called deferred compensation). After the employees reach the age limit and leave professional life, savings are taxed and payed out to the employees in several installments as retirement income. One advantage of the model is that employees pay less tax and make lower social security contributions. The tax rates for those retired are normally lower and they generally do not have to make social security payments. In addition, the money is invested in funds created by UBS especially for ALTANA, a share-based and a bond-based investment as well as a money market fund, based on the so-called “lifecycle concept.”

The distribution of the money to the different funds depends on age and risk: the younger an employee is, the larger the percentage that is invested in higher-risk share funds. Experience has shown that the opportunities of stock investment far outweigh the risks in the long term. To safeguard against risks, ALTANA grants a guaranteed minimum interest of 2.75 % p.a. (at present) on the investments.

In addition to part of the employee’s monthly wages, special payments, emoluments, vacation benefit, deferred compensation under the labor agreement for the chemical industry and tax free benefits may be converted into old age provision.

One fourth, or around 1,200 of the German employees, take advantage of ALTANA’s retirement plan. Since it was established at the end of October 2002, the share-based investment has had a performance of 18 %, which corresponds to an annual increase of 8 %. The performance of the bond-based investment is 11.5 %, an annual rise of 5 %. Based on the value of the funds as per December 31, 2004, employees on average have a per capita share of more than € 7,300. Roughly the same number of tariff and non-tariff staff are taking part in the plan.

ALTANA offers comparable models outside of Germany as well. People working for U.S. companies, for example, can invest part of their gross earnings in similar funds within the framework of retirement schemes, so-called “401 K plans.”

CORPORATE OFFICES COORDINATE SOCIOPOLITICAL INVOLVEMENT

Since November 2004 ALTANA has had a representative office in Brussels, in addition to those in New York and Berlin. Via the three offices, ALTANA actively takes part in sociopolitical dialogue.

Due to the addition of ten new member states to the European Union, the work and structures of E.U. institutions are undergoing profound changes. The importance of the E.U. and its legislative authority is still underestimated by many in Germany. For example, the German Bundestag has no right to participate in the REACH directive, the reform of the E.U. chemicals policy that is so important for our business.

In October 2004 – four years after the deadline for implementation – the European Court of Justice condemned the Federal Republic of Germany for not realizing the biopatent directive in national law. Only then did German policymakers implement the guideline in German law – but with restrictions. This is not a convincing signal for Germany as a research location. Although the German government proclaimed 2004 to be the “year of innovations” and stressed the importance of the pharmaceutical and biotech industries for Germany as a business location, in the same year it decided within the framework of the reform of the health care system to introduce reference prices for patent-protected drugs. The hollowing out of patent protection is a wrong decision, which will have an unfavorable effect on Germany as a location for pharmaceutical business in the medium term. In the meantime, ALTANA and other companies have taken legal measures: the actual implementation of the reference price regulation by the Federal Joint Committee stands in contradiction to the “innovative protection clause.”

In 2004 ALTANA not only intensified dialogue with policymakers, but also took over tasks in committees of business and interest groups. Thus, ALTANA was one of the founding members of the German Industry Association's (BDI) "Vital Society Initiative," is involved in the UN Global Compact organization, the world's largest Corporate Responsibility Initiative, and is represented in the board of directors of the German Association of Research-Based Pharmaceutical Companies (VFA).

But ALTANA's involvement is not limited to improving general research conditions. Rather, ALTANA views itself as a company that is helping to shape society. As a "corporate citizen," ALTANA has been involved in educational reform in Berlin, a key issue for German innovativeness in the future (more information on p. 60 f). The topics of "Brain Drain and Brain Gain at German Universities" and prospects of Germany as a location for universities ensuring itself the creative potential of the "best minds" were discussed at a conference held at Humboldt University in Berlin, which was co-organized by ALTANA.

The corporate office in New York stages events to help make ALTANA more well known to decision-makers in business and politics in one of its most important markets, and to position the ALTANA brand. The office provides staff of the corporate divisions with analyses relevant to their work and up-to-date information on the American economy, politics, and social issues. With events that the office organizes for the Herbert-Quandt-Stiftung and the ALTANA Cultural Forum, it helps extend ALTANA's cultural and social commitment to North America.

ALTANA RISK REPORT

The ALTANA Group's risk policy is geared to the Group strategy of increasing the company's value in the medium and long term. Within the framework of the Group-wide value management system, the development of the value of the ALTANA Group is analyzed both in retrospect and in the context of planning activities in advance, so that effects of strategic corporate decisions are apparent early on and active control of factors relevant to the company's value development can be taken.

RISK MANAGEMENT OF THE ALTANA GROUP

Early recognition of risks is an essential part of the management system of ALTANA as a globally operating company. The Management Board of ALTANA AG is responsible for shaping risk management. ALTANA's risk management system was audited in accordance with section 317 (4) of the German Commercial Code (HGB) and was deemed capable of recognizing dangerous risks at an early stage.

Risk management is an integral part of the business, planning, and control processes of the ALTANA Group and is incorporated in the Group's information and communication system. Of initial importance is identification and evaluation of risks. Based on the parameters extent of damages and probability of a risk actually occurring, a risk figure is determined. If a certain threshold figure is surpassed, measures are taken to control the risk. On the basis of the structure of the Group, separate risk reports are issued for ALTANA Pharma and ALTANA Chemie and then brought together at the Group level.

RISKS SPECIFIC TO PHARMACEUTICAL RESEARCH

Pharmaceutical companies are not very vulnerable to short-term economic developments. They normally achieve high sales and earnings with few, innovative, patent-protected products. Enforcement of patent laws is therefore decisive for their financial success. As a result, their activities are limited on markets on which patent rights are not protected effectively.

In nearly all markets, pharmaceutical companies are subject to national regulations, which concern the approval, production, pricing, and marketing of their products. In some countries with nationalized health-care systems, there is massive interference in the health market and so the development of companies is sensitively impeded. Due to the fierce competition on the pharmaceutical markets and the limited terms of patent of innovative products, pharmaceutical companies are dependent on continuous development of new, innovative active substances. The development and marketing of new products requires significant effort in advance. If a product development fails due to the stringent requirements of the approval agencies or if a product cannot get a footing on the market, the high investments are not compensated for by earnings. Such setbacks can have a significant influence on the financial position, results of operations, or cash flows of a company.

Side effects of drugs not recognized within the framework of product development and approval, or drugs whose effects change due to faulty production or storage, or for other reasons, can result in high product liability damages.

> **ALTANA Pharma** focuses on the research, production, and marketing of innovative, prescription therapeutics for gastrointestinal, respiratory diseases, and cancer. We currently generate a material part of our sales with one product, the gastrointestinal drug Pantoprazole. The substance Pantoprazole is protected by patent in the U.S. until July 2010. In 2004 Teva Pharmaceuticals U.S., Inc. applied to the U.S. FDA for approval of a generic* Pantoprazole and within the framework of this so-called "ANDA procedure*" called into question the Pantoprazole patent. In reaction, ALTANA Pharma filed a patent violation suit against Teva.

Difficulties in the production or distribution of our main sales driver might have a considerable influence on our financial position, results of operations, or cash flows. On account of new innovative respiratory drugs from our research pipeline, such as ALVESCO®, Pantoprazole's share in ALTANA Pharma's annual sales will drop in the medium term. We ensure that our products are manufactured in a proper, safe way by adhering to Good Manufacturing Practices (GMP*). Our most important production sites are FDA*-certified. We sell our products in almost every region in the world, in some cases in conjunction with partners with which we have co-marketing or co-promotion agreements, or with license holders. Via our sales representatives and distribution partners we can recognize changes on all markets relevant to us at an early stage and take appropriate measures.

In order to minimize product risks, we established a notification and warning system in conformity with international standards, which even reacts to weak signals. In addition, we continually conduct studies on the efficacy, tolerability, form of application, dosage, and usage of our products. With a research and development controlling, which documents, monitors, and analyzes the project progress of every active substance investigated, we ensure optimal employment of funds. Whether a project is continued depends in large part on whether it can be realized and on its market potential. When it comes to procurement, we make sure that we do not become dependent on one or more suppliers. Through medium and long term supply relations, we reduce the costs of regularly occurring supply processes.

* Glossary

RISKS SPECIFIC TO SPECIALTY CHEMICALS COMPANIES

The chemical industry normally reacts to economic developments at an early stage and immediately; it is therefore considered an early indicator of the general economic development. One characteristic of the chemical markets is stiff competition. While cost leadership in the basic chemicals industry gives a company an important competitive advantage, in the field of specialty chemicals innovativeness is the key factor. Specialty chemicals companies regard themselves more as providers of solutions than of products. The chemical industry is subject to a large number of regulations, particularly regarding environmental protection. In international competition, a tightening of these regulations can result in companies having disadvantages vis-à-vis companies which are subject to less stringent environmental protection guidelines.

> **ALTANA Chemie** operates in the target markets of paint and plastics additives, packaging coatings, sealing compounds, and electrical insulation worldwide. Weak demand or shifts in demand in market segments or subregions can be compensated for or at least cushioned within ALTANA Chemie. To be successful on our markets, we rely on a jump on the competition in terms of know-how. In nearly all areas ALTANA Chemie already occupies a leading market and/or technology position, or strives to do so. Our investments in Research and Development are much higher than the industry average. The development of new products occurs either by order or together with our customers to ensure that the products are salable. Sophisticated quality assurance systems guarantee that the quality of the products remains at the same high level. Our variety of products, the large number of customers and suppliers we have, as well as our reorganized purchasing system, by means of which all decentralized needs are handled centrally, enable us to achieve optimal procurement conditions.

FINANCIAL RISKS

Like all market participants, ALTANA is subject to financial risks, which, however, cannot endanger the survival of the company.

Due to the internationalization of our Pharmaceuticals and Chemicals business, exchange rate fluctuations have a considerable influence on the earnings of the Group as well as on that of the two corporate divisions. With our company-wide hedging strategy we aim to cushion ourselves in particular against the biggest exchange rate risk resulting from fluctuations of the euro against the U.S. dollar. The main hedging instruments are forward foreign exchange contracts. With increasing duration, the forward foreign exchange contracts are supplemented by currency options. Counterparty of our hedge transactions are only banks with an excellent credit ranking.

ALTANA is self-financed to a large extent. The company's cash and cash equivalents far exceed its financial liabilities. Surplus cash and cash equivalents are mainly invested in euro-based securities, and to a smaller extent in shares. Accordingly, changes in interest structure curves and share price fluctuations influence the financial position, results of operations, or cash flows of the company.

RISKS FROM ACQUISITIONS AND INVESTMENTS

Acquisitions and investments involve complex risks. ALTANA carries out acquisition and integration projects according to fixed procedures, which ensure that material risks are recognized and monitored.

OTHER RISKS

We limit the risks of liability and damages that can occur in our corporate work by means of insurances. At present, there are no claims of third parties that would be expected to have a material influence on

ALTANA's financial position, results of operations, or cash flows.

In 2004, ALTANA's risk situation and risk environment remained more or less the same as in the prior year. No risks were found which could endanger the existence of the company.

ENVIRONMENTAL PROTECTION FURTHER IMPROVED

Our environmental policy focuses on the protection of people, the air, soil, and waterways, on the one hand, and on a gentle handling of natural resources on the other. Within the framework of "Responsible Care," a worldwide initiative launched by the chemical industry, we have committed ourselves to continually improving safety, health, and environmental protection, and to creating a balanced relation between ecological and economic concerns. This can be found in the guiding principles of the ALTANA holding company and its operating divisions, ALTANA Pharma and ALTANA Chemie.

Our environmental protection activities embrace all areas of our corporate activity, but particularly relate to the development of new products and the work flows and facilities needed to manufacture and store them. The principles of preservation of resources and avoidance of emissions and waste are therefore fixed components of the entire process from the development to the manufacture of our products. In order to fulfill the commitments involved, we have implemented effective environmental management systems in accordance with the EC Eco-Management and Audit Scheme (EMAS) and DIN ISO 14001 to ensure our adherence to the stated principles. The responsible management regularly assesses the relevant environmental key figures. The effectiveness of our environmental protection endeavors is monitored and confirmed by independent auditors on an annual basis.

At ALTANA Pharma's largest production site in Singen, chemical active ingredient synthesis is performed and the different forms of application of liquid and semi-solid drugs are produced and packaged. This site is also home to quality control, a raw material and production warehouse, a finished goods warehouse, commissioning, and shipping.

> **Adherence to new legally required exhaust air limits ensured.** Environmental effects cannot always be avoided by means of product-integrated solutions. As a result, we cannot do without downstream environmental technologies (so-called end-of-pipe solutions). For this reason we started operating a modern waste air cleaning installation at our FDA-certified site in Singen which is capable of cleaning more than 63,000 m^3 of waste air per hour. Thus, we have ensured the exhaust air remains within the new legal limits.

> **Energy needed for purification reduced.** The wastewater at the Singen site is channeled into a public purification plant. In cooperation with the purification plant of the city of Constance, we devised an installation that enables some of our wastewater to be dispensed into the digestions tower on the grounds of the plant to reduce the energy needed for purification. In the future there will be no new energy needed for purification, but rather the existing methane will be used to generate electricity for the operation of the purification plant.

> **Water consumption further optimized.** Water is an important raw material for the Singen site, as substances and liquid as well as pasty drugs are manufactured there. Thanks to the establishment of a "water cycle" in which user, technology, quality assurance, and the safety and environment area are combined, water consumption at the site could be further optimized in 2004. This is also of economic importance, as drinking water has to be refined to be used in the drugs and its value increases substantially in the course of the manufacturing process.

> **Investments in new technologies.** The current trend in the development of innovative drugs is unmistakably towards ever more potent substances with a strong

pharmaceutical effect at lower concentrations. In order to protect our staff who deal with these substances, we have set up the necessary facilities in research and development areas as well as in pharmaceutical production. Investments in these new technologies are indispensable for a forward-looking, researching pharmaceutical company.

> **Safety training for line management carried out.** In recent years the number of accidents at ALTANA Pharma was roughly equivalent to the average in the European chemical industry. To further improve our safety standards, we have given the line management safety training with external support.

> **Adherence to code of conduct checked.** As we want to be recognized as a reliable and trustworthy "corporate citizen," we have issued a code of conduct which has to be taken account of by employees at our sites worldwide. The code of conduct requires, among other things, that our employees observe local laws and work safety and environmental protection practices. In 2004 we introduced an audit program used to check observance of the code at our international production sites.

ALTANA Chemie's top-selling business unit, Additives & Instruments, considerably expanded its biggest product site in Wesel (Germany) and the new production facility went into operation.

> **Emissions reduced significantly.** As part of the expansion endeavor a new thermal exhaust air combustion facility was installed. Not only the new production capacities were hooked up to it, but also the existing production installations. In this way we were able to reduce emissions into the air substantially despite the expansion of the product capacities. At the same time, all of the manufacturing plants were connected to a system of collection vessels, which safely prevents the product from leaking out into the environment in the case of an accident.

> **Waste reduced.** Thanks to investments in tank farms for raw materials, waste from raw material containers and raw materials sticking to containers could be reduced. The tanker supply connected with this helped to decrease the traffic to the production facility in comparison to the packaged goods delivery.

As there are now more manufacturing lines due to the expansion of the facility, less effort is needed for cleaning and the amount of waste is reduced. For one product group a project is underway to replace a powder-form catalyst.

> **More environmentally friendly product alternatives developed.** BYK-Chemie continually works on developing alternatives for raw materials that could have environmentally harmful or endocrine effects.

We help our customers replace coatings containing solvents with solvent-free ones, e.g. powder coatings, water-based coatings, or high-solid coatings, by developing additives for these coating systems. 30 % of our Research and Development expenses are allocated for such projects.

A focus of our research activities is the development of wetting and dispersing additives as well as defoamers and flow-control agents for water-based coatings and printing inks.

In the next 12 months a large number of new products for water-based coatings are expected to go on the market.

Furthermore, we develop additives for coatings that are free of volatile organic components (VOC) or aromatics.

REPORT IN ACCORDANCE WITH SECTION 312 OF THE GERMAN STOCK CORPORATION ACT

For the financial year 2004, the Management Board of ALTANA AG prepared a report in accordance with section 312 of the German Stock Corporation Act (AktG) on relations with associated companies. In this report we concluded that the payment received by ALTANA AG for the transactions and operations listed in the report was reasonable in accordance with the circumstances known at the time when the company entered into the mentioned transactions.

SPECIAL EVENTS IN THE NEW BUSINESS YEAR 2005

In 2005 ALVESCO® (Ciclesonide) was launched in the first European markets, in the U.K. (in January), and in Germany (in February). ALVESCO® is a novel inhaled corticosteroid (ICS) used to treat persistent asthma (more information on p. 32).

As part of the Coatings & Sealants business unit's strategy to concentrate on chemical solutions for the packaging industry, ALTANA Chemie concluded an agreement end of January concerning the sale of its Austrian subsidiary Rembrandtin Lack Ges. m.b.H., Vienna, to EK Mittelstandsfinanzierung AG, the private equity funds of the Bank Austria Creditanstalt AG. With 127 employees, Rembrandtin generated sales of around € 33 million in 2004.

OUTLOOK FOR 2005

In some regions there were already indications in the course of 2004 that the economic dynamism would weaken. The high prices of raw materials and a restrictive monetary policy are expected to slow growth slightly in some important countries, including in the two big growth regions, North America and Asia. In the latter, China is extremely important. Despite the moderation in the rate of expansion of investments, considerable economic growth is anticipated. Japan is not likely to benefit as much from external impetus as before. For the time being, the euro zone and Germany will recover only very slowly.

Following the robust sales achieved in 2004, global chemical production will lose some vigor due to a more timid increase in industrial demand. The global pharmaceutical market will also expand at a slower rate. For the U.S. pharmaceutical market, high single-digit growth is expected.

All forecasts are based on the assumption that the exchange rate of the euro against the dollar will stabilize at the current level. Economic risks have increased, however, and so a new appreciation of the euro cannot be ruled out.

In 2005, the growth impetus for both ALTANA Pharma and ALTANA Chemie will again primarily come from markets outside of Germany. As in 2004, the appreciation of the euro could strain sales and earnings development. In the case of ALTANA Pharma, the PROTONIX® sales of its partner Wyeth in the U.S. would be particularly affected. The price reductions planned in Italy and the U.K., as well as the new reference price regulation in Germany, which apply to Pantoprazole, will have a negative effect on the European pharmaceutical business. Nevertheless, we expect our main sales driver to post a positive sales performance. We expect our own sales of Pantoprazole to exhibit a growth rate similar to that of 2004. In addition, we expect to generate first sales from the marketing of ALVESCO®. Despite further market introductions of ALVESCO®, the preparations for DAXAS® to go on the market, as well as growing investments in researching new active substances and developing new drugs, we believe that ALTANA Pharma will record stable earnings in 2005.

ALTANA Chemie again expects a high demand for its specialty chemicals in all regions in 2005. The organic growth of the division is primarily driven by additives. In 2005, the specialty chemicals business will again grow both organically and in terms of strategic acquisitions. Last year's divestments will have positive effects this year. Earnings should increase again.

ALTANA's growth will continue in 2005.

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MANAGEMENT BOARD STATEMENT

The consolidated financial statements in this Annual Report have been prepared by the Management Board of ALTANA AG, which is responsible for the completeness and accuracy of the information contained therein.

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS).

The information contained in the consolidated financial statements and the Group Management Report is based on the information reported, in accordance with consistent guidelines in force throughout the Group by the companies included in the consolidation. The integrity of the reporting process is safeguarded by effective internal control systems established at these companies under the direction of the Management Board. In this way, a true and fair view of the performance and results of the Group is assured and the Management Board is in a position to recognize potential investment risks and negative developments at an early stage and take appropriate countermeasures.

By resolution of the last Annual General Meeting, the Chairman of the Audit Committee of the Supervisory Board appointed PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as independent auditor of the consolidated financial statements. The auditors' report is reproduced on the following page. The consolidated financial statements, the Group Management Report and the auditors' report have been made available to the Supervisory Board for detailed discussion. The report of the Supervisory Board is contained on pages 146–148 of this Annual Report.

Bad Homburg v.d.H., February 2005

The Management Board

Dr. Nikolaus Schweickart

Dr. Hermann Küllmer

Dr. Hans-Joachim Lohrisch

Dr. Matthias L. Wolfgruber

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements, consisting of the balance sheet, the income statement and the statements of changes in equity and cash flows as well as the notes to the financial statements prepared by ALTANA AG for the business year from January 1 to December 31, 2004. The preparation and the content of the consolidated financial statements according to the International Financial Reporting Standards of the IASB (IFRS) are the responsibility of the company's Management Board. Our responsibility is to express an opinion, based on our audit, whether the consolidated financial statements are in accordance with IFRS.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the ALTANA Group for the business year in accordance with IFRS.

Our audit, which also extends to the group management report prepared by the Management Board for the business year from January 1 to December 31, 2004, has not led to any reservations. In our opinion, on the whole the group management report, together with the other information of the consolidated financial statements, provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2004 satisfy the conditions required for the company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Frankfurt am Main, Germany, March 4, 2005

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Eberhard Dreissig
German Public Auditor

Klaus Höfer
German Public Auditor

ALTANA GROUP CONSOLIDATED BALANCE SHEETS

ASSETS	Notes	Dec. 31. 2004	Dec. 31. 2003
Intangible assets, net	5	**237,126**	230,038
Property, plant and equipment, net	6	**762,974**	687,032
Long-term investments	7	**48,202**	25,812
Total fixed assets		**1,048,302**	**942,882**
Inventories	8	**328,552**	318,606
Trade accounts receivable, net	9	**495,714**	414,324
Marketable securities	10	**263,465**	292,008
Cash and cash equivalents		**316,662**	287,670
Deferred tax assets	25	**46,471**	79,282
Other assets and prepaid expenses	11	**199,867**	197,085
Total assets		**2,699,033**	**2,531,857**

LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY	Notes	Dec. 31. 2004	Dec. 31. 2003
Share capital[1]		**140,400**	140,400
Additional paid-in capital		**136,718**	137,871
Retained earnings		**1,754,671**	1,477,358
Revaluation reserve		**22,337**	11,968
Translation adjustments		**-134,813**	-119,735
Treasury stock, at cost		**-258,513**	-202,437
Total shareholders' equity	12	**1,660,800**	**1,445,425**
Minority interests		**1,681**	**6,455**
Employee benefit obligations	14	**263,768**	254,670
Accrued income taxes	25	**58,834**	85,240
Accrued liabilities	15	**243,296**	212,885
Total provisions		**565,898**	**552,795**
Debt	16	**57,757**	96,475
Trade accounts payable		**226,432**	205,268
Other liabilities	17	**83,203**	80,553
Deferred income	18	**95,237**	111,594
Deferred tax liabilities	25	**8,025**	33,292
Total liabilities		**470,654**	**527,182**
Total liabilities, provisions and shareholders' equity		**2,699,033**	**2,531,857**

[1] Share capital, no par value shares, 207,900,000 shares authorized, 140,400,000 issued and 135,285,154 (136,266,805 at December 31, 2003) outstanding at December 31, 2004

See accompanying notes to consolidated financial statements.

ALTANA GROUP CONSOLIDATED INCOME STATEMENTS

	Notes	2004	2003
Net sales	4	**2,962,851**	2,734,787
Cost of sales		**-1,013,577**	-946,894
Gross profit		**1,949,274**	**1,787,893**
Selling and distribution expenses		**-777,316**	-710,021
Research and development expenses		**-445,048**	-411,868
General administrative expenses		**-144,915**	-119,537
Other operating income	20	**69,131**	90,863
Other operating expenses	21	**-34,446**	-74,410
Operating income		**616,680**	**562,920**
Net income from investments in associated companies	22	**1,724**	536
Interest income, net	23	**9,145**	12,740
Other financial income (expenses), net	24	**-3,716**	4,084
Financial income		**7,153**	**17,360**
Income before taxes and minority interests		**623,833**	**580,280**
Income tax expense	25	**-232,577**	-235,203
Income before minority interests		**391,256**	**345,077**
Minority interests		**-573**	145
Net income		**390,683**	**345,222**
Basic earnings per share (in €)		**2.88**	2.53
Diluted earnings per share (in €)		**2.87**	2.53

Amounts in € thousands, unless stated otherwise.

See accompanying notes to consolidated financial statements.

ALTANA GROUP CONSOLIDATED CASH FLOW STATEMENTS

	2004	2003
Net income	**390,683**	345,222
Depreciation and amortization	**121,278**	114,306
Net gain from disposals of fixed assets	**-2,028**	-20,905
Net gain from sales of marketable securities	**-441**	-3,491
Increase / decrease in operating assets and liabilities,		
net of acquisitions and dispositions		
Inventories	**-22,430**	-29,786
Trade accounts receivable, other assets and prepaid expenses	**-118,844**	-78,420
Income taxes	**-20,681**	-6,594
Provisions	**46,050**	-1,736
Accounts payable and other liabilities	**48,428**	65,004
Deferred income	**-16,197**	27,679
Minority interests	**573**	-2,321
Other	**333**	16,239
Net cash flow provided from operating activities	**426,724**	**425,197**
Capital expenditures	**-226,058**	-262,426
Purchases of financial assets	**-19,293**	-5,416
Proceeds from sale of product groups	**15,641**	29,521
Proceeds from sale of fixed and financial assets	**5,919**	8,630
Acquisitions, net of cash acquired	**-956**	-43,751
Proceeds from sale of marketable securities	**217,837**	298,885
Purchase of marketable securities	**-185,292**	-323,441
Net cash flow used in investing activities	**-192,202**	**-297,998**

See accompanying notes to consolidated financial statements.

	2004	2003
Net cash flow used in investing activities	**-192,202**	**-297,998**
Dividends paid	**-113,256**	-102,447
Purchase of treasury shares	**-75,638**	-75,640
Proceeds from sale of treasury shares	**18,409**	38,944
Proceeds from long-term debt	**0**	12,341
Repayment of long-term debt	**-34,573**	-20,165
Net increase/decrease in short-term debt	**3,575**	-5,262
Net cash flow used in financing activities	**-201,483**	**-152,229**
Effect of exchange rate changes	**-4,047**	-10,174
Change in cash and cash equivalents	**28,992**	**-35,204**
Cash and cash equivalents as of January 1,	**287,670**	322,874
Cash and cash equivalents as of December 31,	**316,662**	287,670
Cash paid for		
Income taxes	**-354,451**	-247,486
Interest	**-3,895**	-7,995
Cash received for		
Income taxes	**2,276**	0
Interest	**14,328**	20,723

See accompanying notes to consolidated financial statements.

STATEMENTS OF CHANGES IN EQUITY OF THE ALTANA GROUP

	Issued					
	Number of shares	Share capital	Additional paid-in capital	Retained earnings	Revaluation reserve	
Balance January 1, 2003	**140,400,000**	**140,400**	**138,747**	**1,230,757**	**-14,091**	
Realized gains and losses from marketable						
securities, net of tax of € 149					-2,243	
Realized gains and losses from financial						
instruments, net of tax of € 739					-1,157	
Change in fair value of marketable						
securities, net of tax of € 1,305					14,202	
Change in fair value of financial						
instruments, net of tax of € 9,754					15,257	
Dividends paid				-102,447		
Net income				345,222		
Sale of treasury shares						
Loss on the sale of treasury shares			-876			
Purchase of treasury shares						
Settlement of DAT litigation				3,826		
Change in currency translation adjustments						
Balance December 31, 2003	**140,400,000**	**140,400**	**137,871**	**1,477,358**	**11,968**	
Realized gains and losses from marketable						
securities, net of tax of € 453					-446	
Realized gains and losses from financial						
instruments, net of tax of € 513					802	
Change in fair value of marketable						
securities, net of tax of € 396					7,385	
Change in fair value of financial						
instruments, net of tax of € 1,680					2,628	
Dividends paid				-113,256		
Net income				390,683		
Sale of treasury shares						
Loss on the sale of treasury shares			-1,153			
Purchase of treasury shares						
Settlement of DAT litigation				-114		
Change in currency translation adjustments						
Balance December 31, 2004	**140,400,000**	**140,400**	**136,718**	**1,754,671**	**22,337**	

See accompanying notes to consolidated financial statements.

Translation adjustments	Treasury Stock		Total Shareholders' equity
	Shares	Amount	
-78,959	**-3,936,702**	**-166,552**	**1,250,302**
			-2,243
			-1,157
			14,202
			15,257
			-102,447
			345,222
	1,227,457	39,755	39,755
			-876
	-1,423,950	-75,640	-75,640
			3,826
-40,776			-40,776
-119,735	**-4,133,195**	**-202,437**	**1,445,425**
			-446
			802
			7,385
			2,628
			-113,256
			390,683
	544,399	19,562	19,562
			-1,153
	-1,526,050	-75,638	-75,638
			-114
-15,078			-15,078
-134,813	**-5,114,846**	**-258,513**	**1,660,800**

> 1 BASIS OF PRESENTATION

The consolidated financial statements of ALTANA AG and its subsidiaries (the "Company" or "ALTANA") are prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Committee ("IFRIC"), and in accordance with § 292a of the German Commercial Code. Significant differences compared to German law relate to the valuation of employee benefit obligations, treasury stock, marketable securities and derivative instruments as well as to revenue recognition.

The consolidated financial statements of the Company include additional disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP"). Significant differences between IFRS and U.S. GAAP, affecting the Company's consolidated net income and shareholders' equity, are detailed Note 34.

ALTANA AG is incorporated as a stock corporation ("Aktiengesellschaft") under the laws of the Federal Republic of Germany. ALTANA conducts business in more than 30 countries worldwide and operates in two segments, pharmaceuticals and chemicals.

> 2 SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The consolidated financial statements of the Company include 31 (2003: 32) subsidiaries in Germany and 55 (2003: 52) subsidiaries abroad in which ALTANA AG, either directly or indirectly holds the majority voting rights or has the power to govern the subsidiaries' financial and operating policies. Special purpose entities, irrespectively of their legal structure, are consolidated when the Company has the power to govern the financial and operating policies of an entity. The change in the scope of consolidation from 2003 to 2004 did not have a material effect on the Company's consolidated balance sheets, statements of income, changes in shareholders' equity or cash flows and therefore did not impair comparability of the financial statements.

The Company holds a 49% interest in Bracco ALTANA Pharma GmbH, Constance, and therefore accounts for this investment using the equity method. As the investment and the equity in earnings of this associated company are immaterial, the amounts are not disclosed separately in the consolidated balance sheets and income statements but are included in long-term investments and net income from investments in associated companies.

The Company accounts for its investments in joint ventures using the proportional consolidation method as permitted under IAS 31 (revised 2000), "Financial Reporting of Interests in Joint Ventures". These joint ventures include ALTANA Madaus, South Africa, and Zydus ALTANA Healthcare, India.

All significant intercompany balances and transactions have been eliminated in consolidation.

The main subsidiaries included in the consolidated financial statements are listed on page 145 of the annual report. A complete listing of all subsidiaries of ALTANA group is filed with the Company's register in Bad Homburg v. d. H., number HRB 1933.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2003, the IASB issued revised IAS 32, "Financial Instruments: Disclosure and Presentation", and IAS 39, "Financial Instruments: Recognition and Measurement". These statements replace IAS 32 (revised 2000) and supersede IAS 39 (revised 2000), and should be applied for annual periods beginning on or after January 1, 2005. During 2004, several amending drafts were published in order to clarify special issues of revised IAS 39 and are expected to have to be applied for reporting periods beginning on or after January 1, 2006. The Company analyzed revised IAS 39 and the corresponding amendment drafts and concluded that the provisions regarding hedging activities within the Company will influence a part of the currently applied strategies of hedging foreign currency risks. Overall, however, the revised standard is not expected to have a material impact on the Company's consolidated financial statements.

In December 2003, as part of the IASB's project to improve International Accounting Standards, the IASB released revisions to the following standards that supersede the previously released version of those standards: IAS 1, "Presentation of Financial Statements", IAS 2, "Inventory", IAS 8, "Accounting Policy, Changes in Accounting Estimates and Errors", IAS 10, "Events after Balance Sheet Date", IAS 16, "Property, Plant and Equipment", IAS 17, "Leases", IAS 21, "The Effects of Changes in Foreign Exchange Rates", IAS 24, "Related Party Disclosures", IAS 27, "Consolidation and Separate Financial Statements", IAS 28, "Investments in Associates", IAS 31, "Interests in Joint Ventures", IAS 33, "Earnings per Share" and IAS 40, "Investment Property". The Company will apply the revised standards to annual periods beginning on or after January 1, 2005. The revised standards are not expected to have a significant impact on the Company's consolidated financial statements.

In February 2004, the IASB issued IFRS 2, "Share-based Payment" on accounting for share-based payment transactions, including granting of shares and share options to employees. The provisions of IFRS 2 are effective for annual periods beginning on or after January 1, 2005. The transitional provisions determine that IFRS 2 shall be applied to grants of shares, share options or other equity instruments that were granted after November 7, 2002, and had not vested by January 1, 2005, the effective date of this standard. ALTANA will apply the new provisions to employee incentive plans initiated since 2003. Until the issuance of IFRS 2, no provisions existed covering the recognition and measurement of share based payments. IFRS 2 requires share based payments to be recognized in the financial statements and measured at fair value applying an option-pricing model.

Before the application of IFRS 2 the Company measured expenses for share-based payments as the excess of the average cost of treasury shares acquired by the Company over the exercise price of the option.

Based on a binominal pricing model the following fair values were determined for employee incentive plans (see Note 13) to which IFRS 2 applies:

	Fair Value € per option
Management Stock Option Plan 2003	14.84
ALTANA Investment Plan 2003	9.00
Management Stock Option Plan 2004	11.53
ALTANA Investment Plan 2004	11.76

ALTANA will apply IFRS 2 for financial periods beginning on January 1, 2005. In accordance with the transitional provisions the Company will restate comparative information and adjust opening balance of retained earnings for the earliest year presented.

In March 2004, the IASB released IFRS 3, "Business Combinations" and revised IAS 36, "Impairment of Assets" and IAS 38, "Intangible Assets". The Company has adopted these standards as of January 1, 2004. As of this date, all business combinations within the scope of the standard are accounted for by applying the purchase method with prior periods not being adjusted. Additionally, IFRS 3 requires goodwill acquired in a business combination to be measured after initial recognition at cost less accumulated impairment losses. Therefore goodwill is no longer amortized but instead must be tested for impairment annually or more frequently, if events and circumstances indicate that the carrying amount is not recoverable. If the Company had not early adopted IFRS 3 in 2004, amortization of goodwill would have amounted to € 19.2 million.

In March 2004, IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations" was issued. IFRS 5 provides guidance for the accounting of non-current assets held for sale and the presentation and disclosure of discontinued operations. The Company will apply IFRS 5 to annual periods beginning on or after January 1, 2005. The application of IFRS 5 is not expected to have a material impact on the Company's consolidated financial statements.

In December 2004, an amendment regarding "Actuarial gains and losses, Group Plans and Disclosures" to IAS 19, "Employee Benefits", was issued. This amendment provides different options for the recognition of actuarial gains and losses. The Company is currently assessing what impact these new provisions will have on its consolidated financial statements.

FOREIGN CURRENCY

The consolidated financial statements of ALTANA are expressed in Euro "€".

Financial statements of subsidiaries where the functional currency is a currency other than the Euro are translated using the functional currency principle. For these entities, assets and liabilities are translated using the year-end exchange rates, while revenues and expenses are translated using the average exchange rates prevailing during the year. Equity is translated at historical exchange rates. Adjustments for foreign currency translation fluctuations are excluded from net income and are reported as a separate component of shareholders' equity.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in other operating income or other operating expenses.

The following table provides the exchange rates for our most important currencies:

1 Euro	Middle rate at December 31, **2004**	2003	Average rate years ended December 31, **2004**	2003
U.S. Dollar	**1.36**	1.26	**1.24**	1.13
Pound Sterling	**0.71**	0.70	**0.68**	0.69
Japanese Yen	**139.65**	135.04	**134.35**	130.80
Brazilian Real	**3.62**	3.65	**3.61**	3.46
Mexican Peso	**15.23**	14.14	**14.02**	12.17

INTANGIBLE ASSETS

Intangible assets, including software, are accounted for in accordance with IAS 38 (revised 2004), "Intangible Assets", and are therefore capitalized, if (a) the intangible asset is identifiable (i.e. it is separable or arises from contractual or other legal rights), (b) it is probable that the expected future economic benefits (e.g. cash or other benefits such as cost savings) that are attributable to the asset will flow to the entity and (c) the cost of the intangible asset can be measured reliably.

Intangible assets with a finite life are valued at cost less accumulated amortization. Intangible assets are amortized straight-line over the shorter of their contractual term or their estimated useful lives. The Company has not identified intangible assets with indefinite useful lives.

Since January 1, 2004, goodwill is no longer amortized but tested for impairment annually and whenever there is an indication that the carrying value may be impaired. The Company tests goodwill for impairment by comparing its recoverable amount with its carrying value (see section "New accounting pronouncements").

Until December 31, 2003, goodwill was amortized over its estimated useful life. Amortization expense was recorded in other operating expenses.

The following amortization periods are applied:

	Years
Patents, licenses and similar rights	2 – 15
Other intangibles	1 – 7

Amortization of all intangible assets is recorded based on their function as administration, research and development or selling and distribution expenses.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at cost less accumulated depreciation. Cost includes certain costs that are capitalized during construction, including material, payroll and direct overhead costs. Government grants are deducted from the acquisition or manufacturing costs.

Plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets.

The useful lives are:

	Years
Buildings	3 – 50
Plant and machinery	2 – 20
Assets under capital lease	2 – 25
Equipment	1 – 25

Maintenance and repairs are expensed as incurred while replacements, improvements and asset retirement obligations are capitalized. Gains or losses resulting from the sale or retirement of assets are reflected in other operating income or expense. Borrowing costs are expensed as incurred.

IMPAIRMENT OF INTANGIBLE AND TANGIBLE FIXED ASSETS

Since January 1, 2004, the Company tests goodwill acquired in a business combination for impairment annually irrespective of whether there is any indication of impairment or more frequently if facts and circumstances indicate that goodwill might be impaired. For the purpose of impairment testing, goodwill is allocated to the cash-generating units that are expected to benefit from the synergies of the business combination. In accordance with the IAS 36 (revised 2004), an impairment loss is recognized when the carrying amount of the cash-generating unit to which goodwill is allocated exceeds the higher of its net selling price or its value in use.

Until December 31, 2003, goodwill was amortized straight-line over its useful live and tested for goodwill only if facts and circumstances indicated that goodwill was impaired. Any resulting impairment loss was recorded in the income statements in other operating expenses. No impairment losses were recorded in 2004 and 2003.

Intangible assets other than goodwill and tangible assets are tested for impairment if facts and circumstances indicate that these assets might be impaired. An asset is impaired if its carrying amount exceeds the higher of its net selling price or its value in use. Net selling price is the amount obtainable from the sale of the asset in an arm's length transaction less the cost of the disposal. Value in use is based on the discounted cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life.

If there was any indication that the considerations, which led to impairment no longer exist, the Company would consider the need to reverse all or a portion of the impairment charge. In 2004 a reversal of a previously recorded impairment loss in an amount of €0.1 million was recorded. In 2003 no impairment losses were reversed.

MARKETABLE SECURITIES AND OTHER LONG-TERM INVESTMENTS

In accordance with IAS 39 (revised 2000), the Company classified all marketable securities and certain long-term investments as available-for-sale and, therefore, carries these securities at fair value with unrealized gains and losses recorded in equity (revaluation reserve), net of tax.

The Company's policy to determine if an impairment of a security exists, fundamentally is based on a two step approach, which takes into consideration if the difference between the fair market value and book value of the security is significant as well as the period of time the difference exists. Furthermore, regardless of the period of time, impairment will be recognized if there is a difference between the fair value and the carrying amount. Impairment losses are recognized in other financial expenses when realized and are determined on an individual security basis.

If there was an indication that the considerations which led to the impairment of the security no longer exist, then the Company would consider the need to reverse all or a portion of the impairment charge. In 2004, no reversals of impairment losses on marketable securities and other long-term investments were recorded. In 2003, a reversal relating to the 8.3% long-term investment in GPC Biotech AG was recorded in financial income totaling € 7.7 million.

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are valued at net realizable value. The Company estimates an allowance for doubtful accounts based on a review of individual customer receivables and historical uncollectibility.

INVENTORIES

Inventory is valued at the lower of acquisition or manufacturing costs or net realizable value at the balance sheet date. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost to complete and selling expense. Generally, acquisition and manufacturing costs are determined on the basis of weighted average costs. Manufacturing costs comprise material, payroll and direct overhead, including depreciation.

CASH AND CASH EQUIVALENTS

The Company considers cash in banks and highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

FINANCIAL INSTRUMENTS

In accordance with IAS 39 (revised 2000) the Company recognizes all financial assets and liabilities, as well as all derivative instruments, as assets or liabilities in the balance sheet and measures all, apart from some exemptions (e.g. held to maturity securities or originated financial instruments), at fair value, regardless of the Company's intent. Changes in the fair value of derivative instruments are recognized in income or shareholders' equity (as revaluation reserve) depending on whether the derivative is designated as a fair value or cash flow hedge. For derivatives designated as fair value hedges, changes in fair value of the hedged item and the derivative are recognized in the income statement. For derivatives designated as a cash flow hedge, changes in fair value of the effective portion of the hedging instrument are recognized in equity (revaluation reserve) until the hedged item is recognized in the income statement. The ineffective portion of the fair value changes of derivatives designated as cash flow hedges and fair value changes of derivatives which do not qualify for hedge accounting are recognized in the income statement immediately.

GOVERNMENT GRANTS

The Company received € 4.4 million and € 1.0 million for the years ended December 31, 2004 and 2003, respectively, of taxable and non-taxable investment grants for the acquisition of certain long-lived assets. The grants are recorded as a reduction of the cost basis of the acquired and internally constructed assets.

In addition, the Company received government grants as non-refundable reimbursement of expenses in the amount of € 0.2 million and € 0.4 million for the years ended December 31, 2004 and 2003, respectively. These grants are recorded as other income to the extent they are earned.

EMPLOYEE BENEFIT OBLIGATIONS

The valuation of pension liabilities is based on the projected unit credit method in accordance with IAS 19 (revised 2000), "Employee Benefits". The Company recognizes a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of the reporting period exceed the corridor of 10 % of the greater of the projected benefit obligation or the market related value of plan assets. The excess is amortized over the expected remaining service period.

ACCRUED LIABILITIES AND ACCRUED INCOME TAXES

In accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", the Company accrues liabilities for taxes and other obligations when there is a present obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Accrued income taxes cover obligations for the current and for prior periods. Accrued liabilities relating to personnel and social costs are valued at their net present value.

Obligations in connection with product warranties are estimated based on the actual expenses of the last two, respectively three years, depending on the segment they relate to. Based on this actual experience, the Company calculates a warranty percentage and applies this to the gross sales and records the estimated obligation under accrued liabilities. The accrued liability is adjusted to reflect actual warranty claims and changes in estimates. Separately identifiable risks relating to damages or product returns are accrued based on management's best estimate.

REVENUE RECOGNITION

The Company recognizes revenues from sales of products and services if the revenue can be reliably measured, it is probable that the economic benefits of the transaction will flow to the Company and all related costs can be reliably measured. As such, the Company records revenue from product sales when the goods are shipped and title has passed to the customer. With respect to licensing agreements where revenue in excess of a defined minimum price is contingent on the buyer's ultimate resale price, sales are recognized at the contractual minimum price with the contingent element of the purchase price recognized when realized. Provisions for discounts and rebates to customers and returns are recorded in the same period in which the related sales are recorded and are based on management's best estimate.

Consistent with its research and development strategy, the Company enters into co-development and co-promotion agreements to enhance the scope and depth of its research portfolio. These agreements contain multiple elements and varying consideration terms, such as up-front, milestone and other related payments. The Company reviews its arrangements to determine if the multiple elements can be divided into separate units of accounting and how the arrangement consideration should be recognized. When an arrangement can be divided into separate units, the arrangement consideration is recognized amongst those varying units and recognized over the respective performance period. When the arrangement cannot be divided into separate units, the total arrangement consideration is allocated on a straight-line basis over the estimated collaboration period. In regard to agreements the Company has entered into to date, up-front payments and other similar non-refundable payments received which relate to the sale or licensing of products or technology are reported as deferred income and recognized as other income over the related period of collaboration on a straight-line basis.

SELLING EXPENSES

Advertising and promotion costs are expensed as incurred and totaled € 249.8 million and € 194.7 million for the years ended December 31, 2004 and 2003, respectively. These costs are recorded as selling and distribution expenses in the consolidated income statements. Shipping and handling costs totaling € 49.8 million and € 41.8 million for the years ended December 31, 2004 and 2003, respectively, are included in selling and distribution expenses.

RESEARCH AND DEVELOPMENT EXPENSES

In accordance with IAS 38, research costs, defined as costs of original and planned research performed to gain new scientific or technical knowledge and understanding, are expensed as incurred. Development costs are defined as costs incurred to achieve technical and commercial feasibility. Regulatory and other uncertainties inherent in the development of the Company's new key products are so high that the requirements set out in IAS 38 are not met so that development costs are expensed as incurred.

Research and development expenses are comprised of the following types of costs incurred in performing research and development activities: salaries and benefits, other directly attributable costs, clinical trial and related clinical manufacturing costs, contract services, payments made in respect to research and development collaborative arrangements and other outside costs.

EMPLOYEE INCENTIVE PLANS

Compensation expense for options granted under employee incentive plans are measured as the excess of the average cost of treasury shares acquired over the exercise price. Compensation expense is allocated over the applicable vesting period. Discounts granted in connection with the purchase of ALTANA shares related to the ALTANA Investment Plans are expensed as incurred, as there is no vesting period.

DEFERRED INCOME TAXES

Under IAS 12 (revised 2000), "Income Taxes", deferred tax assets and liabilities are recognized for all temporary differences between the carrying amount of assets and liabilities in the financial statements and their tax bases, tax credits and operating loss carry-forwards. For purposes of calculating deferred tax assets and liabilities, the Company uses the rates that have been enacted or substantively enacted at the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period the legislation is substantively adopted. A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the credits and tax loss carry-forwards can be applied.

EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding for the year.

Diluted earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding for the year, adjusted by the effect of the options granted under the stock option plans. The diluted earnings per share are calculated under the assumption that all potential diluting options are exercised.

	2004	2003
Basic earnings per share		
Net income	**390,683**	345,222
Weighted average shares outstanding	**135,857,561**	136,283,823
Basic earnings per share in €	**2.88**	**2.53**
Diluted earnings per share		
Net income	**390,683**	345,222
Weighted average shares outstanding	**135,857,561**	136,283,823
Dilution from stock options	**89,614**	197,434
Diluted weighted average shares outstanding	**135,947,175**	136,481,257
Diluted earnings per share in €	**2.87**	**2.53**

CONCENTRATION OF RISKS

The Company's future results of operations are subject to various risks and uncertainties.

The Company's sales of certain key products account for a substantial portion of revenues. The most important product is Pantoprazole, a therapeutic treatment for ulcers and reflux disease. In 2004 and 2003, respectively, Pantoprazole accounted for 58 % and 56 % of net sales of the pharmaceuticals segment and for 41% of the Company's total net sales. The Company expects Pantoprazole to continue to be a key revenue driver for the next several years.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and of contingent liabilities reported at the end of any given period and the reported amounts of revenues and expenses for that reported period. Actual results could differ from these estimates.

> 3 BUSINESS COMBINATIONS AND DISPOSITIONS

According to IFRS 3, all acquisitions are accounted for using the purchase method with the excess of the purchase price over the estimated fair value of the net assets acquired accounted for as goodwill. Goodwill is not amortized on a regular basis but will be tested for impairment together with the cash generating unit goodwill was allocated to. In case of an impairment loss, the impairment loss is recognized in income. The results of operations of the acquired businesses are included in the consolidated financial statements from their respective dates of acquisition. The results of operations of a sold business are included in the consolidated financial statements until the date of the sale.

On August 12, 2003, the Company acquired the wire enamel business of Schenectady International Inc., USA, for a purchase price of € 93.5 million including costs directly attributable to the acquisition of € 1.0 million. Cash and debt were not assumed. The purchase price was paid in cash in 2003. The net assets acquired mainly consisted of a 100 % interest in Beck Electrical Insulation GmbH, Hamburg, Germany, a 82.8 % interest in Beck India Ltd., Pune, India, as well as a trademark and various other intangible assets. The excess of the total acquisition cost over the fair value of the net assets acquired was recorded as goodwill and amounted to € 46.2 million. Thereof € 43.1 million of the goodwill originates from the acquisition of customer related assets, that are not legally controlled by the Company and therefore are not capitalized as such in accordance with IAS 38.

In 2004, the Company purchased another 5.8 % of Beck India Ltd. India bringing its interest to 88.6 % and recognized goodwill totaling € 0.1 million.

On March 31, 2003, the Company entered into a product acquisition agreement with KV Pharmaceutical Company ("KV") whereby the Company sold KV the product ownership rights of the Chromagen product line for U.S. $ 27 million. This transaction generated a gain which was recorded in other operating income.

In 2004, the Company sold some minor activities of the chemicals segment. The sold activities generated sales of € 28 million and € 46 million, in 2004 and 2003, respectively. The sale of the activities did not have a material impact on the Company's balance sheets, income statements, statements of changes on shareholders' equity and statements cash flows.

> 4

SEGMENT REPORTING

The following segment information has been prepared in accordance with IAS 14, "Segment Reporting". The accounting policies of the segments are the same as those described in Note 2.

The Company has two reportable segments – pharmaceuticals and chemicals. The segments are determined based on the nature of products developed, manufactured and marketed and reflect the management structure of the organization. Pursuant to this structure, the holding company is responsible for making strategic decisions with respect to the two segments, whereas the implementation of these decisions at the segment level is the responsibility of the heads of the respective segments, who manage the segments on a day-to-day basis. The reporting system reflects the internal financial reporting and the predominant sources of risks and returns in the Company's businesses.

The Company's pharmaceuticals segment develops, manufactures and internationally markets a wide range of pharmaceutical products. Its product range comprises therapeutics, which includes prescription drugs for a variety of indications, over-the-counter products for self-medication, as well as other diagnostics technologies (imaging procedures). The Company also generates limited revenues from other sources, mainly from contract manufacturing on behalf of third parties, and detailing.

The chemicals segment offers a wide range of specialty chemicals, including additives and instruments, coatings and sealants and electrical insulation. The segment offers specialty chemicals together with support and comprehensive customer service as well as the adaptation of the products to fit the customers' special use of the products.

Segment information was reconciled to total consolidated information as follows:

in € millions		Pharma-ceuticals	Chemicals	Holding company	Consolidation	Group
Net sales	**2004**	**2,109**	**854**	**0**	**0**	**2,963**
	2003	1,980	755	0	0	2,735
Operating income/ -loss	**2004**	**531**	**121**	**-35**	**0**	**617**
	2003	506	92	-35	0	563
Total assets	**2004**	**1,520**	**770**	**1,938**	**-1,529**	**2,699**
	2003	1,270	757	2,029	-1,524	2,532
Long-lived assets	**2004**	**466**	**260**	**37**	**0**	**763**
	2003	394	256	37	0	687
Liabilities	**2004**	**517**	**112**	**38**	**370**	**1,037**
	2003	491	140	33	416	1,080
Capital expenditures	**2004**	**165**	**60**	**1**	**0**	**226**
	2003	141	86	10	0	237
Depreciation and amortization	**2004**	**82**	**38**	**1**	**0**	**121**
	2003	75	30	1	0	106
Other non-cash expenses/ -income	**2004**	**43**	**6**	**-36**	**0**	**13**
	2003	-21	2	-3	0	-22

The segments are reported on a consolidated basis. The holding company column represents income, expenses, assets and liabilities relating to corporate functions and investment activities mainly performed by ALTANA AG.

In 2004 and 2003, approximately 83 % and 82 %, respectively, of net sales were generated outside of Germany.

Long-lived assets include all tangible assets, such as property, plant and equipment and construction in progress. Segment liabilities consist of total liabilities and provisions, excluding interest-bearing liabilities, as well as current and deferred income taxes. The consolidation column contains the reconciliation of segment liabilities to consolidated total liabilities and provisions. Capital expenditures, as well as depreciation and amortization, relate to property, plant and equipment and intangible assets with a definite life. Amortization expense does not include goodwill amortization. Other non-cash expenses (income) mainly consist of pension expense, impairment charges for other than temporary decline in fair value of marketable securities and other long-term investments and reversals of impairment charges.

The following table presents selected financial information by geographic region:

in € millions	Net sales		Total assets		Long-lived assets		Capital expenditures	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Europe	**1,504**	1,385	**2,496**	2,337	**615**	548	**182**	198
thereof Germany	**491**	482	**2,321**	2,113	**494**	454	**134**	162
North America	**880**	857	**378**	334	**77**	73	**29**	27
thereof USA	**769**	755	**326**	289	**74**	50	**27**	26
Latin America	**278**	248	**164**	145	**48**	46	**8**	9
Far East	**250**	197	**55**	48	**10**	9	**4**	3
Other Regions	**51**	48	**53**	49	**13**	11	**3**	0
Consolidation	**0**	0	**-447**	-381	**0**	0	**0**	0
Group	**2,963**	**2,735**	**2,699**	**2,532**	**763**	**687**	**226**	**237**

Net sales relating to geographic areas represent sales to third parties, based on the location of customers.

The following table presents net sales by business area:

in € millions	**2004**	2003
Pharmaceuticals		
Therapeutics	**1,839**	1,724
Imaging	**109**	106
Self medication (OTC)	**115**	104
Other	**46**	46
Total	**2,109**	**1,980**
Chemicals		
Additives & Instruments	**348**	308
Electrical Insulation	**291**	225
Coatings & Sealants	**215**	222
Total	**854**	**755**
Group	**2,963**	**2,735**

> 5

INTANGIBLE ASSETS

	Patents, lincenses and similar rights	Goodwill	Advance payments	Software and other	Total
Cost					
Balance at January 1, 2004	188,997	198,568	125	20,137	407,827
Additions	37,085	119	280	5,460	42,944
Disposals	-1,237	0	-5	-531	-1,773
Transfers	864	0	-135	182	911
Translation adjustments	-2,915	-1,601	22	-68	-4,562
Changes in reporting entities	-2,422	0	0	-93	-2,515
Balance at December 31, 2004	**220,372**	**197,086**	**287**	**25,087**	**442,832**
Accumulated amortization					
Balance at January 1, 2004	65,911	105,253	0	6,625	177,789
Additions	27,495	0	0	4,444	31,939
Disposals	-979	0	0	-530	-1,509
Transfers	587	0	0	4	591
Translation adjustments	-1,115	-129	0	-53	-1,297
Changes in reporting entities	-1,730	0	0	-77	-1,807
Balance at December 31, 2004	**90,169**	**105,124**	**0**	**10,413**	**205,706**
Carrying amount at					
December 31, 2004	**130,203**	**91,962**	**287**	**14,674**	**237,126**
December 31, 2003	123,086	93,315	125	13,512	230,038

In the chemicals segment additions of € 9.5 million related to the acquisition of customer related assets. In accordance with IAS 38, these customer related assets were capitalized as intangible assets. In the pharmaceuticals segment, additions of € 17.4 million related to the acquisition of trademarks.

The intangible assets acquired during 2004 have a weighted average useful life of 7.5 years.

Amortization expense for the years ended December 31, 2004 and 2003, respectively, amounted to € 31.9 million and € 40.3 million. The following table presents expected amortization expense related to patents, licenses, similar rights and software for each of the following periods:

2005	29,308
2006	26,940
2007	20,351
2008	14,848
2009	12,225
Thereafter	41,205

The actual amortization may differ from the expected amortization.

As of December 2004, the carrying amount of goodwill by segment was as follows:

	2004
Pharmaceuticals	3,796
Chemicals	88,166

In the chemicals segment, goodwill allocated to the following cash generating units was as follows:

	2004
Electrical Insulation	67,752
Coatings & Sealants	20,414

In accordance with the revised IAS 36, the Company performed impairment tests on goodwill in the fall of 2004 based on the recent financial budgets for the years 2005 to 2010. The budgets are based on historical experience and represent management's best estimates about future developments. The weighted average growth rates utilized in the budget are consistent with industry forecasts. In order to perform impairment tests, the Company estimated cash flow projections beyond the budget by extrapolating the projections using a steady growth rate for subsequent years. The Company then calculated the fair value for each cash-generating unit by applying a discounted cash flow technique. The following parameters were applied: discount rate after taxes 8 %; growth rates: Electrical Insulation 1.5 %, Coatings & Sealants 1.0 %. The fair value calculated was then compared to the carrying amount of the cash-generating unit.

The impairment tests were performed based on fair values. Furthermore, to support the result of these impairment tests, the Company calculated the value in use of each cash-generating unit.

In 2004, no impairment of goodwill was recorded.

> 6

PROPERTY, PLANT AND EQUIPMENT

	Land, leasehold & buildings	Plant & Machinery	Equipment	Advances/ contruction in progress	Total
Cost					
Balance at January 1, 2004	504,441	357,073	357,806	51,542	1,270,862
Additions	28,380	32,817	49,687	72,249	183,133
Disposals	-2,902	-9,856	-22,500	-191	-35,449
Transfers	14,484	31,245	6,385	-53,277	-1,163
Translation adjustments	-4,664	-2,876	-3,061	-261	-10,862
Changes in reporting entities	-7,952	-1,589	-6,948	-776	-17,265
Balance at December 31, 2004	**531,787**	**406,814**	**381,369**	**69,286**	**1,389,256**
Accumulated depreciation					
Balance at January 1, 2004	141,375	224,137	218,318	0	583,830
Additions	16,775	28,942	43,269	0	88,986
Disposals	-2,073	-8,866	-20,550	0	-31,489
Transfers	397	-195	-1,044	0	-842
Reversals	-148	0	0	0	-148
Translation adjustments	-1,547	-2,094	-1,799	0	-5,440
Changes in reporting entities	-2,898	-1,185	-4,532	0	-8,615
Balance at December 31, 2004	**151,881**	**240,739**	**233,662**	**0**	**626,282**
Carrying amount at					
December 31, 2004	**379,906**	**166,075**	**147,707**	**69,286**	**762,974**
December 31, 2003	363,066	132,936	139,488	51,542	687,032

In 2004, additions in the pharmaceuticals segment related to the construction of a new production site in Ireland, the expansion of the production capacities in Oranienburg, Germany, the expansion of research facilities in Germany and India and the expansion of the sales organization in the USA In the chemicals segment, additions related to the continuing expansion of the production site in Wesel, Germany as well as the construction of a new plant in China.

As of December 31, 2004 and 2003, respectively, € 6.5 million and € 3.8 million of net book value related to property, plant and equipment under capital lease.

Depreciation expense for the years ended December 31, 2004 and 2003, respectively, amounted to € 89.0 million and € 82.6 million. In 2004, income from reversals of previously recognized impairment losses totaling € 0.1 million was recorded.

> 7

LONG-TERM INVESTMENTS

	Affiliated companies	Other investments	Other long-term financial assets	Total
Cost				
Balance at January 1, 2004	2,143	27,142	1,905	31,190
Additions	0	17,709	1,584	19,293
Disposals	0	-5	-309	-314
Translation adjustments	0	-4	9	5
Balance at December 31, 2004	**2,143**	**44,842**	**3,189**	**50,174**
Accumulated write downs				
Balance at January 1, 2004	0	4,412	966	5,378
Additions	0	4	40	44
Changes in fair value recorded in valuation reserve	0	-3,459	0	-3,459
Translation adjustments	0	0	9	9
Balance at December 31, 2004	**0**	**957**	**1,015**	**1,972**
Carrying amount at				
December 31, 2004	**2,143**	**43,885**	**2,174**	**48,202**
December 31, 2003	2,143	22,730	939	25,812

In 2004, the additions to long-term investments is the result of a strategic investment in the chemicals segment made in Nanophase Technology Corporation (NTC) totaling € 8.3 million. In the pharmaceuticals segment the Company increased its participation in GPC Biotech by € 8.3 million.

As of December 31, 2004 and 2003, the carrying amount of the investment in GPC Biotech AG was € 24.4 million and € 12.1 million, respectively, and, as of December 31, 2004, the carrying value of the investment in Nanophase Technology Corporation (NTC) was € 8.3 million.

Amounts totaling € 0.8 million and € 0.7 million of other long-term financial assets as of December 31, 2004 and 2003, respectively, related to long-term employee loans bearing a weighted average 3.3 % interest rate.

Ownership interests below 20 % in 13 (2003: 13) entities, which are classified as available-for-sale investments and whose fair values can not be reliably measured, are valued at cost less impairments. The carrying value was € 3.2 million in 2004 and 2003, respectively, and was shown under other investments.

> 8

INVENTORIES

Inventories consist of:

	At December 31, 2004	At December 31, 2003
Raw materials and supplies	**105,532**	104,406
Work in process	**54,559**	58,096
Finished products and goods	**163,062**	155,262
Advance payments	**5,399**	842
	328,552	**318,606**

> 9

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are as follows:

	At December 31, 2004	At December 31, 2003
Trade accounts receivable	**502,405**	422,149
Allowance for doubtful accounts	**-6,691**	-7,825
	495,714	**414,324**
Thereof long-term	**6,965**	6,855

At December 31, 2004 and 2003, respectively, one customer accounted for 7.8 % and 6.4 % of trade accounts receivable. In 2004 and 2003, respectively, this same customer accounted for 14.2 % and 15.3 % of sales, respectively.

The roll-forward of the allowance for doubtful accounts is shown under other operating expenses and was as follows:

	2004	2003
Allowance at the beginning of the year	**7,825**	9,248
Translation adjustments	**-126**	-416
Additions	**1,322**	2,047
Releases	**-465**	-701
Utilization	**-832**	-2,353
Change in reporting entities	**-1,033**	0
Allowance at the end of the year	**6,691**	**7,825**

> 10

MARKETABLE SECURITIES

In accordance with IAS 39, available-for-sale marketable securities are recorded at fair value. Amortized cost, fair value and gross unrealized holding gains and losses, which are recorded in the revaluation reserve, net of tax, as of December 31, 2004 and 2003 were as follows:

At December 31, 2004	Amortized cost	Fair value	Unrealized gains	Unrealized losses
Debt securities	200,842	200,817	1,383	1,408
Equity securities	61,883	62,641	3,368	2,610
Other	7	7	0	0
Total	**262,732**	**263,465**	**4,751**	**4,018**

At December 31, 2003	Amortized cost	Fair value	Unrealized gains	Unrealized losses
Debt securities	231,122	230,597	498	1,023
Equity securities	61,420	58,453	1,638	4,605
Other	2,842	2,958	116	0
Total	**295,384**	**292,008**	**2,252**	**5,628**

In 2004 and 2003, an impairment loss for marketable securities totaling €0.5 million and €5.8 million, respectively, was recorded in line with the Company's policy, as the fair market value of the related securities fell below book value for a sustained period of time or was significantly below book value at the end of the reporting period.

The contractual maturities of debt securities were as follows:

	At December 31, 2004	At December 31, 2003
Due within one year	**33,544**	78,459
Due after one year through five years	**146,850**	118,080
Due after five years through ten years	**18,797**	25,127
Due after ten years	**1,626**	8,931
	200,817	**230,597**

Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to repay obligations earlier without prepayment penalty.

> 11

OTHER ASSETS AND PREPAID EXPENSES

	At December 31, 2004	At December 31, 2003
Balances due from employees	**4,369**	4,291
Cash surrender value of life insurance	**6,193**	6,390
Balances due from fiscal authorities	**42,172**	26,721
Prepayments	**6,065**	7,951
Loans	**18,805**	22,079
Licenses	**13,923**	13,070
Balances due from related parties	**826**	1,222
Prepaid expenses	**14,428**	19,426
Derivative instruments (see Note 19)	**50,666**	37,752
Receivables from reimbursements	**4,936**	13,595
Balances due from sale of product groups	**9,513**	11,085
Other	**27,971**	33,503
	199,867	**197,085**
Thereof long-term	**30,051**	44,483

Of the total loans, €7.6 million and €11.4 million as of December 31, 2004 and 2003, respectively, related to the sale of the Sangtec companies in 2002.

> 12

SHAREHOLDERS' EQUITY

ISSUED CAPITAL

Share capital amounted to € 140.4 million, represented by 140.4 million no par value shares representing € 1 per share.

AUTHORIZED CAPITAL

As of December 31, 2004, the management board was authorized to increase the Company's share capital by € 28.0 million in exchange for cash (authorized capital I) and an additional € 28.0 million in exchange for non-cash contributions with exclusion of shareholders' subscription rights (authorized capital II). The management board was also authorized to increase the share capital by € 14.0 million in exchange for cash with exclusion of shareholders' subscription rights at an issue price that is not significantly lower than the market price at that time (authorized capital III). None of the authorized capital has been issued. The authorizations expire as of April 30, 2009.

TREASURY SHARES

The management board was authorized by the shareholders on May 5, 2004 to repurchase up to 14,040,000 shares (10 % of the authorized capital) until October 31, 2005. In addition to reselling the treasury shares on the stock market, the management board was authorized to retire these shares or to offer up to 2.5 % of these shares to eligible employees in connection with the Company's employee incentive plans (see Note 13) or to offer shares to third parties in connection with acquisitions or to transfer shares to members of the supervisory board as part of their compensation in accordance with the Articles of Association.

Pursuant to this authorization, the Company purchased 1,376,050 treasury shares from May to August 2004 at a total cost of € 68.7 million with an average price of € 49.91 per share. During 2004, 254,281 shares (0.2 % of share capital) were sold in connection with the exercise of the options and 130,181 shares were issued to employees. In January 2004, 2.925 shares were transferred to members of the supervisory board as part of their compensation. In January and February 2004, 37,820 shares were sold to employees under the ALTANA Investment Plan 2003.

Additionally, in accordance with Article 71 (1) No. 2 of the "German Stock Corporation Act" (Aktiengesetz), during August and September 2004, the Company purchased 150,000 shares at an average price of € 44.92 to distribute to the eligible employees under the ALTANA Investment Plan 2004 (see Note 13). In December 2004, 123,404 shares were sold to employees. Thereof, 379 shares related to treasury shares acquired in 2003.

During 2003, the DAT lawsuit was settled (see Note 30). As of December 31, 2004, the Company issued 3,492 shares to former DAT shareholders; 7,704 shares were returned to the Company.

Together with the 4,133,195 treasury shares purchased in prior years, the Company held a total of 5,114,846 treasury shares at December 31, 2004, representing €5.1 million (or 3.6%) of its share capital. Of the treasury shares, 5,018,870 are intended to be used to meet obligations from the employee incentive plans and 95,976 for issuance to former DAT shareholders (see Note 30).

DIVIDENDS

Under the "German Stock Corporation Act", retained earnings available for distribution to shareholders are based upon the unconsolidated retained earnings of ALTANA AG as reported in its balance sheet determined in accordance with the German Commercial Code (Handelsgesetzbuch).

The net income of ALTANA AG amounts to €164.1 million. According to Stock Corporation Act, Article 58, paragraph 1 the supervisory board and the management board decided to transfer out of ALTANA AG 2004 net income of €164.1 million an amount of €30.7 million to retained earnings, resulting in unappropriated profits of €133.4 million. The management board and supervisory board plan to propose to the shareholders at the annual general shareholders' meeting to distribute from unappropriated earnings a dividend totaling €133.4 million resulting in an amount of €0.95 per no par value share.

REVALUATION RESERVE

In accordance with IAS 39, unrealized gains and losses resulting from changes in fair values of available-for-sale marketable securities are recorded in a revaluation reserve net of tax, a separate section of shareholders' equity, unless an impairment is recognized. Additionally, changes in the fair value of financial instruments qualifying as cash flow hedges are recognized, net of tax, in the revaluation reserve if all hedge accounting criteria under IAS 39 are met.

> 13 EMPLOYEE INCENTIVE PLANS

MANAGEMENT STOCK OPTION PLANS 1999 AND 2000

On July 1, 1999, the Company initiated a stock option plan open to members of the Company's management board, its senior executives and certain other key employees ("Stock Option Plan 1999"). The exercise price for stock options granted under this plan was €15.03 per share, which was calculated on the basis of the average of the published Xetra closing prices of the Company's shares during the 20 trading days preceding the commencement of the plan. On July 1, 2000, the Company launched a similar plan ("Stock Option Plan 2000"). This plan entitled beneficiaries to purchase shares of the Company at an exercise price of €22.97, calculated on the same basis as described above.

The plans offered the beneficiaries the option of settling in either stock or cash. Under each plan, the options became exercisable two years after the grant date if the average basic earnings per share for the year of grant and the following year exceeded the average of the two preceding years by 20%. The stock options expired four years after the grant date. The earnings per share hurdle for each of these plans was subsequently met. All options which were part of the 1999 Management Stock Option Plan were fully exercised during 2003, those of the 2000 Management Stock Option Plan were fully exercised during 2004.

	2004 Number of options	**2004** Exercise price (€)	2003 Number of options	2003 Exercise price (€)
Outstanding options at January 1	**185,600**	**22.97**	703,400	21.89[1]
Exercised	**-185,600**	**22.97**	-517,800	21.48[1]
Forfeited	**0**	**0**	0	0
Outstanding options at December 31	**0**	**0**	**185,600**	**22.97**

[1] Weighted average

MANAGEMENT STOCK OPTION PLANS 2001, 2002, 2003 AND 2004

On July 1, 2001, the Company initiated a stock option plan open to members of the Company's management board, its senior executives and certain other key employees ("Stock Option Plan 2001"). The exercise price for stock options granted under this plan is € 42.41 per share, which was calculated on the basis of the average of the published Xetra closing prices of the Company's shares during the 20 trading days preceding the commencement of the plan. The options may only be exercised by purchasing shares, no cash settlement is possible. The options became exercisable two years after the grant date, and they remain exercisable over a period of three years, if earnings per share in 2002 exceed basic earnings per share in 2000 by 20%. The earnings per share hurdle for the 2001 plan was met.

On July 1, 2002, the Company initiated a plan ("Executive Option Plan") identical to the Stock Option Plan 2001 for executives (management board of ALTANA AG and key subsidiaries) only, with an expiration period of ten years after the grant date. The exercise price for the stock options granted under this plan is € 51.58. The earnings per share hurdle for the 2002 plan was met.

On July 1, 2003, the Company initiated a plan for management members ("Stock Option Plan 2003") identical to the Stock Option Plan 2001 in regard to duration, hurdle rates and determination of the exercise price. In 2003, it was not differentiated between "Executives" and "Key Management" as in 2002. However, the personnel committee of the supervisory board can limit the profit per option for members of the management board if the increase of the share price is caused by exceptional effects. The exercise price for stock options granted under this plan is € 54.65.

On July 1, 2004, the Company initiated a plan for management members ("Stock Option Plan 2004") identical to the Stock Option Plan 2003 in regard to duration and determination of the exercise price. The exercise of the options depends on the development of the ALTANA share price compared to development of a market-based index (70% Dow Jones Stoxx Healthcare and 30% Dow Jones Stoxx Chemicals). If, after two years, the development of the

ALTANA share price exceeds the development of the index, the options will be exercisable. However, if the hurdle is not met, the options only become exercisable if the ALTANA share price exceeds the development of the index in the third or fourth year after the grant date. The options forfeit, if the hurdle is not met within the forth year after the grant date. The exercise price under this plan is € 51.01.

	2004 Number of options	2004 Exercise price (€)	2003 Number of options	2003 Exercise price (€)
Outstanding options at January 1	**2,251,350**	**49.83**[1]	1,277,600	44.24[1]
Granted	**1,226,050**	**51.01**	1,179,600	54.65
Exercised	**-98,950**	**42.41**	-196,850	42.41
Forfeited	**-40,200**	**52.90**[1]	-9,000	42.41
Outstanding options at December 31	**3,338,250**	**50.48**[1]	**2,251,350**	**49.83**[1]

1 Weighted average

STOCK OPTIONS FOR KEY MANAGEMENT 2002

On July 1, 2002, the Company initiated a stock option plan open to Key Managers. No performance hurdle must be met. The exercise price for stock options granted under this plan is € 56.74 per share (determined based on 110 % of the exercise price of the executive plan discussed above). The options can be exercised from July 1, 2004 until June 30, 2012. The options may only be exercised by purchasing shares. No cash settlement is possible.

	2004 Number of options	2004 Exercise price (€)	2003 Number of options	2003 Exercise price (€)
Outstanding options at January 1	**961,750**	**56.74**	988,850	56.74
Granted	**0**	**0**	0	0
Forfeited	**-24,500**	**56.74**	-27,100	56.74
Outstanding options at December 31	**937,250**	**56.74**	**961,750**	**56.74**

ALTANA INVESTMENT PLANS 2000, 2001, 2002, 2003 AND 2004

Since 2000, the Company has initiated a plan (ALTANA Investment plans) every year in 12 European countries, the United States of America, Canada and India for employees who are not eligible to participate in the stock option plans.

Each investment plan consists of two components. The first component entitles eligible employees to purchase a specific number of shares based on their respective incomes at a fixed price per share, the lowest quoted price of the Company's shares the day when the management board approves the plans. A discount is granted for a specified number of shares purchased by each participant. The Company sells the respective shares in December of each respective year to the employees. For employees unable to receive shares directly from the Company due to statutory reasons, the Company provides the cash equivalent of the benefit received by other employees participating in the plan.

Under the second component, employees receive one option for each share purchased. The options become exercisable two years after the grant date and expire two years later. The options entitle holders to receive cash in an amount equal to the difference between exercise price and the market price of the Company's shares on the date on which the options are exercised.

	Plan 2004	Plan 2003	Plan 2002	Plan 2001	Plan 2000
Share purchase component					
Shares sold to employees	**123,054**	132,889	104,615	126,572	284,393
Exercise price (€)	**44.50**	46.11	46.00	47.00	27.08
Discount granted	**20.1 %**	27.4 %	30.0 %	30.0 %	23.0 %
Discount granted for maximum shares for each employee	**50 shares**	35 shares	32 shares	37 shares	20 shares
Options component					
Options granted	**134,214**	176,149	115,428	165,797	305,898
Options forfeited	**-257**	-6,393	-8,550	-17,296	-24,137
Options exercised	**0**	0	-2,268	-27,381	-281,761
Exercise price (€)	**44.50**	46.11	46.00	47.00	27.08
Date of grant	**Oct 1, 2004**	Oct 1, 2003	Oct 1, 2002	Oct 1, 2001	Oct 1, 2000
Exercise of the options beginning	**Oct 1, 2006**	Oct 1, 2005	Oct 1, 2004	Oct 1, 2003	Oct 1, 2002
Expiration of the options	**Oct 1, 2008**	Oct 1, 2007	Oct 1, 2006	Oct 1, 2005	Oct 1, 2004

COMPENSATION EXPENSE

Compensation expense for options granted under the forgoing plans is measured as the excess of the average cost of treasury shares acquired by the Company over the exercise price. Compensation expense is allocated over the applicable vesting period of the various plans. Compensation expense under the foregoing plans in 2004 and 2003 totaled € 1.6 million and € 3.2 million, respectively. Compensation expense in 2004 and 2003, respectively, included € 0.9 million and € 1.8 million covering the total discount on the share purchase component of the respective plans, as there is no vesting period.

> 14 EMPLOYEE BENEFIT OBLIGATIONS

Within the Company, various post employment benefit plans exist, but most are accounted for as defined benefit plans. Defined contribution plans do exist in non-German subsidiaries, but such plans are not significant. The majority of the Company's employee benefit obligations relate to German employees. Employee benefit obligations are determined based on the years of service, the expected discount rate and estimated compensation increase. Employee benefit obligations are generally measured at September 30. The applied parameters are reviewed for unexpected fluctuations in December and a remeasurement is performed if material deviations from September 30 are identified. In 2004 the employee benefit obligation for German employees was remeasured on December 31, 2004, due to significant fluctuations in the discount rate.

Obligations for other post-retirement benefits also relate mainly to employees in Germany and the obligations generally arise from deferred compensation plans.

Some non-German pension commitments are funded by plan assets maintained by trust funds. Fund assets consist mainly of equity and debt securities.

The provisions for the Company's pension benefit and other post-retirement obligations were as follows:

	At December 31, 2004	At December 31, 2003
Provision for pensions	**259,313**	251,979
Provision for other post-retirement benefits	**4,455**	2,691
	263,768	**254,670**

The provision for pensions was as follows:

	2004		2003	
	German plans	Non-German plans	German plans	Non-German plans
Defined benefit obligation				
Balance at January 1	**224,124**	**57,157**	207,228	55,218
Changes in reporting entities	**-2,629**	**0**	0	0
Translation adjustments	**0**	**-3,575**	0	-9,028
Service cost	**6,582**	**3,591**	5,508	2,920
Interest cost	**12,196**	**3,758**	11,877	3,107
Actuarial losses	**18,611**	**4,328**	5,203	5,442
Plan amendments	**-9**	**0**	31	0
Other changes	**2,720**	**7,784**	1,242	870
Benefits paid	**-9,451**	**-1,950**	-6,965	-1,372
Balance at December 31	**252,144**	**71,093**	**224,124**	**57,157**
Plan assets				
Balance at January 1	**0**	**29,508**	0	30,950
Translation adjustments	**0**	**-2,381**	0	-5,113
Actual gain on plan assets	**0**	**4,596**	0	2,845
Employer contribution	**0**	**7,175**	0	1,921
Benefits paid	**0**	**-1,416**	0	-1,111
Other changes	**0**	**8,372**	0	16
Balance at December 31	**0**	**45,854**	**0**	**29,508**
Reconciliation of funded status				
Funded status at December 31	**252,144**	**25,239**	224,124	27,649
Unrealized net gains/losses	**-4,440**	**-13,630**	14,302	-14,096
Provision recognized at December 31	**247,704**	**11,609**	**238,426**	**13,553**

The following table shows the different asset categories into which the plan assets are divided:

	Dec 31, 2004	
Asset category		
Equity securities	21,933	48 %
Bonds	20,645	45 %
Others	3,276	7 %
	45,854	**100 %**

ALTANA aims to hedge future payments under the pension obligation with long-term returns from the portfolio of the plan assets. Therefore the composition of the plan assets is oriented on the sustainability of the income generated. Income generated consists of increases in market values of the assets and continuing distribution of dividends. For that purpose equity instruments are slightly over-weighted. However in some countries where the Company operates legal restrictions require plan assets be invested in fixed interest-bearing marketable securities. These requirements result in a balance between equity securities and bonds in the plan asset portfolio.

The expected return on plan assets is estimated based on market forecast and historic experience.

At December 31, 2004, the employee benefit obligations expected to be paid in the future were as follows:

Due in 2005	12,022
Due in 2006	12,479
Due in 2007	13,206
Due in 2008	14,332
Due in 2009	14,916
Due between 2010 and 2014	84,589

The following table provides the underlying actuarial assumptions for the pension plans:

	At December 31, 2004 German plans	Non-German plans	At December 31, 2003 German plans	Non-German plans
Weighted average assumptions				
Discount rate	**5.0 %**	**4.8 %**	5.5 %	5.1 %
Expected return on plan assets	**0**	**6.4 %**	0	7.1 %
Rate of compensation increase	**3.5 %**	**3.8 %**	3.5 %	2.9 %
Rate of pension increase	**1.5 %**	**2.4 %**	1.5 %	1.6 %

The components of net periodic pension costs were as follows:

	At December 31, 2004		At December 31, 2003	
	German plans	Non-German plans	German plans	Non-German plans
Service cost	**6,582**	**3,591**	5,508	2,920
Interest cost	**12,196**	**3,758**	11,877	3,107
Plan amendments	**-9**	**0**	31	0
Expected loss on plan assets	**0**	**-1,409**	0	-1,750
Actuarial gains (losses)	**-15**	**-243**	0	310
Net periodic pension costs	**18,754**	**5,697**	**17,416**	**4,587**

> 15

ACCRUED LIABILITIES

	Employees	Sales and marketing	Warranty	Other	Total
Balance at January 1, 2004	**105,679**	**57,077**	**7,702**	**42,427**	**212,885**
Additions	78,273	74,346	3,872	30,986	187,477
Utilization	-60,803	-52,874	-2,801	-28,131	-144,609
Release	-3,451	-924	-122	-1,884	-6,381
Translation adjustments	-1,233	-2,732	-134	-365	-4,464
Changes in reporting entities	-1,353	-98	0	-161	-1,612
Balance at December 31, 2004	**117,112**	**74,795**	**8,517**	**42,872**	**243,296**
Thereof long-term					
at December 31, 2004					56,737
at December 31, 2003					50,108

The personnel related accrued liabilities encompass accruals for special bonuses, as well as anniversary, paid vacation and provisions for employee incentive plans. Accrued liabilities for sales and marketing pertain primarily to sales bonuses and commissions. Provisions for warranty cover commitments in connection with goods delivered and services rendered.

The items included in other provisions are primarily related to taxes other than income taxes and similar fees, pending litigation, legal costs, professional fees, clinical trials and research. Additionally, at December 31, 2004 and 2003, respectively, an accrual for environmental cost totaling € 7.1 million and € 7.4 million was included in other provisions. A corresponding asset of € 4.9 million and € 5.0 million, respectively, was recorded which represents amounts due from the previous land owners.

The release of other accrued liabilities of € 1.9 million in 2004 and € 18 million in 2003 is primarily related to the satisfactory resolution of a potential dispute regarding import prices in one of our subsidiaries.

> 16

DEBT

	At December 31, 2004		At December 31, 2003	
	Total	Due within one year	Total	Due within one year
Borrowings from banks	**12,264**	**8,624**	53,104	25,351
Profit-sharing certificates	**8,062**	**8,062**	8,252	8,252
Herbert Quandt Foundation	**26,382**	**26,382**	25,636	25,636
Lease obligations	**5,838**	**501**	4,229	518
Other	**5,211**	**410**	5,254	746
	57,757	**43,979**	**96,475**	**60,503**

For the years ended December 31, 2004 and 2003 weighted average interest rates for borrowings from banks were 2.0% and 6.5%, respectively.

As of December 31, 2004 and 2003, respectively, bank borrowings included €6.8 million and €12.0 million denominated in foreign currencies other than Euro. Of these borrowings, amounts of €6.3 million and €8.2 million were denominated in U.S. Dollars as of December 31, 2004 and 2003, respectively. Additionally, €3.4 million were denominated in Japanese Yen as of December 31, 2003.

Bank borrowings of €1.1 million and €1.9 million were secured by mortgages (land) as of December 31, 2004 and 2003, respectively.

Profit-sharing certificates are held by German employees of the Company, who are entitled to receive interest at a rate equal to the higher of the Company's dividend rate in any given year and 7%. The Company ceased issuing such certificates in 2000. For the year ended December 31, 2004 and 2003, respectively, the effective interest rate was 133.6% and 116.7% on these certificates. Amounts in excess of 7% are recorded as compensation expense.

The Herbert Quandt Foundation is a non-profit foundation, established in 1980, that promotes scientific and cultural research activities and supports civic responsibility projects. The Foundation has deposited all its funds, totaling €26.4 million, with ALTANA. The deposit, based on an interest rate equaling the discount rate ("Basiszinssatz der Deutschen Bundesbank") plus 2.5%, but at a minimum of 5.5%, is considered short-term since it may be called at any time by the Foundation.

At December 31, 2004, the aggregate amounts of indebtedness maturing during the next five years and thereafter are as follows:

Due in 2005	43,478
Due in 2006	528
Due in 2007	305
Due in 2008	179
Due in 2009	182
Due thereafter	7,247
Total	**51,919**
Lease obligations (see Note 27)	5,838
Total debt	**57,757**

> 17 OTHER LIABILITIES

Other liabilities consist of the following:

	At December 31, 2004 Total	At December 31, 2004 Due within one year	At December 31, 2003 Total	At December 31, 2003 Due within one year
Payroll taxes	**23,316**	**23,316**	16,549	16,549
Employees and social security contributions	**19,218**	**18,758**	17,621	16,983
Commissions	**4,352**	**4,352**	3,773	3,773
Debit notes to customers	**5,733**	**5,725**	3,008	2,970
Balances due to related parties	**9,539**	**9,539**	11,021	11,021
DAT lawsuit (see Note 30)	**8,195**	**8,195**	7,961	7,961
Other	**12,850**	**12,484**	20,620	20,290
	83,203	**82,369**	**80,553**	**79,547**

> 18 DEFERRED INCOME

Under the terms of the Company's licensing agreement with Wyeth Inc., USA, acting through one of its subsidiaries, Wyeth Pharmaceutical ("Wyeth"), the Company granted Wyeth an exclusive license to carry out certain manufacturing tasks with respect to semi-finished Pantoprazole-based products supplied by the Company and to distribute the resulting drugs in the U.S. market. Wyeth agreed to pay the Company a specified percentage of its net sales of the product subject to a minimum price. Due to the direct link between Wyeth's sales price and the amount the Company will ultimately realize, revenue for the products delivered to but not yet sold by Wyeth as of the balance sheet date are recognized at the amount of the minimum price. The difference between the minimum price and the price charged is treated as deferred income.

In 2002, the Company and Pharmacia Corporation ("Pharmacia") signed an agreement under which the pharmaceuticals segment of the Company grants Pharmacia certain rights and licenses to its technology. The acquisition of Pharmacia by Pfizer did not impact the agreement. The purpose of the agreement is to collaborate in the development and commercialization of the Company's drug, Roflumilast, for the expected treatment of respiratory diseases and conditions, including asthma and chronic obstructive pulmonary disease (COPD). Under the agreement, the companies co-develop Roflumilast for the United States, Europe and other markets (excluding Japan) to generate the pre-clinical and clinical data needed to obtain regulatory approvals. In February 2004, Roflumilast was submitted for European approval. Following regulatory approval, Pfizer is granted the right to co-promote the product together with the Company in the United States and other major markets (excluding Japan).

In 2002, the Company had received an up-front payment of € 33.4 million under the agreement. Thereof, an amount of € 22.3 million is being deferred over the collaboration period. The balance of € 11.1 million is refundable in the event regulatory approval is not achieved and is therefore being deferred in full through final approval. Once regulatory approval is achieved the € 11.1 million will be deferred over the collaboration period. In 2004 and 2003, respectively, the Company had received milestone payments of € 8.2 million and € 28.1 million, which are also being deferred over the collaboration period.

Similar agreements exist for the joint development and marketing of Roflumilast and Ciclesonide in Japan. Up-front payments received are also being deferred over the collaboration period.

> 19 FINANCIAL INSTRUMENTS

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company conducts business on a global basis in numerous major international currencies and is, therefore, exposed to adverse movements in foreign currency exchanges rates. Derivative financial instruments are used to reduce various types of markets risks like currency or interest rate risks.

The Company has established policies and procedures for risk assessment of derivative financial instrument activities. The Company has a decentralized risk management strategy and uses derivative financial instruments, including forward foreign exchange contracts, to hedge foreign currency denominated assets and liabilities, firm commitments and forecasted foreign currency transactions. At December 31, 2004, the existing derivative financial instruments were mainly used to hedge forecasted foreign currency transactions fluctuations.

By their nature, all such instruments involve risk, including market risk and credit risk of non-performance by counterparties, and the maximum potential loss may exceed the amount recognized in the balance sheets.

CREDIT RISK

The Company may be exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. Counterparties to the Company's financial instruments represent, in general, well-established financial institutions. The Company does not have a significant exposure to any individual counterparty and at December 31, 2004 and 2003, in management's opinion the probability of non-performance of the counterparties was low.

INTEREST RATE RISK

The Company is exposed to interest rate fluctuations. A substantial part of the interest rate sensitive assets and liabilities relate to marketable securities, cash equivalents and debt.

FORWARD FOREIGN EXCHANGE CONTRACTS AND OPTIONS

The Company mainly uses forward foreign exchange contracts to hedge forecasted foreign currency transactions. The amounts recorded on the balance sheets do not always represent amounts exchanged by the parties and, thus, are not necessarily a measure of the exposure of the Company through its use of derivatives. The maturity dates of the forward contracts are linked to the anticipated cash flows of the Company and are currently up to two years.

The notional amounts of forward foreign exchange contracts as of December 31, 2004 and 2003 amounted to € 359.1 million and € 444.6 million, respectively.

ALTANA uses option contracts to hedge foreign currency fluctuation from future expected cash flows. Currently these option contracts have residual term of up to two years.

As of December 31, 2004 and 2003, the notional amounts of options totaled € 206.0 million and € 148.6 million, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments are equal to the replacement value. These fair values are determined on the basis of market data and valuation methods described below:

	At December 31, 2004		At December 31, 2003	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL INSTRUMENTS				
Assets				
Long-term investments	**44,956**	**44,956**	22,565	22,565
Trade accounts receivable	**495,714**	**495,714**	414,324	414,324
Marketable securities	**263,465**	**263,465**	292,008	292,008
Cash and cash equivalents	**316,662**	**316,662**	287,670	287,670
Liabilities				
Borrowings from banks	**12,264**	**12,264**	53,104	53,104
Trade accounts payable	**226,432**	**226,432**	205,268	205,268
Other	**5,210**	**5,210**	5,254	5,254
Derivative financial instruments				
Assets – currency contracts	**50,666**	**50,666**	37,752	37,752
Liabilities – currency contracts	**596**	**596**	551	551

The fair values of financial assets and marketable securities are determined on the basis of quoted market prices.

The profit sharing certificates and the debt due to Herbert Quandt Foundation are not included in the table since their market value was not readily determinable. Fair values of the debt due to the Herbert Quandt Foundation and the profit sharing certificates were not readily determinable primarily since the maturity date was unknown. Additionally, investment interests below 20 % in a number of entities (13; 2003: 13) whose fair values could not be reliably measured, were valued at cost less impairments. The carrying value was € 3.2 million as of December 31, 2004 and 2003, respectively, and is also excluded from the table.

The carrying amount of cash and cash equivalents as well as accounts receivable approximated their fair value due to the short-term maturities of these instruments. The carrying value of borrowings from banks approximated the fair value. Cash and cash equivalents consisted nearly exclusively of bank claims.

> 20 OTHER OPERATING INCOME

	2004	2003
Up-front and milestone payments – license agreements	**15,589**	20,096
Gain on sale of product groups	**4,058**	19,802
Reimbursements	**19,816**	8,398
Release of accruals	**306**	16,970
Gains on disposal of fixed assets	**2,638**	1,984
Foreign exchange gains, net (see note 21)	**4,796**	0
Other	**21,928**	23,613
	69,131	**90,863**

In 2003, the gain from the sale of two product lines of the pharmaceuticals segment was recorded in other operating income. In 2004 the gain from sale of product groups relate to minor activities in the chemicals segment.

Foreign exchange gains and losses are shown net as follows:

	2004	2003
Foreign exchange gains	**15,042**	12,264
Foreign exchange losses	**-10,246**	-24,763
Net gain (loss)	**4,796**	**-12,499**

> 21 OTHER OPERATING EXPENSES

	2004	2003
Amortization of goodwill	**0**	16,552
Write-off of receivables	**1,322**	416
Losses on disposal of fixed assets	**1,257**	879
Foreign exchange losses, net (see Note 20)	**0**	12,499
Charitable contributions	**3,535**	4,573
Addition to DAT provision (see Note 30)	**0**	3,195
Fees and other charges	**4,456**	5,574
Other	**23,876**	30,722
	34,446	**74,410**

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NET INCOME FROM ASSOCIATED COMPANIES

	2004	2003
Dividends received	**1,054**	526
Income (losses) from associated companies	**670**	10
Total	**1,724**	**536**

> 23
INTEREST INCOME, NET

	2004	2003
Interest income	**16,063**	19,517
Interest expense	**-6,918**	-6,777
Net interest income	**9,145**	**12,740**

> 24
OTHER FINANCIAL INCOME (EXPENSES), NET

	2004	2003
Gain on disposal of marketable securities	**2,120**	5,872
Gain on derivative financial instruments	**7,153**	0
Other financial income	**568**	10,576
Total other financial income	**9,841**	**16,448**
Impairment charges	**-457**	-7,132
Losses on disposal of marketable securities	**-1,680**	-2,382
Loss on derivative financial instruments	**-10,675**	-1,486
Other financial expenses	**-745**	-1,364
Total other financial expenses	**-13,557**	**-12,364**
Other financial income (expenses), net	**-3,716**	**4,084**

In 2004, impairment charges related to marketable securities. In 2003, €5.8 million of impairments were recorded on marketable securities and €1.3 million impairments were recorded on certain long-term investments.

In 2003, the Company reversed an impairment loss previously recorded on ALTANA's interest in GPC Biotech AG. The reversal was recorded in other financial income.

> 25
INCOME TAXES

Income before income taxes and minority interests was attributable to the following geographic regions:

	2004	2003
Germany	**336,839**	385,011
Foreign	**286,994**	195,269
	623,833	**580,280**

Income tax expense for these geographic regions was as follows:

	2004	2003
Germany	**133,524**	177,603
Foreign	**94,164**	76,541
Total current taxes	**227,688**	**254,144**
Germany	**2,525**	-14,495
Foreign	**2,364**	-4,446
Total deferred taxes	**4,889**	**-18,941**
Total income tax expense	**232,577**	**235,203**

Since January 1, 2001, a uniform tax rate of 25 %, plus a 5.5 % solidarity surcharge on corporate tax is applicable in Germany. On top of that German corporations are subject to trade tax, which is approximately 12 % of corporation tax. The combined income tax rate was 38.2 % for the year 2004.

Legislation was enacted in September 2002, which increased the corporate tax rate for 2003 by 1.5 % to 26.5 %, plus a 5.5 % solidarity surcharge on corporation tax effective January 1, 2003. The change resulted in an increase of the combined statutory income tax rate to 39.4 % for the year ended December 31, 2003. Since 2004, the former income tax rate is applicable again.

For the years ended December 31, 2004 and 2003, expenses differed from the amounts computed by applying the effective combined income tax rate of 38% and 39%, respectively, as follows:

	2004	2003
Income before taxes and minority interests	**623,833**	**580,280**
Computed income tax expense at the effective combined income tax rate	**238,059**	228,860
Non-deductible expenses	**22,244**	23,600
Foreign tax rate differential	**-24,203**	-6,775
Tax free income	**-5,850**	-19,167
Tax for prior years	**1,355**	14,375
Other	**972**	-5,690
Total	**232,577**	**235,203**
Effective income tax rate	**37.3 %**	40.5 %

Deferred income tax assets and liabilities related to the following items:

	At December 31, 2004	At December 31, 2003
Assets		
Intangibles	**7,652**	9,721
Property, plant and equipment	**8,282**	5,171
Inventories	**17,805**	18,095
Receivables and other assets	**9,497**	6,647
Pension and other post-retirement benefits	**24,493**	24,080
Other provisions	**19,740**	11,821
Liabilities	**6,705**	27,937
Deferred income	**32,087**	39,073
Tax loss carry-forwards	**3,849**	5,198
Other	**1,042**	249
Deferred tax assets	**131,152**	**147,992**
Liabilities		
Intangibles	**-1,823**	-1,996
Property, plant and equipment	**-30,982**	-31,718
Financial assets	**-5,800**	0
Marketable securities	**-1,419**	-8,794
Inventories	**-7,174**	-7,840
Receivables and other assets	**-18,349**	-14,046
Other provisions	**-18,018**	-23,102
Liabilities	**-4,637**	-13,134
Other	**-4,504**	-1,372
Deferred tax liabilities	**-92,706**	**-102,002**
Deferred tax assets, net	**38,446**	**45,990**

Net deferred income tax assets and liabilities were as follows:

	At December 31, 2004	At December 31, 2003
Deferred tax assets	**46,471**	79,282
Deferred tax liabilities	**-8,025**	-33,292
Deferred tax assets, net	**38,446**	**45,990**

At December 31, 2004 the Company had tax loss carry-forwards of €33.3 million (2003: €44.9 million) of which €11.3 million (2003: €8.3 million) have unlimited carry-forward periods, €17.4 million expire before 2009 (2003: €14.9 million expire before 2008) and €4.6 million expire after 2009 (2003: €21.7 million expire after 2008). Deferred tax assets on tax loss carry-forwards of €16.0 million and €14.5 million were not recognized as of December 31, 2004 and 2003, respectively, due to the fact that the future realization against taxable income is not probable.

At December 31, 2004 and 2003, respectively, a deferred tax liability was not provided for the excess amount of €756 million and €616 million which represents the temporary difference for financial reporting under IFRS over the tax basis of certain investments in subsidiaries. Deferred taxes are not provided for these temporary differences as the timing of their reversal can be controlled and it is probable that the difference will not reverse in the foreseeable future.

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PERSONNEL EXPENSES

	2004	2003
Wages and salaries	**471,493**	438,609
Social security contributions	**90,040**	85,481
Expenses for pensions and other post-retirement benefits	**31,606**	33,008
Total personnel expenses	**593,139**	**557,098**

The expenses were incurred for the following average number of employees during the year:

Number of employees by segment	2004	2003
Pharmaceuticals	**7,979**	7,583
Chemicals	**2,648**	2,426
Holding company	**64**	64
Total	**10,691**	**10,073**

In 2004 and 2003, the pro rata consolidated companies had on average 210 and 213 employees for the years ended, which were included proportionately. The above figures include 308 and 298 interns for 2004 and 2003.

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COMMITMENTS AND CONTINGENCIES

RESEARCH AND DEVELOPMENT AGREEMENTS

As part of its research activities, the Company has entered into various long-term research agreements with research and development providers to collaborate on the discovery, development and commercialization of pharmaceutical drugs. Under these agreements, the Company provides research funding over the agreed upon service period. In addition, cost reimbursements, license fees, milestone payments, and royalties may be required to be paid depending on the terms of the respective agreement and the outcome of the research activities. As of December 31, 2004, the estimated payments to these parties, assuming the milestones or other conditions are met, are as follows:

2005	37,231
2006	20,500
2007	9,400
2008	0
2009	0
Thereafter	0
Total	**67,131**

GUARANTEES AND OTHER COMMITMENTS

	At December 31, 2004	At December 31, 2003
Commitments for capital expenditures and other purchase obligation	**46,844**	71,839
Guarantee for pension obligations of disposed business	**15,085**	15,319
Other	**4,067**	7,546
Total	**65,996**	**94,704**

In 1995, the Company sold its dietetics business line. In accordance with the German Civil Code, the Company remains liable for the pension commitments for holders of annuities and prospective beneficiaries since the sale was consummated as an asset transaction. The Company is obligated to make payments on demand of the former employees, but has the right of refund from the acquirer according to the purchase agreement. No payments have been requested.

RENTAL AND LEASE ARRANGEMENTS

The Company rents and leases property and equipment used in its operations. These leases are classified as either operating or capital leases and amortized over the life of the respective lease. The lease contracts expire on various dates in the future.

Future minimum lease payments for non-cancelable operating and capital leases at December 31, 2004 were:

	Capital leases	Operating leases
2005	777	20,598
2006	605	15,559
2007	576	12,112
2008	419	9,276
2009	393	8,460
After 2009	4,472	35,090
Total minimum lease payments	**7,242**	**101,095**
Less amount representing interest	1,404	
Present value of lease payments	**5,838**	
Less current portion	501	
Non-current lease obligations	**5,337**	

Total rent expense was € 40.4 million and € 38.4 million for the years ended December 31, 2004 and 2003, respectively.

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RELATED PARTY TRANSACTIONS

Susanne Klatten is considered a related party, as she owns 50.1% of the shares of ALTANA AG. She is Deputy Chairwoman of the supervisory board. During the years reported there were no transactions between her and the Company except for dividends distributed and the regular compensation for her function on the supervisory board. Ms. Klatten is also chairwoman of the board of counselors of the Herbert Quandt Foundation, and Dr. h.c. Nikolaus Schweickart, the chairman of the Company's management board, serves as the chairman of the board of the Herbert Quandt Foundation.

Additionally, Susanne Klatten is shareholder and member of the supervisory board of Bayerische Motoren Werke AG (BMW AG). In the years reported the Company purchased company cars from the BMW group. These transactions are not disclosed separately as they were insignificant to the Company's financial statements and were carried out at arm's length.

Affiliated companies, joint ventures and associated companies that are not included in the consolidated financial statements are considered related parties. Balances due to and due from related parties are recorded in other assets, other liabilities and debt, as they are not material. Balances and transactions with unconsolidated subsidiaries are included in the amounts disclosed below.

	At December 31, 2004	At December 31, 2003
Balances due from related parties	**826**	1,222
Balances due to related parties	**-9,539**	-11,021
Deposit from Herbert Quandt Foundation	**-26,382**	-25,636

	2004	2003
Related party transactions		
Sales	**1,096**	341
Services and goods acquired	**-52,001**	-13,434
Interest income	**17**	178
Interest expense	**-2,034**	-1,134

The amount for services and goods acquired relates mainly to the toll manufacturing agreement with Bracco ALTANA Pharma GmbH.

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COMPENSATION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

If the proposal regarding the distributed dividend for 2004 is approved at the annual shareholders' meeting, the compensation of the supervisory board will amount to €1.4 million. For the year ended December 31, 2003,the approved compensation expense was €1.3 million. Of the compensation for 2004 and 2003 €0.3 million were fixed. The variable portion was €0.9 million and €0.8 million for 2004 and 2003, respectively. Additionally, €0.2 million were paid to delegates in 2004 and 2003 as compensation for collaboration in two committees.

The fixed compensation for each member of the supervisory board amounts to € 20 thousand a year, thereof € 10 thousand in shares of the company. The variable compensation amounts to € 700 for every percent of the dividend, exceeding 4 % of the share capital that is approved at the annual shareholders' meeting. The chairman receives two times these amounts, the deputy chairman receives one and a half times these amounts; the chairmen of the personnel committee and the audit committee receive € 40 thousand each and the members of these committees receive € 20 thousand each.

The total compensation for 2004 is attributable to the members of the supervisory board as follows:

(in € thousand)	Fixed compensation[1]	Variable compensation	Committee compensation	Total compensation
Justus Mische (chairman)	40	127	40	207
Marcel Becker (deputy chairman)	30	95	20	145
Susanne Klatten (deputy chairwoman)	30	95	20	145
Dr. Uwe-Ernst Bufe	20	64	20	104
Yvonne D'Alpaos-Götz	20	64	20	104
Dr. Rango Dietrich	20	64	0	84
Ulrich Gajewiak	20	64	20	104
Ralf Giesen	20	64	20	104
Prof. Dr. Dr. h.c. mult. Wolfgang A. Herrmann	20	64	0	84
Dr. Thomas Martin	20	64	0	84
Prof. Dr. Heinz Riesenhuber	20	64	0	84
Dr. Klaus-Jürgen Schmieder	20	64	40	124
Total	**280**	**893**	**200**	**1,373**

1 thereof 50 % in shares of the company at a share price of € 46.51 (Xetra closing price at year-end on December 30, 2004)

The total compensation for the management board was € 4.8 million and € 4.7 million for the years ended December 31, 2004 and 2003, respectively and for 2004 was attributable to the members of the management board as follows:

(in € thousand)	Fixed compensation	Variable compensation	Total compensation
Dr. Nikolaus Schweickart (Chairman)	500	1,356	1,856
Dr. Hermann Küllmer	341	649	990
Dr. Hans-Joachim Lohrisch	375	781	1,156
Dr. Matthias L. Wolfgruber	306	491	797
Total	**1,522**	**3,277**	**4,799**

The variable compensation of members of the management board is based on operating income before amortization of goodwill (EBITA) and return on capital employed (ROCE) in comparison to the budget. As goodwill is no longer amortized in 2004, EBITA corresponds to operating income (EBIT).

Additionally, the members of the management board receive variable compensation in the form of stock options for management as long-term incentive. In 2004, a total of 130,000 options were granted that are attributable to the members of the management board according to the following table. The exercise of the options is contingent upon specific conditions. See Note 13 "Employee incentive plans" for a description of the stock options plans.

	Stock option plan 2004
Dr. Nikolaus Schweickart (Chairman)	40,000 shares
Fair value at the day of grant	461
Value as of December 31, 2004	0
Dr. Hermann Küllmer	30,000 shares
Fair value at the day of grant	346
Value as of December 31, 2004	0
Dr. Hans-Joachim Lohrisch	30,000 shares
Fair value at the day of grant	346
Value as of December 31, 2004	0
Dr. Matthias L. Wolfgruber	30,000 shares
Fair value at the day of grant	346
Value as of December 31, 2004	0

At December 31, 2004 the members of the management board held a total of 412,500 options. The compensation expense for these stock option plans amounted to €78 thousand and €162 thousand for the years ended December 31, 2004 and 2003, respectively.

The fair value of the options at the day of grant was calculated based on the Black Scholes/ Binominal option pricing model. The value of the options as of December 31, 2004 was calculated as the difference of the share price on that date and the exercise price.

In 2004, Dr. Nikolaus Schweickart exercised 12,000 options and Dr. Hans-Joachim Lohrisch 5,000 options, both of the stock option program 2000.

For the members of the management board, a pension accrual in the amount of €4,437 thousand and €3,695 thousand was recorded as of December 31, 2004 and 2003, respectively. For prior members of the management board and their surviving dependents, a pension accrual in the amount of €6,940 thousand and €6,837 thousand was recorded as of December 31, 2004 and 2003, respectively. The compensation expense totaled €618 thousand and €620 thousand for the years ended December 31, 2004 and 2003, respectively.

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LITIGATION

DEUTSCH-ATLANTISCHE TELEGRAPHEN AG (DAT)

Subsequent to the conclusion of a Profit Transfer and Control Agreement with DAT in 1988 and the integration of DAT in the ALTANA AG in 1990, a group of minority shareholders of DAT initiated legal action, alleging that our compensation offer to the minority shareholders was inadequate.

After consideration of the case, both the "Landgericht Köln" and the "Oberlandesgericht Düsseldorf" confirmed that the 1.3 or 1.4 shares offered to the former DAT shareholders was a fair consideration. However, in 1999 the Federal Constitutional Court of Germany overturned this ruling stating that the compensation should take into account the higher share price of the DAT shares on the stock market during the relevant period.

On March 12, 2001, the German Federal Supreme Court (Bundesgerichtshof, BGH) ruled that the exchange ratio had to be based on the average market price of the shares to be exchanged during the three months preceding the approval of the Profit Transfer and Control Agreement by the general shareholder meeting. The BGH referred the case to a lower court. On July 4, 2003, the "Oberlandesgericht Düsseldorf" made a final ruling in regard to the exchange ratio, which was 3.45 ALTANA shares for one DAT share (not taking into account the various stock splits that have occurred in the meantime).

Based on the final court ruling, ALTANA's total liability was measured at € 19.3 million. As at December 31, 2002, the Company had already accrued € 16.1 million. Accordingly, an expense of € 3.2 million was recognized in 2003 in other operating expense. ALTANA's obligation has to be settled in cash and in the Company's shares. The obligation was measured at the stock price of the day of the court ruling.

In 2003, 207,036 ALTANA treasury shares were transferred to former DAT shareholders and € 0.9 million was paid in cash. However, in 2004 treasury shares (7,704) and cash payments (€ 0.03 million) were returned to ALTANA, because the former shareholders could not be identified by the bank, who had requested the shares and cash payments in 2003. In 2004, 3,492 ALTANA treasury shares have been transferred to former DAT shareholders and € 0.02 million were paid in cash. At December 31, 2004, the remaining obligation totaling € 8.2 million has been recorded in other liabilities.

OTHER LITIGATION AND POTENTIAL EXPOSURES

From time to time, the Company is party to or may be threatened with other litigation arising in the ordinary course of its business. Management regularly analyzes current information including, as applicable, the Company's defenses and insurance coverage and, as necessary, provides accruals for probable liabilities for the eventual disposition of these matters. The ultimate outcome of these matters is not expected to materially affect the Company's consolidated balance sheets, income statements or cash flows.

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SUBSEQUENT EVENTS

In January 2005, an agreement was concluded concerning the sale of minor activities of the Company's chemicals segment representing net sales of € 33 million in 2004.

The management board approved the financial statements on February 22, 2005. The supervisory board of ALTANA AG authorized the issuance of the financial statements on March 16, 2005.

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ADDITIONAL INFORMATION

List of companies, that are exempt from the preparation of consolidated financial statements according to Sec. 264 (3) German Commercial Code.

ALTANA Pharma AG, Konstanz
ALTANA Pharma Deutschland GmbH, Konstanz
ALTANA Pharma Oranienburg GmbH, Oranienburg
ALTANA Technology Projects GmbH, Bad Homburg v.d.H.
Gewerbepark Oranienburg GmbH, Oranienburg
Unipharma GmbH, Konstanz
ALTANA Chemie AG, Wesel
ALTANA Coatings & Sealants GmbH, Wesel
ALTANA Electrical Insulation GmbH, Wesel
BYK-Chemie GmbH, Wesel
BYK-Gardner GmbH, Geretsried
DS-Chemie GmbH, Bremen
Rhenania Coatings GmbH, Grevenbroich
Rhenatech GmbH Elektroisoliersysteme, Kempen
Terra Lacke GmbH, Lehrte
Wiedeking GmbH, Kempen
Beck Electrical Insulation GmbH, Hamburg

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STATEMENT OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

In November 2004, the management and supervisory boards of the Company reconfirmed the corporate governance statement of compliance in accordance with Sec. 161 AktG. This statement is available on the website of the Company (see chapter Corporate Governance on page 17 of the annual report).

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RECONCILIATION TO U.S. GAAP

The consolidated financial statements of the Company have been prepared in accordance with IFRS. These principles and practices differ in various respects from U.S. GAAP. The differences that affect net income and shareholders' equity as of and for the years ended December 31, 2004 and 2003 are set out in the reconciliation below:

	Note	2004	2003
Net income under IFRS		**390,683**	**345,222**
Adjustments			
Goodwill	a	**-1,377**	16,551
Intangible assets	b	**-7,517**	-3,294
Capitalization of interest on property, plant & equipment	c	**-131**	-515
Marketable securities	d	**-253**	-8,089
Employee incentive plans	e	**-980**	-8,004
Provisions for pensions and similar obligations	f	**-998**	365
Voluntary termination benefits	g	**-555**	1,480
Other accruals	h	**-457**	1,345
Revenue recognition	i	**1,803**	1,803
Hyperinflation accounting	j	**-303**	-887
Other		**-257**	1,838
Tax effect of U.S. GAAP adjustments	k	**-682**	-3,034
Differences in accounting for income taxes standards	l	**5,655**	-8,122
Net income under U.S. GAAP		**384,631**	**336,659**
Basic earnings per share under U.S. GAAP		**2.83**	2.47
Diluted earnings per share under U.S. GAAP		**2.83**	2.47

	Note	At December 31, 2004	At December 31, 2003
Shareholders' equity under IFRS		**1,660,800**	**1,445,425**
Adjustments			
Goodwill	a	**-14,086**	-11,994
Intangible assets other than goodwill	b	**40,893**	48,220
Capitalization of interest on property, plant & equipment	c	**4,693**	4,822
Marketable securities	d	**0**	0
Employee incentive plans	e	**2,440**	-4,704
Provisions for pensions and similar obligations	f	**-1,114**	2,386
Voluntary termination benefits	g	**15,035**	15,599
Other accruals	h	**250**	722
Revenue recognition	i	**-12,791**	-14,594
Hyperinflation accounting	j	**910**	1,180
Other		**1,901**	2,691
Tax effect of U.S. GAAP adjustments	k	**-2,717**	-901
Differences in accounting for income taxes standards	l	**-13,046**	-18,845
Shareholders' equity under U.S. GAAP		**1,683,168**	**1,470,007**

A) GOODWILL

In accordance with IAS 22, "Business Combinations", goodwill and negative goodwill arising out of business combinations consummated prior to January 1, 1995 could be charged against retained earnings. Such a provision did not exist under APB No.16, "Business Combinations", which has resulted in a reinstatement and amortization of pre 1995 goodwill for U.S. GAAP purposes.

In accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates", goodwill and other fair value adjustments resulting from purchase business combinations that have not been recorded in the accounts of the foreign subsidiary may be recorded at the reporting currency for financial statement purposes. Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation", requires goodwill and other fair value adjustments to be recorded in the functional currency of the acquired business and translated into the reporting currency, which results in an adjustment to goodwill and other net assets with a corresponding effect on depreciation and amortization expense as well as other comprehensive income.

On January 1, 2004, the Company early adopted IFRS 3, "Business Combinations" and the revised IAS 36 and IAS 38. As of this date, all business combinations within the scope of the standard are accounted for by applying the purchase method with prior periods not being adjusted. Additionally, IFRS 3 requires goodwill acquired in a business combination to be measured after initial recognition at cost less any accumulated impairment losses. Therefore goodwill is no longer amortized but instead must be tested for impairment annually or more frequently, if events and circumstances indicate that an impairment may exist.

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 requires the Company to evaluate its existing intangible assets and goodwill and to make any necessary reclassification in order to conform with the new requirements at the date of adoption. Consistent with the provisions of SFAS No. 142, the Company ceased amortization of all goodwill effective January 1, 2002.

Goodwill is therefore no longer amortized under both IFRS and U.S. GAAP, but the reconciliation item will remain due to the difference of effective dates of the related standards.

SFAS No. 142 requires that the Company assesses whether there was an indication that goodwill was impaired as of January 1, 2002. In this regard, the Company (1) identified its reporting units, (2) determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units, (3) determined the fair value of each reporting unit, and (4) compared the carrying value and fair value of each reporting unit. Based on these procedures the Company did not identify any circumstances in which the carrying value of a reporting unit exceeded its fair value as of the SFAS No. 142 transitional date. In addition to the transitional impairment evaluation described above, the Company performed its annual SFAS No. 142 goodwill impairment test as of September 30, 2004 and 2003, and found no indications of impairment. This evaluation was made based on the forecast calculations that were up-dated in September of 2004.

In August 2003, the Company acquired various assets from Schenectady International Inc. (see Note 3) and recognized goodwill in the amount of €46.2 million in accordance with IAS 22 and IAS 38. In accordance with SFAS No. 142 the Company reclassified €43.1 million of the IFRS goodwill to customer related intangible assets under U.S. GAAP in 2003 and amortizes it over the estimated useful life of 10 years.

IFRS 3 does not allow for reclassification of goodwill recognized before the first time application of IFRS 3 even if the provisions for capitalizing an intangible asset would have been met under the revised IAS 38. Therefore the goodwill recognized from the acquisition of Schenectady International Inc. under IFRS has not been reclassified as an intangible asset.

Under U.S. GAAP, the carrying values of goodwill were as follows:

	At December 31, 2004	At December 31, 2003
Carrying value under IFRS (see Note 5)	**91,962**	93,315
Goodwill acquired before the year 1995	**1,116**	1,680
Differences from foreign currency translation	**-4,646**	-3,931
Accumulated amortization under IFRS	**33,360**	33,360
Customer related intangibles at acquisition cost	**-43,103**	-43,103
Goodwill disposed of	**-813**	0
Carrying value under U.S. GAAP	**77,876**	**81,321**

The changes in the carrying value of goodwill for the years ended December 31, 2004 and 2003, respectively, were as follows:

	Pharmaceuticals	Chemicals	Total
Balance as of January 1, 2003	9,133	74,672	83,805
Goodwill acquired during the year	0	3,116	3,116
Translation adjustments	-2,055	-3,545	-5,600
Balance as of December 31, 2003	7,078	74,243	81,321
Goodwill acquired during the year	0	119	119
Goodwill disposed of	0	-1,377	-1,377
Translation adjustments	111	-2,298	-2,187
Balance as of December 31, 2004	**7,189**	**70,687**	**77,876**

B) INTANGIBLE ASSETS OTHER THAN GOODWILL

Under U.S. GAAP, Emerging Issues Task Force Issue ("EITF") No. 98-11, "Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations", determines that the principle outlined in SFAS No. 109 should be used to record the assigned value of an asset in which the amount paid differs from the tax basis of the asset, that means deferred taxes are shown gross. Such a provision does not exist under IFRS. The assumption of a deferred tax liability as part of an acquisition of an intangible asset resulted in a larger asset for U.S. GAAP than for IFRS.

As required by SFAS No. 142, the Company has reassessed the useful lives and residual values of all recognized intangible assets and there were no indications of impairments in relation to these assets.

As described in (a) Goodwill above, in 2003 the Company acquired assets from Schenectady International Inc. For IFRS purposes, € 43.1 million were reclassified to customer related intangibles under U.S. GAAP in 2003.

Under U.S. GAAP, the carrying values of intangible assets other than goodwill were as follows:

	At December 31, 2004	At December 31, 2003
Carrying value under IFRS (see Note 5)	**145,164**	136,723
Final book basis (according to EITF 98-11)	**5,382**	8,588
Customer related intangibles at acquisition cost	**43,103**	43,103
Amortization on customer related intangibles	**-5,968**	-1,657
Translation adjustments	**-1,624**	-1,814
Carrying value under U.S. GAAP	**186,057**	**184,943**

C) CAPITALIZATION OF INTEREST ON PROPERTY, PLANT & EQUIPMENT

In accordance with IAS 23, "Borrowing Costs", interest costs may be recognized as an expense in the period in which they are incurred. Under SFAS No. 34, "Capitalization of Interest Cost", interest costs incurred must be capitalized on qualifying assets.

Under U.S. GAAP, the carrying values of property, plant and equipment were as follows:

	At December 31, 2004	At December 31, 2003
Carrying value under IFRS (see Note 6)	**762,974**	687,032
Interest costs capitalized	**5,743**	5,743
Accumulated depreciation of interest costs capitalized	**-988**	-857
Translation adjustments	**-62**	-64
Carrying value under U.S. GAAP	**767,667**	691,854

D) MARKETABLE SECURITIES

In 2003, the Company reversed the impairment charge in accordance with IAS 39 (revised 2000) relating to its 8.3 % investment in GPC Biotech AG, Martinsried, Germany. The impairment charge was taken in 2002 as the fair market value of the security fell below cost for a substantial period. However, in 2003 the share price increased considerably due to the announcement of several positive results mainly related to two of the company's research and development projects. The reversal was recorded in financial income, totaling € 7.7 million. In 2004, no such reversals of previously recorded impairment charges were made.

Under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", impairment charges cannot be reversed. Any subsequent increase will be recorded in other comprehensive income, net of tax.

E) EMPLOYEE INCENTIVE PLANS

Under IFRS compensation expense for options granted under employee incentive plans is measured as the excess of the average cost of treasury shares acquired over the exercise price of the options where such shares are designated to settle stock options. The expense is recognized in income over the applicable vesting period.

In accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees", FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and other Variable Stock Option or Award Plans", and related interpretations, compensation expense for variable options granted under employee incentive plans which are settled in cash (ALTANA Investment Plans), settled in cash or stock at the election of the employee (Management Stock Option Plans 1999 and 2000) or settled in stock (Management Stock Option Plans 2001 to 2004) is measured as the excess of the quoted market value of the shares at each balance sheet date over the exercise price, provided it is probable that performance requirements of the plan will be met. The expense is recognized through the measurement date or the exercise date, if no measurement date, based on the estimated number of shares to be issued.

If compensation expense for stock based compensation under the Management Stock Option Plans 2001 to 2004 had been based upon the fair value at the grant date, consistent with the methodology described under SFAS No. 123, "Accounting for Stock Based Compensation", the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	2004	2003
U.S. GAAP net income		
As reported	**384,631**	336,659
Add: Stock-based employee compensation expense included in		
reported net income, net of related tax effects of € 380	**0**	3,444
Deduct: Total stock-based employee compensation expense		
determined under fair value based method for all awards,		
net of related tax effects of € 1,769 (2003: € 2,293)	**-18,084**	-21,881
Pro forma	**366,547**	**318,222**
U.S. GAAP earnings per share		
As reported	**2.83**	2.47
Pro forma	**2.70**	2.33
Diluted U.S. GAAP earnings per share		
As reported	**2.83**	2.47
Pro forma	**2.70**	2.33

The fair value of the stock options issued in conjunction with the Management Stock Option Plans (2001 to 2004) at the date of grant was estimated using the Black Scholes/Binominal option pricing model based on the following assumptions:

	Management Stock option plan 2004	Management Stock option plan 2003	Executive option plan 2003	Key Management option plan 2002	Management Stock option plan 2001
Expected dividend yield	1.7 %	1.5 %	1.3 %	1.3 %	1.68 %
Expected volatility	35 %	35 %	42.41 %	42.12 %	37.5 %
Risk-free interest rate	3.5 %	3.5 %	4.5 %	4.5 %	4.5 %
Expected lives (in years)	4	3.5	10	10	5
Correlation ALTANA share					
and benchmark index	35 %	–	–	–	–
Fair value per option (in €)	11.53	14.84	27.00	25.84	16.72

F) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Under IFRS, actuarial gains and losses were recognized immediately in income through the year ended December 31, 1999. Beginning in 2000, the Company elected the option to defer and amortize actuarial gains and losses exceeding a corridor of 10 % (the "corridor approach") over the average remaining service period of active employees.

In accordance with SFAS No. 87, "Employers' Accounting for Pensions", the corridor approach has been applied in all periods presented.

Additionally SFAS No. 87 requires that an additional minimum liability be recorded if the accumulated benefit obligation exceeds the fair value of plan assets. The liability recognized should at least be equal to the unfunded accumulated benefit obligation. Recognition is also required if an unfunded accumulated benefit obligation exists and the liability recognized as unfunded accrued pension cost is less than the unfunded accumulated benefit obligation. Under IFRS no provisions regarding the recognition of additional minimum liability exist.

The reconciling item relates to the different effective dates for use of the corridor approach under IFRS and U.S. GAAP and the recognition of the additional minimum liability under U.S. GAAP and were as follows:

	At December 31, 2004	At December 31, 2003
Provision under IFRS (see Note 14)	**263,768**	254,670
Different effective dates for application of corridor approach	**3,458**	4,456
Additional minimum liability	**-4,601**	-2,070
Translation adjustments	**29**	0
Carrying value under U.S. GAAP	**262,654**	**257,056**

G) VOLUNTARY TERMINATION BENEFITS

Under IFRS, any plan incentive for voluntary termination benefits is recorded in its entirety based on the number of employees expected to participate in the plan.

Under U.S. GAAP, the obligation for voluntary termination benefits is first recognized when the employee accepts the offer. The total costs of the benefits are accrued on a straight-line basis over the remaining service period, which for ALTANA ranges from zero to 60 months.

H) OTHER ACCRUALS

In accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", an accrual should be recognized when an enterprise has a present obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Under SFAS No. 5, "Accounting for Contingencies", an estimated loss from a loss contingency must be accrued if the contingency is probable and can be reasonably estimated. SFAS No. 5 uses the term "probable" to describe a future event in which the outcome is likely to occur. Accordingly, the timing of recording accruals may differ between IFRS and U.S. GAAP.

The effect on net income in 2003 of € 1.3 million mainly related to accruals for seniority premiums as well as several legal and litigation claims. In 2004, again legal and litigation claims were the main cause for the effect of € 0.5 million on net income.

The difference between the IFRS balance for accrued liabilities and other accruals under U.S. GAAP was as follows:

	At December 31, 2004	At December 31, 2003
Balance under IFRS (see Note 15)	**243,296**	212,885
Cumulative differences between IFRS and U.S. GAAP	**250**	-722
Balance under U.S. GAAP	**243,546**	**212,163**

The cumulative difference between IFRS and U.S. GAAP at December 31, 2003 mainly related to contract termination costs (-€ 0.4 million) and to litigation claims (-€ 0.2 million). Under U.S. GAAP, the liability for contract termination costs was reduced to comply with SFAS 146, which requires a reduction in the liability for rent payments owed by the amount for rent payments under subleases that could reasonably be obtained. In 2004, this adjustment was reversed due to the final termination of the contract. The reduction of the accrual for litigation claims resulted from the reversal of the accrual for U.S. GAAP, since an unfavorable outcome was considered more likely than not for IFRS but not probable under U.S. GAAP.

In 2004, the amount of € 0.3 million mainly related to litigation claims.

I) REVENUE RECOGNITION

The Company has entered into various license and supply agreements under which it receives fixed up-front payments. The Company receives separate payments for the delivery of products under these agreements.

In accordance with IAS 18, "Revenue", such up-front payments received in connection with licensing agreements are recognized immediately if the payments are not refundable and unconditional and when no significant uncertainty as to their collectibility exits. If such payments are conditional on future events, recognition of revenue is deferred until the future events occur.

Under U.S. GAAP, up-front payments and other similar non-refundable payments received which relate to the sale or licensing of products or technology are reported as deferred income and recognized as other income over the related period of collaboration on a straight-line basis.

J) HYPERINFLATION ACCOUNTING

Under both IAS 29, "Financial Reporting in Hyperinflationary Economies", and SFAS No. 52, "Foreign Currency Translation", an economy is considered hyperinflationary if cumulative inflation exceeds 100 % over the most recent three-year period. Based on these criteria, Mexico was no longer considered hyperinflationary for the years beginning January 1, 1998.

For U.S. GAAP purposes, however, inflationary accounting was extended until January 1, 1999, because the AICPA International Practices Task Force concluded that although Mexico's three-year cumulative inflation rate as of April 30, 1998 had dropped below 100 % (93 %), there was no sufficient evidence that this decline was other than temporary. The adjustment reflects this extension.

K) TAX EFFECT OF U.S. GAAP ADJUSTMENTS

The adjustment relates to the current and deferred tax effect of the above adjustments.

L) DIFFERENCES IN ACCOUNTING FOR INCOME TAXES STANDARDS

Under IAS 12 (revised 2000), "Income Tax", tax benefits of future tax credits that will be realized when the previously taxed income is distributed are recognized as a reduction of income tax expense in the period when a liability to pay the dividend is recognized. Under the method of accounting the Company adopted prior to the application of IAS 12 (revised 2000), deferred tax assets and liabilities were computed using the rate on distributed earnings. Additionally, current and deferred tax assets were recognized for the tax benefits of future tax credits that would be realized when the previously taxed income was distributed. With the adoption of IAS 12 (revised 2000) as of January 1, 2001, current and deferred tax assets for the tax benefits of future tax credits that will be realized when the previously taxed income is distributed were written off through income tax expense. A tax benefit was recognized in 2002 and 2001 for the tax credit on the dividend that was declared and paid during 2002 and 2001, respectively.

Under U.S. GAAP, Emerging Issues Task Force Issue ("EITF") No. 95-10, "Accounting for Tax Credits Related to Dividend Payments in Accordance with FASB Statement No.109", deferred tax assets and liabilities are determined using the rate on undistributed earnings.

Tax benefits of future tax credits that will be realized when the previously taxed income is distributed are recognized as a reduction of income tax expense in the period that the tax credits are included in the enterprise's tax return. There were no tax credits for the distribution of previously taxed income included in the Company's 2001 tax return and, consequently, no tax benefit recognized in 2001. A tax benefit was recognized in 2002 for the tax credit on the dividend that was declared and paid during 2002, since that tax credit was included in the Company's 2002 tax return.

The law implementing the German federal government's protocol declaration on the legislative conference committee's recommendation on the Tax Preference Reduction Act (KORB II) was enacted on December 22, 2003. This law introduces restrictions on the extent to which expense deductions can be set against gains on the disposal of shareholdings in domestic and foreign corporations. A similar existing rule affecting foreign dividends has now been extended to cover domestic dividends. In the future, five percent of gains on the disposal of shareholdings and five percent of domestic and foreign dividends are deemed to be non-deductible tax expenses, and are thus subject to both the corporate tax and the trade tax.

As a result of this change of law, the method of calculating deferred taxes on temporary differences related to domestic and foreign shareholdings has changed. For U.S. GAAP, a reconciling item has been recorded as required by SFAS 109 to recognize deferred tax liabilities for the undistributed earnings of foreign subsidiaries which are essentially permanent in duration. Similarly a deferred tax liability has been recorded for all undistributed earnings of domestic subsidiaries, where applicable. Under IAS 12 deferred tax liabilities are not recognized when the Company is able to control the timing of the undistributed earnings of these subsidiaries and it is not probable that such distribution of earnings will be made in the foreseeable future.

In accordance with IAS 12, deferred taxes are not provided on a revaluation surplus that will only be taxable upon distribution or liquidation. For U.S. GAAP purposes, EITF No. 93-16, "Application of FASB Statement No. 109 to Basis Differences within Foreign Subsidiaries That Meet the Indefinite Reversal Criterion of APB Opinion No. 23", deferred taxes for a revaluation surplus are recorded if no mechanisms are available under the tax law to avoid eventual treatment of the revaluation surplus as taxable income.

In accordance with IAS 12, a deferred tax asset or liability is not recognized for temporary differences that arise from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit. As discussed in (b) above, EITF 98-11 determines that the principle outlined in SFAS No. 109 should be used to record the deferred tax asset or liability which arises in a transaction which is not a business combination.

In addition, SFAS No. 109 requires income taxes paid on intercompany profits on assets remaining within the group to be deferred and prohibits the recognition of a deferred tax asset for the difference between the tax basis of an asset in the buyer's tax jurisdiction and their cost as reported in the consolidated financial statements. IAS 12 does not defer income taxes paid on intercompany profits and does not have a similar exception to the recognition of deferred tax assets.

The above differences between IFRS and U.S. GAAP accounting for income taxes are summarized as follows:

	Shareholders' equity At December 31, 2004	2003	Income statement 2004	2003
Outside basis differences	**-4,893**	-6,862	**1,968**	-6,862
Deferred taxes related to revaluation surplus	**-1,022**	-1,313	**149**	115
Deferred taxes arising upon initial recognition				
of an asset or liability	**-5,382**	-8,588	**3,206**	1,117
Income taxes paid on intercompany profits	**-1,749**	-2,082	**332**	-2,492
	-13,046	**-18,845**	**5,655**	**-8,122**

In accordance with IFRS, all deferred tax assets and liabilities are classified as non-current. Under U.S. GAAP, deferred tax assets and liabilities would be classified as current or non-current based on the classification for financial reporting of the related asset or liability.
At December 31, 2004 and 2003, deferred tax assets and liabilities for U.S. GAAP were as follows:

	At December 31, 2004	At December 31, 2003
Deferred tax assets – current	**33,781**	44,228
Deferred tax assets – non-current	**14,626**	20,463
Deferred tax liabilities – current	**-7,615**	-7,409
Deferred tax liabilities – non-current	**-18,110**	-31,036

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ADDITIONAL U.S. GAAP DISCLOSURES

ACCOUNTING FOR JOINT VENTURES

The Company accounts for its investments in joint ventures using the pro rata consolidation method in accordance with IAS 31, "Financial Reporting of Interests in Joint Ventures". Under U.S. GAAP, all investments in which the Company exercises significant influence, but does not exercise control, must be accounted for using the equity method. The differences in accounting between the proportional consolidation method and the equity method did not have an impact on shareholders' equity or net income. The following table summarizes the proportional effect of all such entities accounted for under the pro rata consolidation method.

	At December 31, 2004	At December 31, 2003
Balance sheet information		
Fixed assets	**2,695**	2,964
Other assets	**12,031**	11,843
Total assets	**14,726**	**14,807**
Shareholders' equity	**12,695**	13,078
Accrued liabilities	**1,506**	1,126
Liabilities	**525**	603
Total liabilities and shareholders' equity	**14,726**	**14,807**

	At December 31, 2004	At December 31, 2003
Income statement information		
Net sales	**21,135**	21,225
Operating income	**12,454**	13,332
Net income	**10,438**	12,171
Cash flow statement information		
Net cash flow used in operating activities	**10,088**	12,216
Net cash flow used in investing activities	**-239**	-193
Net cash flow used in financing activities	**-11,049**	0

CONSOLIDATED CASH FLOW STATEMENTS

Consolidated statements of cash flows of the group are prepared in accordance with IAS 7, "Cash Flow Statements". As permitted by the U.S. Securities and Exchange Commission in Regulation S-X, no reconciliation to U.S. GAAP has been performed.

COMPREHENSIVE INCOME

SFAS No. 130, "Reporting Comprehensive Income", requires the disclosure of changes in shareholders' equity that do not result from transactions with shareholders (comprehensive income). Comprehensive income includes the following items:

	2004	2003
Net income under U.S. GAAP	**384,631**	336,659
Net unrealized gains/losses on available-for-sale		
securities and impact of derivatives net of tax		
of € 3,051 and € 3,686 in 2004 and 2003, respectively	**10,468**	33,932
Excess of additional minimum liability over prior service cost,		
net of tax of € 1,794	**-1,545**	-1,262
Foreign currency translation adjustments	**-11,298**	-46,887
Other comprehensive expense, net of tax	**-2,375**	-14,217
Comprehensive income, net of tax	**382,256**	**322,442**

Accumulated balances of other comprehensive income were as follows:

	Marketable securities	Additional minimum liability	Derivatives	Foreign currency translation	Other comprehensive income (loss)
Balance at January 1, 2003	**-14,446**	**0**	**0**	**-85,806**	**-100,252**
Reclassification to net income,					
net of tax	14,403	0	15,257	0	29,660
Net unrealized gains (losses),					
net of tax	5,428	-1,262	-1,156	-46,887	-43,877
Balance at December 31, 2003	**5,385**	**-1,262**	**14,101**	**-132,693**	**-114,469**
Reclassification to net income,					
net of tax	7,638	0	2,628	0	10,266
Net unrealized gains (losses),					
net of tax	-600	-1,545	802	-11,298	-12,641
Balance at December 31, 2004	**12,423**	**-2,807**	**17,531**	**-143,991**	**-116,844**
Tax effect	-117	1,794	-11,208	0	-9,531

All of the unrealized losses from cash flow hedges are likely to be recognized in income within the next 24 months and therefore will be reclassified from other comprehensive income to earnings.

NEW U.S. ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities", which provides guidance regarding the consolidation of certain entities in which equity investors do not have the characteristics of controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 introduces the concept of variable interest entities, explains how to identify a variable interest entity, and requires that the primary beneficiary of any variable interest entity consolidate that entity. In December 2003, the FASB deliberated a partial deferral of and certain proposed modifications to FIN No. 46 to address certain implementation issues. The Board decided that all of the proposed modifications will be incorporated directly into a revised FIN 46, rather than into a new interpretation that amends FIN 46 (FIN 46-R or the "Revised Interpretation"). The effective dates for the Company for both FIN 46 and FIN 46-R are at the end of the first annual reporting period ending after March 15, 2004. The adoption of FIN 46 and FIN 46-R did not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued revised SFAS No.123, "Share based payments". The revised SFAS 123 requires that the compensation cost relating to share based payments be recognized in the financial statements. The compensation is measured based on the fair value of the equity or liability instrument issued. The revised statement eliminates the alternative to continue accounting for share-based payments in accordance with APB 25, which measures compensation cost at its intrinsic value. The revised SFAS 123 shall be applied as of the first interim or annual periods beginning after June 15, 2005, however early application is possible. The Company is currently evaluating the effect on its financial statements.

SUPERVISORY BOARD OF ALTANA AG

Justus Mische
Chairman

Degree in Business Administration
Former management board member
of Hoechst AG
Membership in other supervisory boards:
B. Braun Melsungen AG[1] (Chair)
Software AG[1]

Marcel Becker*
Deputy Chairman

Chemistry Laboratory Technician
Full-time member of the works council
Chairman of the Group works council

Susanne Klatten
Deputy Chairwoman

Master of Business Administration
Senator Honorary of the Technische
Universität, Munich
Membership in other supervisory boards:
Bayerische Motoren Werke AG[1]
ALTANA Pharma AG[1]
UnternehmerTUM GmbH[2]

Dr. Uwe-Ernst Bufe
Degree in Chemistry
Membership in other supervisory boards:
Air Liquide GmbH[1]
Cognis Verwaltungs-GmbH[1]
Frankfurter Versicherungs AG[1]
Rütgers AG[1]
UBS Investment Bank AG[1] (Chair)
Solvay S.A.[2]
Akzo Nobel N.V.[2]
Umicore S.A.[2]

Yvonne D'Alpaos-Götz*
Full-time member of the works council
Chairwoman of the central works council
ALTANA Pharma AG
Membership in other supervisory boards:
ALTANA Pharma AG[1]

Dr. Rango Dietrich*
Pharmacist, MBA

Ulrich Gajewiak*
Chemical Technician

Ralf Giesen*
Degree in Economics
Mining, Chemical and Energy Industrial Union
Secretary of the board and Director of
Department "President/Human Resources"
Membership in other supervisory boards:
Bayer Material Science AG[1]
Vattenfall Europe Mining AG[1]

**Prof. Dr. Dr. h.c. mult.
Wolfgang A. Herrmann**
President of the Technische Universität,
Munich
Membership in other supervisory boards:
Degussa AG[1]

Dr. Thomas Martin*
Degree in Chemistry
Chairman of the VAA works group
ALTANA Pharma AG

Prof. Dr. Heinz Riesenhuber
Former federal minister
Membership in other supervisory boards:
Evotec OAI AG[1] (Chair)
Frankfurter Allgemeine Zeitung GmbH[1]
HBM BioVentures AG[2]
Henkel KGaA[1]
Vodafone GmbH[1]
InSynCo AG[1]
VfW AG[1]
Kabel Deutschland GmbH[1] (Chair)

Dr. Klaus-Jürgen Schmieder
Management board member of L'Air Liquide S.A.

* Employee representative

1 Membership in other statutory supervisory boards
2 Membership in comparable domestic and foreign supervisory bodies

SUPERVISORY BOARD COMMITTEES

The Supervisory Board of ALTANA AG has three permanent committees.

Human Resources Committee

Justus Mische (Chairman)
Marcel Becker
Susanne Klatten
Ulrich Gajewiak

Audit Committee

Dr. Klaus-Jürgen Schmieder*
(Chairman)
Dr. Uwe-Ernst Bufe
Yvonne D'Alpaos-Götz
Ralf Giesen

* Audit Committee Financial Expert in accordance with the requirements of the Sarbanes-Oxley Act

Mediation Committee
In accordance with section 27 (3) of the German Codetermination Act (Mitbestimmungsgesetz)

Justus Mische (Chairman)
Marcel Becker
Susanne Klatten
Dr. Thomas Martin

MANAGEMENT BOARD OF ALTANA AG

Dr. Nikolaus Schweickart
Chairman

Membership in other boards:
BYK-Chemie USA Inc.[2] (Chair)
ALTANA Pharma AG[1] (Chair)
ALTANA Chemie AG[1] (Chair)
DAT Deutsch-Atlantische Telegraphen AG[1] (Chair)
MIVERA Vermögensanlagen AG[1] (Chair)

Dr. Hermann Küllmer
Chief Financial Officer

Membership in other boards:
ALTANA Pharma AG[1]
ALTANA Chemie AG[1]

Dr. Hans-Joachim Lohrisch
Head of the Pharmaceuticals division

Membership in other boards:
ALTANA Pharma US Inc.[2] (Chair)
ALTANA Inc. USA[2] (Chair)
ALTANA Pharma Inc. Canada[2] (Chair)
Sangtec Molecular Diagnostics AB[2]
ALTANA Pharma Pty. Ltd. Australia[2]
ALTANA Pharma Re Insurance AG[1] (Chair)

Dr. Matthias L. Wolfgruber
Head of the Chemicals division

Membership in other boards:
BYK-Chemie USA Inc.[2]
The P.D. George Company[2] (Chair)
La Artistica Productos Quimicos S.A.[2] (Chair)
Shunde Rhenacoat Coating Company Ltd.[2] (Chair)
Tongling SIVA Insulating Materials Company Ltd.[2] (Chair)
BYK-Chemie Japan KK[2]
BYK-Chemie Asia Pacific Pte. Ltd.[2]
Sterling Technology Limited[2]
BYK-Chemie Tongling[2] (Chair)
ALTANA Electrical Insulation (Zhuhai) Co. Ltd.[2] (Chair)
Beck India Ltd.[2] (Chair)
Deatech s.r.l.[2]

1 Membership in other statutory supervisory boards
2 Membership in comparable domestic and foreign supervisory bodies

MAJOR CONSOLIDATED COMPANIES

Dec. 31, 2004	Share of capital in %	Equity[1] in € million	Sales[1] in € million	Earnings for the year[1] in € million	Employees
Holding company					
ALTANA AG, Bad Homburg v. d. H.		1,907	–	299[3]	62
ALTANA Pharma					
ALTANA Pharma AG, Constance	100	95	1,110	263[2,3]	2,832
ALTANA Pharma Deutschland GmbH, Constance	100	1	362	60[2]	515
ALTANA Pharma AG, Kreuzlingen (CH)	100	8	31	8	40
ALTANA Pharma Ltd., Marlow (GB)	100	4	17	1	221
ALTANA Pharma B.V., Hoofddorp (NL)	100	10	82	25	116
ALTANA Pharma NV/SA, Diegem (B)	100	7	34	4	90
ALTANA Pharma S.A.S., Le Mée-sur-Seine (F)	100	15	137	16	262
ALTANA Pharma GmbH, Vienna (A)	100	11	52	12	72
ALTANA Pharma S.p.A., Milan (I)	100	31	118	7	323
ALTANA Pharma S.A., Madrid (E)	100	20	79	12	167
ALTANA Pharma SP. z.o.o., Warsaw (PL)	100	22	33	4	130
ALTANA Pharma Inc., Oakville Ontario (CAN)	100	28	103	11	223
ALTANA Pharma S.A. de C.V., Mexico City (MEX)	100	62	135	58	598
ALTANA Pharma Ltda., São Paulo (BR)	100	54	87	15	684
ALTANA Madaus (Pty.), Midrand (ZA)	50	12	18	5	33
Zydus ALTANA Healthcare Private Ltd., Vashi (IND)	50	14	24	20	68
ALTANA Inc., Melville (U.S.)	100	38	181	29	505
ALTANA Pharma US Inc., Florham Park (U.S.)	100	19	29	3	362
ALTANA Chemie					
ALTANA Chemie AG, Wesel	100	867	–	46[2,3]	15
BYK-Chemie GmbH, Wesel	100	105	252	72[2]	554
Rhenania Coatings GmbH, Grevenbroich	100	9	48	2[2]	156
DS-Chemie GmbH, Bremen	100	7	50	1[2]	143
Terra Lacke GmbH, Lehrte	100	6	35	6[2]	85
Beck Electrical Insulation GmbH, Hamburg	100	24	28	–	120
BYK-Cera B.V., Deventer (NL)	100	23	39	5	78
Deatech s.r.l., Ascoli Piceno (I)	100	30	87	10	114
The P.D. George Company, St. Louis (U.S.)	100	17	87	3	198
BYK-Chemie USA, Wallingford (U.S.)	100	50	60	10	87
BYK-Chemie Japan KK, Osaka (J)	100	5	24	2	31
Tongling SIVA Insulating Materials Co.Ltd., Tongling City (PRC)	100	18	32	6	66
Other Subsidiaries					
ALTANA Technology Projects GmbH, Bad Homburg v. d. H.	100	63	–	-5[2]	–

1 Figures in accordance with International Financial Reporting Standards (IFRS)
2 Profit and loss transfer agreement with ALTANA AG
3 Including the earnings of subsidiaries linked by profit and loss transfer agreement

REPORT OF THE SUPERVISORY BOARD

In 2004, another successful business year for ALTANA, the Supervisory Board again acted in an advisory capacity to the Management Board and regularly monitored its activities.

BUSINESS DEVELOPMENTS AND KEY TOPICS

At its meetings, the Supervisory Board examined in detail the Group's economic situation and development perspectives, and was informed about important business events. Key topics included changes in the competitive environments of ALTANA Pharma and ALTANA Chemie, as well as the continued strength of the euro in particular against the U.S. dollar and their influence on business figures. In the fall meeting, the Supervisory Board dealt extensively with the company's long-term planning, discussing developments in the business environment, the future strategic orientation of the company's business portfolio, and global expansion possibilities for both divisions with the Management Board.

As to ALTANA Pharma the ongoing expansion of the worldwide business of Pantoprazole was of special interest at all meetings. In particular, influences due to changes on the proton pump inhibitor market in the U.S. were dealt with on a regular basis. Furthermore, the Supervisory Board was continually informed about the state of research projects, above all regarding advancements in the development and approval procedures of the new respiratory preparations ALVESCO® and DAXAS®. During the meeting held in September 2004, the Supervisory Board focused on the strategy for marketing the new respiratory drug ALVESCO® in anticipation of its introduction on the European market. Further key issues included strategic measures to build up ALTANA Pharma's market presence in the U.S., as well as health-policy obstacles, above all in Germany, but also in a number of other European countries.

Within the framework of the business performance of ALTANA Chemie, the Supervisory Board was regularly informed about continued measures taken in 2004 to concentrate its product portfolio and to improve cost structures. The successful integration of the international electrical insulation business of Schenectady, acquired in the prior year, into ALTANA Chemie, was also dealt with several times. In addition, risks arising from the development of raw material prices and possible effects from E.U. chemicals policy were addressed. Other important subjects were the usage of nanotechnology as well as the strategic expansion of business in Asia, particularly on the Chinese market.

The Supervisory Board meetings dealt regularly with corporate governance issues, particularly with the requirements of the U.S. Sarbanes-Oxley Act (SOA) as well as new regulations connected with the Act on the Improvement of Investor Protection. In the spring meeting, the Supervisory Board dealt in depth with the efficiency of its activities. In preparation for the meeting, questionnaires were sent to all Supervisory Board members enabling the latter to assess different aspects of the Board's work and make suggestions for improvement. The

Management and Supervisory Boards concluded the annual declaration of compliance at the meeting held on November 17, 2004. ALTANA agreed to all the recommendations and suggestions made by the German Corporate Governance Code in the version of May 21, 2003.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The Supervisory Board held four regular meetings in the year under review. Outside of these meetings too, the Chairman of the Supervisory Board was kept regularly informed by the Chairman of the Management Board about important developments and decisions that had to be made. The Management Board submitted written reports to all Supervisory Board members each quarter, informing them of the current state of affairs and the outlook for the Group.

The Audit Committee met three times. In the presence of the auditor as well as the Chairman of the Management Board and the Chief Financial Officer, it dealt with the annual financial statements of ALTANA AG and the ALTANA Group, the proposal for the distribution of the profit, as well as the report on Form 20-F to be filed with the SEC. It was recommended unanimously that the annual financial statements be approved by the Supervisory Board. In addition, the committee focused on the organization of the auditing, the issuing of the order to the auditor and monitoring of his independence, the setting of fees, and the approval of non-auditing services in accordance with the regulations of the Sarbanes-Oxley Act. The Audit Committee also dealt in depth with the identification and monitoring of risks in the Group as well as with the implementation of regulations of section 404 of the Sarbanes-Oxley Act on internal control systems.

The Human Resources Committee met four times, dealing with the personnel matters of the Management Board, the structure and amount of Management Board compensation, and the stipulation of stock option based components of compensation. The structure of compensation of the Management Board was also discussed in the Supervisory Board plenum. The Mediation Committee, established in accordance with section 27 (3) of the German Codetermination Act, did not have to convene.

The Supervisory Board was kept regularly informed about the activities of the committees.

ANNUAL FINANCIAL STATEMENTS

The annual financial statements of ALTANA AG, the consolidated financial statements for the year ended December 31, 2004, and the combined management report were audited by PwC Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which was appointed by the Annual General Meeting and engaged by the Chairman of the Audit Committee of the Supervisory Board, and they issued an unqualified audit opinion in each case. The risk management system set up for the ALTANA Group was audited.

The examination revealed that the system properly fulfills its function. The financial statement documentation, the annual report, and the reports of PwC on the audit of the annual financial statements and of the consolidated financial statements, as well as the Management Board's proposal for the distribution of the profit, were made available to all Supervisory Board members. The Audit Committee of the Supervisory Board dealt extensively with this documentation. The Supervisory Board inspected the documentation and dealt with it in depth in the presence of the auditor, who reported on the main results of the examination. The Supervisory Board is in agreement with the findings of the audit and has no grounds for objection following its final examination. At its meeting on March 16, 2005, the Supervisory Board approved the annual financial statements and consolidated financial statements prepared by the Management Board. The annual financial statements are thereby adopted. The Supervisory Board evaluated the Management Board's proposal for the distribution of the profit and is in agreement with its proposal.

REPORT IN ACCORDANCE WITH SECTION 312 OF THE GERMAN STOCK CORPORATION ACT

The Management Board prepared a report in accordance with section 312 of the German Stock Corporation Act on relations with affiliated companies for the financial year 2004. The Supervisory Board inspected this report and found it to be accurate. The auditor issued the following audit opinion: "On completion of our audit and assessment in accordance with professional standards, we confirm that the factual information in the report is correct and that the payments made by the company for the transactions listed in the report were not unreasonably high." The auditor's findings were approved by the Supervisory Board. Following completion of its own review, the Supervisory Board has no objections to the Management Board's statement at the end of the report.

The Supervisory Board would like to thank all the members of the Management Board, the company's management, and employees of the ALTANA Group for their efforts and commitment in the year under review.

Bad Homburg v. d. H., March 16, 2005

For the Supervisory Board

Justus Mische
- Chairman -

LEGAL BASIS

The ALTANA Annual Report 2004 contains forward-looking statements, i.e., current estimates or expectations of future events or future results. The forward-looking statements appearing in this Annual Report include revenue and earnings projections for the ALTANA Group, sales projections for Pantoprazole, sales potential statements for the Ciclesonide product family and Roflumilast, estimates for the achievement of certain milestones for R&D activities and new products including product launches, plans for R&D activities and investments as well as acquisitions. These statements are based on beliefs of the ALTANA Management, and on information currently available to ALTANA. Many factors that ALTANA is unable to predict with accuracy could cause ALTANA's actual results, performance or achievements to be materially different from those that may be expressed or implied by such forward-looking statements. These factors include currency fluctuations, price regulations for pharmaceuticals, regulatory decisions of the competent authorities, budgeting decisions of local governments and health-care providers, ALTANA's ability to develop and launch new and innovative pharmaceutical and chemical products, the level of ALTANA's investment in R&D, the sales and marketing methods used by ALTANA to distribute its pharmaceuticals, the composition of ALTANA's pharmaceuticals portfolio, ALTANA's ability to maintain close ties with its chemicals customers, the business cycles experienced by ALTANA's chemicals customers, and the prices of raw materials used in ALTANA's chemicals business.

Forward-looking statements speak only as of the date they are made. ALTANA does not intend, and does not assume any obligation, to update forward-looking statements to reflect facts, circumstances or events that have occurred or changed after such statements have been made.

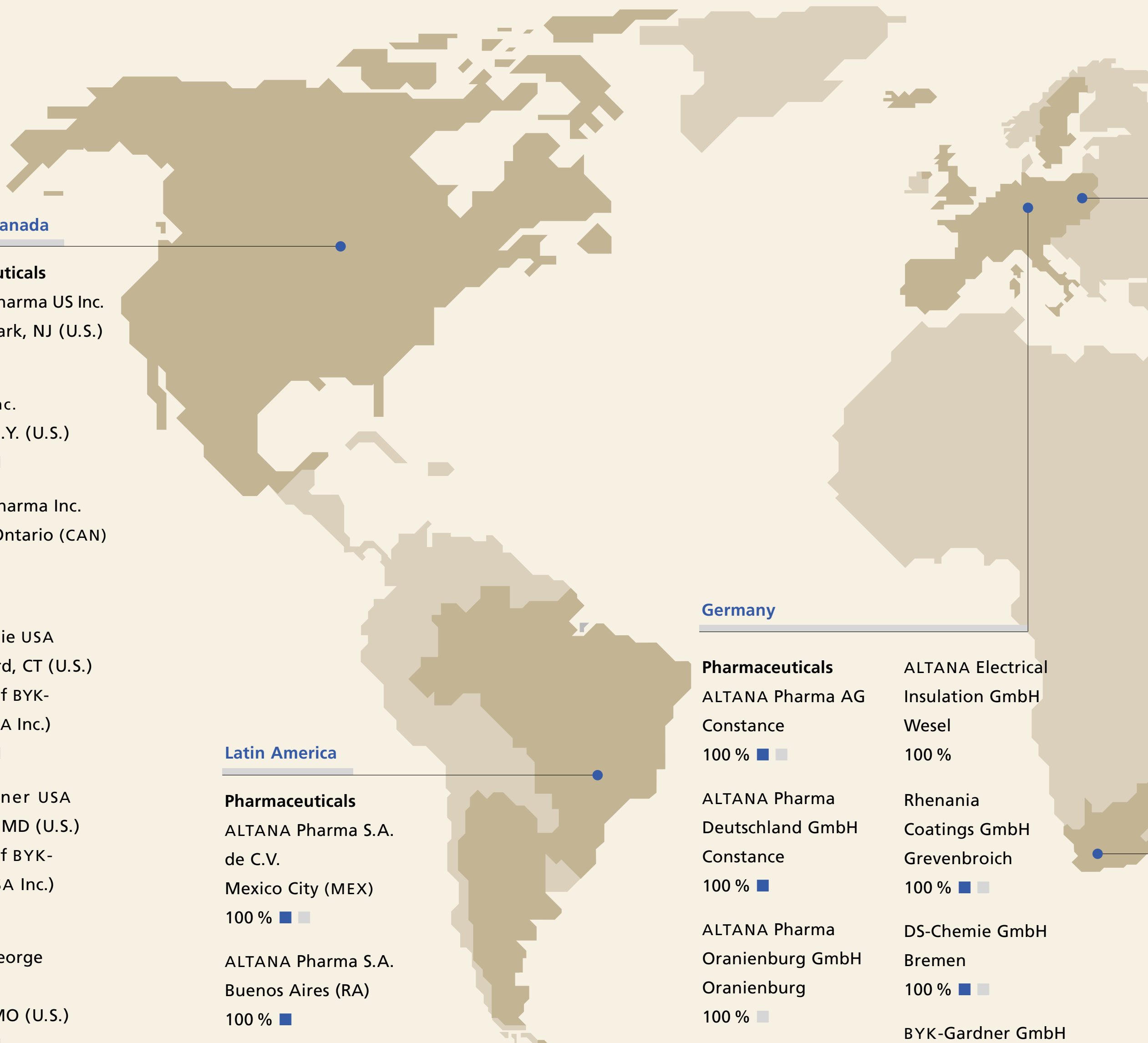
TEN-YEAR REVIEW

ALTANA GROUP

in € million	2004	2003	2002	2001
Sales	**2,963**	**2,735**	**2,609**	**2,308**
Pharmaceuticals	**2,109**	1,980	1,861	1,591
Chemicals	**854**	755	748	717
Earnings before taxes	**624**	**580**	**526**	**448**[1]
Return on sales (in %)	**21.1**	21.2	20.2	19.4
Income before minority interests	**391**	**345**	**324**	**256**[1]
Allocation to reserves	**258**	228	219	158
Distributions	**133**	117	105	98
Cash flow from operating activities	**427**	**425**	**442**	**348**[1]
Fixed assets	**1,048**	**943**	**790**	**783**
Intangible assets	**237**	230	165	179
Property, plant and equipment	**763**	687	610	579
Financial assets	**48**	26	15	25
Current assets	**1,651**	**1,589**	**1,479**	**1,344**
Inventories	**329**	319	303	277
Receivables	**742**	690	593	515
Cash and cash equivalents (incl. securities)	**580**	580	583	552
Equity	**1,661**	**1,445**	**1,250**	**1,170**
Issued share capital	**140**	140	140	140
Reserves	**1,130**	960	786	702
Net income	**391**	345	324	328
Equity ratio (in %)	**61.5**	57.1	55.1	55.0
Return on equity after taxes (in %)	**25.2**	25.6	26.8	23.8
Debt	**1,038**	**1,087**	**1,019**	**957**
Provisions and accruals	**566**	553	563	522
Liabilities	**472**	534	456	435
Total assets	**2,699**	**2,532**	**2,269**	**2,127**
Capital expenditure on property, plant and				
equipment and intangible assets[2]	**226**	**237**	**225**	**225**
Depreciation and amortization of property,				
plant and equipment and intangible assets[2]	**121**	**106**	**102**	**83**
Research expenses	**445**	**412**	**369**	**285**
Pharmaceuticals	**407**	376	335	252
Chemicals	**38**	36	34	33
Number of employees (Dec. 31)	**10,783**	**10,402**	**9,853**	**9,122**
Pharmaceuticals	**8,200**	7,702	7,504	6,867
Chemicals	**2,521**	2,634	2,299	2,217
Personnel costs	**593**	**557**	**535**	**495**
Figures per ALTANA share (in €)[3]				
Dividend	**0.95**[5]	0.83	0.75	0.60[4]
Net income	**2.88**	2.53	2.37	1.86[1]

1 Without capital gain Lundbeck and donation to Herbert Quandt Foundation
2 Excluding goodwill
3 After stock split in 2001 adjusted to the current stock capital
4 Without bonus dividend
5 Management recommendation

2000	1999	1998	1997	1996	1995
1,928	**1,586**	**1,476**	**1,345**	**1,163**	**1,024**
1,262	1,034	975	900	819	750
666	552	501	445	344	274
329	**234**	**188**	**164**	**116**	**96**
17.1	14.8	12.8	12.2	10.0	9.4
179	**127**	**106**	**90**	**70**	**61**
91	75	61	52	34	30
86	49	40	33	30	27
282	**164**	**188**	**118**	**152**	**127**
627	**481**	**410**	**370**	**313**	**286**
144	83	65	53	25	14
478	394	336	310	283	268
5	4	9	7	5	4
1,185	**1,149**	**1,072**	**1,011**	**912**	**933**
252	227	192	180	173	146
445	374	316	303	236	209
488	548	564	528	503	578
984	**903**	**818**	**757**	**614**	**585**
100	100	100	100	100	100
703	660	601	558	436	418
181	124	101	85	64	57
54.3	55.4	55.2	54.8	50.1	48.0
19.1	14.8	13.4	12.2	11.6	12.5
828	**727**	**664**	**624**	**611**	**634**
436	431	405	392	377	394
392	296	259	232	234	240
1,812	**1,630**	**1,482**	**1,381**	**1,225**	**1,219**
163	**109**	**88**	**76**	**77**	**70**
70	**61**	**58**	**52**	**57**	**61**
219	**172**	**153**	**134**	**118**	**105**
190	144	129	112	97	88
29	28	24	22	21	17
8,556	**8,218**	**7,780**	**7,373**	**7,436**	**7,136**
6,489	6,308	5,906	5,789	5,866	5,845
2,036	1,883	1,848	1,562	1,548	1,269
453	**391**	**365**	**355**	**321**	**289**
0.44[4]	0.35	0.28	0.23	0.21	0.19
1.30	0.88	0.72	0.61	0.46	0.40



U.S. and Canada

Pharmaceuticals

ALTANA Pharma US Inc.
Florham Park, NJ (U.S.)
100 % ■

ALTANA Inc.
Melville, N.Y. (U.S.)
100 % ■ □

ALTANA Pharma Inc.
Oakville, Ontario (CAN)
100 % ■

Chemicals

BYK-Chemie USA
Wallingford, CT (U.S.)
(Division of BYK-Chemie USA Inc.)
100 % ■ □

BYK-Gardner USA
Columbia, MD (U.S.)
(Division of BYK-Chemie USA Inc.)
100 % ■

The P.D. George Company
St. Louis, MO (U.S.)
100 % ■ □

Latin America

Pharmaceuticals

ALTANA Pharma S.A. de C.V.
Mexico City (MEX)
100 % ■ □

ALTANA Pharma S.A.
Buenos Aires (RA)
100 % ■

ALTANA Pharma Ltda.
São Paulo (BR)
100 % ■ □

Germany

Pharmaceuticals

ALTANA Pharma AG
Constance
100 % ■ □

ALTANA Pharma Deutschland GmbH
Constance
100 % ■

ALTANA Pharma Oranienburg GmbH
Oranienburg
100 % □

Chemicals

ALTANA Chemie AG
Wesel
100 %

BYK-Chemie GmbH
Wesel
100 % ■ □

ALTANA Coatings & Sealants GmbH
Wesel
100 %

ALTANA Electrical Insulation GmbH
Wesel
100 %

Rhenania Coatings GmbH
Grevenbroich
100 % ■ □

DS-Chemie GmbH
Bremen
100 % ■ □

BYK-Gardner GmbH
Geretsried
100 % ■ □

Terra Lacke GmbH
Lehrte
100 % ■ □

Beck Electrical Insulation GmbH
Hamburg
100 % ■ □

■ Marketing company
□ Manufacturing company

Asia

Pharmaceuticals
Zydus ALTANA Healthcare Private Ltd.
Vashi (IND)
50 %

ALTANA Pharma KK
Osaka (J)
100 %

Chemicals
BYK-Chemie Japan KK
Osaka (J)
100 %

ALTANA Electrical Insulation (Zhuhai) Co. Ltd.
Zhuhai City (PRC)
100 %

Shunde-Rhenacoat Coating Co. Ltd.
Shunde (PRC)
100 %

BYK-Chemie Asia Pacific Pte. Ltd.
Singapore (SGP)
100 %

BYK-Chemie (Tongling) Co. Ltd.
Tongling City (PRC)
100 %

Tongling SIVA Insulating Materials Co. Ltd.
Tongling City (PRC)
100 %

Beck India Ltd.,
Pune (IND)
87 %

Australia

Pharmaceuticals
ALTANA Pharma Pty Ltd.
North Ride (AUS)
100 %

Africa

Pharmaceuticals
ALTANA Madaus (Pty) Ltd.
Midrand (ZA)
50 %

Europe

Pharmaceuticals
Sangtec Molecular Diagnostics AB
Bromma (S)
100 %

ALTANA Pharma Ltd.
Marlow (GB)
100 %

ALTANA Pharma B.V.
Hoofddorp (NL)
100 %

ALTANA Pharma NV/SA
Diegem (B)
100 %

ALTANA Pharma S.A.S.
Le Mée-sur-Seine (F)
100 %

ALTANA Pharma GmbH
Vienna (A)
100 %

ALTANA Pharma AG
Kreuzlingen (CH)
100 %

ALTANA Pharma S.P.A.
Milan (I)
100%

ALTANA Pharma S.A.
Madrid (E)
100 %

ALTANA Pharma Lda.
Productos Farmacêuticos
Lisbon (P)
100 %

ALTANA Pharma Sp. z.o.o.
Warsaw (PL)
100 %

ZF ALTANA Pharma Sp. z.o.o.
Lyskowice (PL)
100 %

ALTANA Pharma s.r.o.
Prague (CZ)
100%

ALTANA Pharma s.r.o.
Bratislava (SK)
100 %

ALTANA Pharma Ltd.
Little Island Co. Cork (IE)
100 %

ALTANA Pharma Kft.
Budapest (HU)
100 %

Chemicals
Sterling Technology Ltd.
Manchester (GB)
100 %

BYK-Cera B.V.
Deventer (NL)
100 %

Rhenacoat France S.A.
Montataire (F)
100 %

Camattini S.P.A.
Collechio (I)
100 %

La Artística Productos Químicos S.A.
Vigo (E)
100 %

Deatech s.r.l.
Ascoli Piceno (I)
100 %

GLOSSARY

ADRs
American Depositary Receipts. These are negotiable certificates for a stock that confers a share of a non-U.S. stock corporation on the holder.

ANDA procedure
Stands for Abbreviated New Drug Application. A possibility introduced within the framework of the Hatch-Waxman Act to apply to the → FDA for U.S. approval of a → generic drug which is comparable to a drug that has already been approved and refers to the existing approval.

APA
Acid Pump Antagonist. A new type of stomach acid production inhibitor, that differs from PPIs in the way it works. Example: Soraprazan.

ARI
ALTANA Research Institute, the research center that ALTANA Pharma AG opened in Waltham/Boston in June 2003. With particular emphasis on → genomics, → proteomics and bioinformatics.

Blockbuster
A drug which generates annual market sales of more than U.S. $ 1 billion.

Bridging studies
Since it took over international harmonization guidelines in 1998, Japan has also accepted test methods used in other countries, if a so-called bridging study proves their relevance for Japan. On account of this reform, the deadline for approval of new drugs was shortened to roughly one year.

Bronchodilators
A group of drugs facilitating respiration by dilating the airways to the lungs.

Carrying value per share
Book value per share. Equity per share on the balance sheet at the end of the financial year: equity attributable to shareholders of ALTANA AG divided by the number of shares.

Ciclesonide
Inhaled glucocorticoid (group of substances related to cortisone). Ciclesonide inhibits inflammation and is intended for use in the treatment of asthma. Trade name ALVESCO®.

COPD
Chronic Obstructive Pulmonary Disease. Estimates suggest that 3–5 million people suffer from this disease in Germany, and 600 million people worldwide. Symptoms include: coughing, sputum, lack of breath during exertion.

Corticosteroids
A group of chemical compounds similar in structure to hormones produced by the adrenal cortex. They have an anti-inflammatory and anti-allergic effect.

Dividend return
Gives the per share rate of return on share capital investments: the amount of the dividend divided by the current share price, multiplied by 100.

Earnings per share (EPS)
The after-tax net income achieved within a certain period of time (quarter, financial year) divided by the average number of shares issued by the company. Earnings per share is not identical to the dividend.

FDA
U.S. Food and Drug Administration.

Financial income
Financial expenses minus income in a financial year. The financial income consists of: income (or expenses) from investments in affiliated companies, net interest income (or expenses) and other financial income.

Free float
The amount of shares issued by a company that is not in firm ownership. In other words, those shares that are freely negotiable.

Generics
Medications that imitate existing drugs, using substances that are patent-free.

Genomics
The systematic analysis of genes and their effect on cells and complete organisms.

GERD
Gastro-esophageal reflux disease. In this disease, gastric acid flows back to the esophagus, leading to either common complaints like heartburn and/or to inflammation of the esophagus. GERD is widespread. In Western industrial countries, 10 to 30 % of adults are afflicted with this disease at least once a week.

Good Corporate Citizenship
GCC for short. Covers all of a company's involvements that go beyond its purely business affairs, and that aim to make a variety of positive impressions on the community in which it operates. Examples: Herbert-Quandt-Stiftung, ALTANA Cultural Forum, and ALTANA Forum for Education and Science.

Good Manufacturing Practices
GMP for short. Originally rules set by the American → FDA that establish basic standards for manufacturing and packaging finished drugs. They are intended to ensure that products meet specific, reproduceable standards of quality.

High-throughput screening (HTS)
Automated procedure by which a very large number of substances can be tested for their biological efficacy in a short time.

Income before minority interests
Earnings after taxes, including profit attributable to minority interests.

Issued capital
→ Nominal capital which is shown on the balance sheet at the first position under equity and liabilities.

Leads
Active substance candidates taken to develop medications through targeted variations.

Magnetic resonance (MR) contrast media
Contrast media which are employed to achieve an improved presentation for instance of vessels in case of imaging procedures for examination and diagnosis such as magnetic resonance.

Market capitalization
Stock-market value of a company at a given time: share price multiplied by the number of shares issued.

Mutual Recognition Procedure
MRP for short. A decentralized E.U. approval procedure by which an application for first approval of a drug is initially made in one of the E.U. member states. After initial approval, the E.U. member states agree within the framework of an MRP procedure on a common approval text. Approval in the different countries then follows on this basis.

Net income
Earnings after taxes, excluding profit attributable to minority interests.

Nominal capital
The capital fixed in the articles on incorporation (bylaws) of an AG (stock corporation). The company issues shares to this amount. The articles also determine how many shares the amount is divided into.

Non-reference price drugs
Patent protected pharmaceuticals without reference price. The patent protection clause is aimed at protecting research of new substances and making sure that there is sufficient refinancing. However, this is undermined by measures such as the extended → reference price regulation on drugs without reference price so far.

Operating income
Earnings minus operating expenses in a financial year.

OTC
Synonym for self-medication. Non-prescription, over the counter drugs and health products from pharmacies, drugstores and consumer markets.

Phase II study
The drug development phase in which a new drug is tested for the first time on a small number of patients in order to judge its efficacy, tolerability, interplay, harmlessness, side effects, etc.

Phase III study
A larger number of patients (several thousand) take part in this phase. It is generally conducted simultaneously at multiple test centers in a variety of countries. Additional parameters such as rare undesirable side effects, allergies, sensitization, etc. are carefully noted, since when phase III of the clinical trial is concluded, the application for approval is made.

Phosphodiesterase4 (PDE4) inhibitors
A group of substances that block the phosphodiesterase enzyme and thus have an anti-inflammatory effect. PDE4 inhibitors are therefore used in the treatment of asthma and → COPD. Example → Roflumilast.

Pipeline
Product/research pipeline. Contains all those active substances from the → pre-clinic through → phase III that are undergoing research and development.

Pre-clinic
Phase of drug development comprising all necessary tests on a new active substance before it is used on people.

Proteomics
Study of proteins and their function. Proteome = the protein composition of a cell at a given time.

Proton pump inhibitor
PPI. Group of substances which selectively inhibit the secretion of stomach acid. Example: Pantoprazole.

Reference price regulation
In accordance with the statutory health insurance (GKV) Modernization Act (GMG), as of 2005 health insurance funds can establish a maximum amount reimbursed for patent-protected drugs as well. Previously, patent-protected drugs were exempt from the reference price regulation in order to foster development of innovative drugs.

Reference prices
The maximum amount reimbursed for drugs by statutory health insurances. Reference prices for drugs are an instrument by which statutory health insurances (GKV) can control expenditure for drugs. The prices are decided on the basis of the reference price groups formed by the Federal Joint Committee of Physicians and Health Insurance Funds.

Retained earnings
Reserves required under company bylaws. Undistributed profits; amounts which are taken out of the → income before minority interests of the current or earlier financial years. Component of equity.

Return on equity (ROE)
Pre-tax return on equity: earnings before taxes divided by average equity. After-tax return on equity: → income before minority interests divided by average equity.

Return on sales (ROS)
Pre-tax return on sales: earnings before taxes divided by sales. After-tax return on sales: → income before minority interests divided by sales.

Roflumilast
Agent for the treatment of asthma and → COPD. Belongs to the class of → phosphodiesterase4 (PDE4) inhibitors. Roflumilast alleviates breathing difficulties with its anti-inflammatory effect. Planned trade name DAXAS®.

Stock picking
Investment strategy based on acquiring individual stocks that perform better than the market as a whole. The selection is made after a detailed analysis of the companies and their profit development is carried out. Stock picking is contrary to a country- or industry-oriented strategy.

Target
Biological molecule, e.g. an enzyme, which plays an important role in the genesis or development of a disease.

Total return on capital
Sum of earnings before taxes and the interest expense divided by the average total assets. Total assets correspond to the balance sheet total.

Volatility
Shows the degree of fluctuation of a share within a certain time period. The higher the volatility, the more strongly the share price goes up or down and the riskier an investment in a share is.

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CHRONICLE 2004 > Excellent basis established for future growth

January

- Within the framework of a reorganization of ALTANA Electrical Insulation, Syntel S.p.A. is merged with Dea Tech SIVA s.r.l.
- ALTANA Pharma starts its own organization in Japan to develop and market DAXAS® for the world's second-largest pharmaceutical market together with Tanabe, a leading company.

ALTANA Pharma Japan

- ALTANA Electrical Insulation acquires the electrical insulation business of Ranbar Electrical Materials Inc., U.S.
- 2003 business year: ALTANA achieves net sales of € 2.73 billion, a new record level.

February

- Retroactively as of January 1, 2004, Epoxylite Ltd., Bradford (U.K.), is integrated into the ALTANA Electrical Insulation subsidiary Sterling Technology Ltd., Manchester (U.K.).
- In its first 2004 exhibition, the ALTANA Cultural Forum presents works on paper by Antoni Tàpies, the most important living Spanish artist.

Foot- and fingerprints, Tàpies 1973

- ALTANA Pharma applies for E.U. approval of its innovative respiratory drug DAXAS® (Roflumilast).
- ALTANA Electrical Insulation sells its electrical insulating sleeves and covers business to the Spanish company Relats S.A.
- In Australia ALTANA Pharma receives the first worldwide market approval for ALVESCO® (Ciclesonide).

March

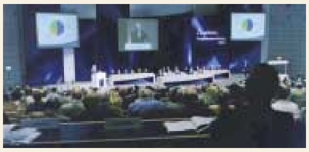
- At the 45th congress of the German Society for Pneumology, new positive data on DAXAS® are presented. More than 1,400 patients in 11 countries took part in the so-called RECORD study.
- Press conference: In the business year 2003 the net income rises by 6 % to € 345 million, despite a significantly weak dollar. Investments in Research and Development will be further increased and new jobs created in Germany and abroad.
- At the 60th annual meeting of the American Academy of Allergy, Asthma and Immunology in San Francisco, new clinical data are presented on the inhaled and intranasal formulation of ALVESCO®. ALVESCO® is well tolerated by children. The side effect rate is low.
- ALTANA Chemie enters into an exclusive global partnership with Nanophase Technologies to develop nanomaterials.

April

- BYK-Chemie decides to build a new distribution center at the Wesel site for around € 25 million. In the long term, 100 people will be employed there. Completion is scheduled for end of 2006.
- ALTANA Pharma receives market approval for ALVESCO® in the U.K., the reference state for the Mutual Recognition Procedure* (MRP) in Europe.

May

- Annual General Meeting 2004: The ALTANA Management Board reports on a successful 2003 business year and gives a positive outlook. The dividend is increased for the eighth consecutive year, by 11 % to € 0.83.



Annual General Meeting 2004

- The 22nd Sinclair House Debate is devoted to the topic of "Population Decline and Ageing as a Political Challenge."
- The second exhibition mounted by the ALTANA Cultural Forum, entitled "Over the Plains," focuses on landscape paintings by Thomas Kohl.
- New promising data on ALVESCO® and DAXAS® are presented at the congress of the American Thoracic Society in Orlando.

June

- On the occasion of the Asia Pacific Coatings Show in Bangkok, BYK-Chemie introduces the first nanotechnology-based additives on the market.
- During a ceremony held at the University of Constance, the ALTANA Pharma prize endowed with € 15,000 is awarded to Dr. Markus Michael Bachschmid (biology), Dr. Andreas Stadelmaier (chemistry), and Dr. Laurent Helden. Every year, the prize honors outstanding works in the field of natural sciences.

ALTANA Pharma Prize 2004

- For the eighth consecutive time BYK-Chemie is voted the "Best Additive Supplier in Brazil" by the jury of "Paint & Pintura" magazine.

July

- BYK-Chemie bolsters its position in France by selling its local distribution company BYK-Chemie France to the holding company IMCD France and at the same time by concluding a long-term supply and sales agreement. IMCD owns the commercial firm SPCI S.A., assuming the marketing of specialty chemicals used in the coatings and plastics sector for BYK-Chemie.
- The ALTANA Forum for Education and Science stages the international scholars' meeting for the first time.
- ALTANA Coatings & Sealants sells the industrial coatings business of its French subsidiary Rhenacoat S.A., Montataire, to the Dutch company Akzo Nobel. The Rhenacoat location Sedan (France) will concentrate on the growing packaging coating business in the future.

August

- ALTANA Coatings & Sealants sells its 51% holding in Salchi Rhenacoat s.r.l., Milan, to the Italian co-shareholder.
- Thanks to a strong second quarter, ALTANA is able to increase sales to roughly € 1.5 billion for the first half of 2004, up by 9% on the prior year. Adjusted for currency effects, sales rise by 12%. 84% of the sales volume is generated outside of Germany.

September

- From September 14 to November 14, the ALTANA Cultural Forum mounts the exhibition "GERMAN ART · From an American Perspective" at the Städel Museum in Frankfurt.
- Regulatory authorities in Brazil and Mexico grant approval for ALVESCO® to treat asthma of all severity grades in doses of 80 µg to 640 µg.
- 140 personalities from politics, administration, economy, and science attend ALTANA AG's first Parliamentary Evening at the China Club in Berlin. The guest speaker is Gabor Steingart, head of the Berlin office of the news magazine "Der Spiegel" and author of the book "Germany – the Decline of a Superstar."

First Parliamentary Evening

October

- For the 9th Trialogue of Cultures conference, the Herbert-Quandt-Stiftung invites 30 scientists, politicians and diplomats, as well as church, economy, and media representatives, to Berlin to discuss developments in Bosnia-Herzegovina.


9th Trialogue of Cultures 2004

- Sanofi-Aventis, which develops ALVESCO® in the United States with ALTANA Pharma, receives an Approvable Letter from the U.S. Food and Drug Administration (FDA) for ALVESCO®.

November

- ALTANA Chemie opens its fourth production site in China near Hong Kong. On an area covering 70,000 square meters wire enamels, impregnating resins and casting compounds are produced.


New site in Zhuhai

- Strong third quarter. ALTANA is on the best path to achieving its growth aims for 2004 at the upper edge of expectations and closing the business year with new record figures.
- The 23rd Sinclair House Debate is entitled "The Courage to Lead – the Burdens of Freedom. Is Politics Capable of Presenting the Truth?"
- The ALTANA Cultural Forum shows more than 100 works by Henri de Toulouse-Lautrec.

December

- ALTANA Pharma files a suit at the Social Court in Berlin against the classification of PANTOZOL®, its patent-protected gastrointestinal drug, as part of a reference price group. The regulation, becoming effective as of January 1, 2005, represents a roughly € 35 million burden for ALTANA Pharma.
- ALTANA Pharma successfully completes the MRP* procedure for ALVESCO®, prerequisite for approval in E.U. countries.

ALVESCO®

- ALTANA donates € 750,000 to aid victims of the flood disaster in Southeast Asia. Via its subsidiaries in Asia support will be provided quickly and unbureaucratically. In addition, the company calls on its more than 10,000 employees worldwide to make donations. ALTANA says it will double the total sum donated.

* Glossary

CONTACT

Dr. Thomas Gauly
Senior General Manager
Head of Corporate Communications
& Investor Relations
P +49(0)6172 1712-153
F +49(0)6172 1712-158

Investor Relations – IR@altana.de

Sandra Fabian
P +49(0)6172 1712-163
F +49(0)6172 1712-158

Dr. Harald Schäfer
P +49(0)6172 1712-165
F +49(0)6172 1712-158

Claudia Diller (U.S.)
P +1 212 974-6192
F +1 212 974-6190

Media Relations – PR@altana.de

Steffen Müller
P +49(0)6172 1712-160
F +49(0)6172 1712-158

Stefan Schmidt
P +49(0)6172 1712-168
F +49(0)6172 1712-158

This Group Annual Report is also available in German.
The annual financial statements of ALTANA AG can be obtained separately.
F +49(0)6172 1712-180
publications@altana.de

Visit our website www.altana.com for up-to-date news and background information on the ALTANA Group.

CREDITS

ALTANA AG
Herbert-Quandt-Haus
Am Pilgerrain 15
61352 Bad Homburg v.d.H.
Germany
P +49(0)6172 1712-0
F +49(0)6172 1712-365

Concept/Editor/Coordinator

Dr. Elke Krämer (Responsible)
Corporate Reporting
P +49(0)6172 1712-183
F +49(0)6172 1712-272

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> **Financial Calendar 2005**

Report on sales 2004	January 27, 2005
Report on business year 2004	March 17, 2005
Press conference	March 17, 2005
Analyst meeting	March 17, 2005
Report on Q1 2005	April 28, 2005
Conference call	April 28, 2005
Annual General Meeting, Frankfurt	May 4, 2005
Report on Q2 2005	August 3, 2005
Conference call	August 3, 2005
R&D day	October 12, 2005
Report on Q3 2005	November 2, 2005
Press conference	November 2, 2005
Analyst meeting	November 2, 2005

Please note that the above mentioned dates might be subject to changes.