

>>> GROWTH NEEDS MINDS
Annual Report 2005



AT A GLANCE

> ALTANA Group	2005	2004 ¹	Δ%
	in € million	in € million	
Sales	3,272	2,963	10
Earnings before interest, taxes, depreciation and amortization (EBITDA)	815	725	12
Earnings before interest and taxes (EBIT)	676	604	12
Earnings before taxes (EBT)	684	611	12
Return on sales (EBT)	20.9%	20.6%	
Net income	438	378	16
Cash flow from operating activities	645	427	51
Total assets ²	3,633	2,706	34
Equity ²	2,013	1,650	22
Equity ratio ² (in %)	55.4%	61.0%	
Capital expenditure	246	226	9
Research expenses	465	448	4
Number of employees	13,276	10,783	23
Figures per ALTANA share	in €	in €	Δ%
Dividend	1.10 ³	0.95	16
Net income*	3.23	2.78	16
Cash flow from operating activities	4.75	3.14	51

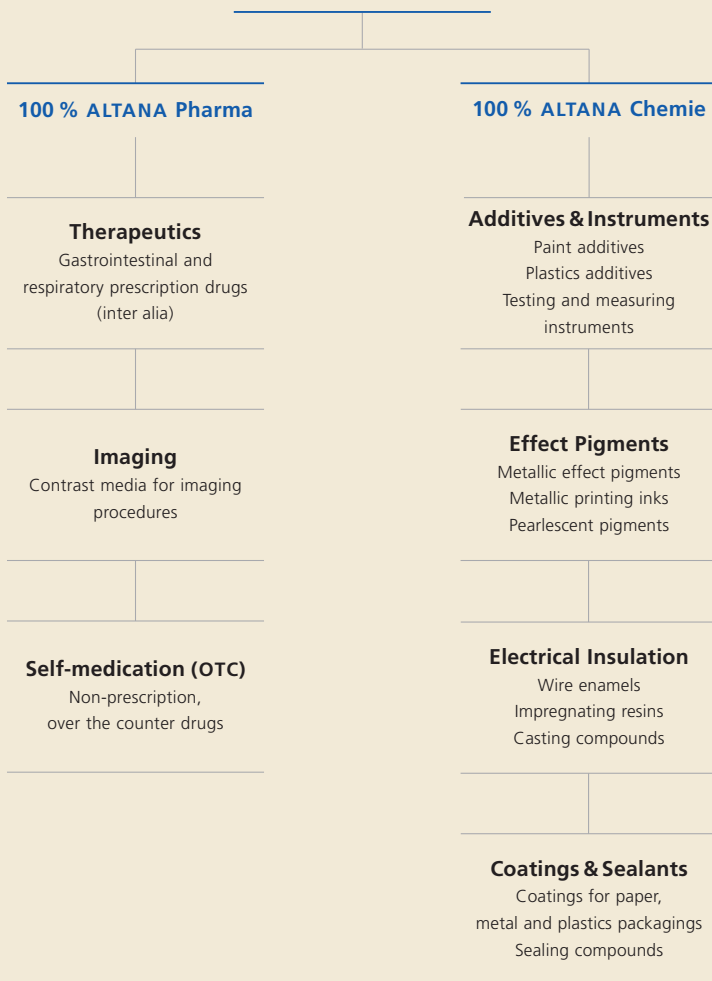
¹ After adjustment according to IFRS2 "Share-based Payment" (see page 112)

² After adjustment according to IAS19 "Employee Benefits" (see page 113)

³ Management recommendation



Herbert Quandt House



COMPANY PROFILE > ALTANA AG is an international pharmaceuticals and chemicals Group with sales of roughly 3.3 billion euros and more than 13,000 employees all over the world. With a return on sales (EBT) of around 21 percent, 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.

> **ALTANA Pharma AG**, based in Constance, concentrates on innovative prescription therapeutics. Its core business comprises gastrointestinal and respiratory preparations. In its research, ALTANA Pharma focuses on gastrointestinal (gastroenterology), respiratory tract (respiration/anti-inflammation), and cancer diseases (oncology). Due to high research and development expenses, intelligent alliances, and the concentration on profitable markets, ALTANA Pharma has an excellent 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, as well as the electronics, cosmetics and printing industries. The product range includes additives, effect pigments, specialty coatings, sealing and casting compounds, electrical insulation materials, impregnating agents as well as testing and measuring instruments. With these products, ALTANA Chemie has been successful in selected specialty markets worldwide. All four of its divisions are among the worldwide leading manufacturers.

ALTANA Group

>>> **GROWTH NEEDS MINDS.** Growth means one thing above all: change – for which ALTANA is an example. Every change starts in the mind. This also applies to innovations, on which the dynamic growth of our company and our competitiveness are based. Of particular importance for the future of ALTANA is answering the question of how we can enhance our innovativeness. Therefore an essential challenge is overcoming internal restrictions. With the acquisition and integration of the ECKART group as a fourth division, new perspectives and possibilities open up for ALTANA Chemie. And ALTANA Pharma will attach even more importance to external cooperation in the future in order to boost its own process of innovation and to retain its high momentum of growth. Recognizing the necessary changes and doing the right thing at the right time requires creative minds.

CONTENTS



4 – 6

FOREWORD

>>> GROWTH NEEDS MINDS

7 – 19

TO OUR SHAREHOLDERS

>>> FUTURE OF THE COMPANY HAS
AN IMPACT ON THE ALTANA SHARE

35 – 54

PHARMACEUTICALS

>>> FOCUS 2005: MARKET LAUNCH
OF THE FIRST NEW RESPIRATORY
PRODUCT

20 – 23

REPORT OF THE SUPERVISORY BOARD

24 – 27

CORPORATE GOVERNANCE REPORT

28 – 32

COMPENSATION REPORT

33

MANAGEMENT BOARD

34

EXECUTIVE BODIES



55 – 74

CHEMICALS

>>> FOCUS 2005: CONSIDERABLE
EXPANSION OF THE BASIS FOR
FUTURE GROWTH

75 – 83

CULTURE

>>> ALTANA CORPORATE CITIZENSHIP



84 – 102

MANAGEMENT REPORT

>>> STRATEGIC FURTHER DEVELOP-
MENT OF THE ALTANA GROUP
PREPARED

103 – 172

CONSOLIDATED
FINANCIAL STATEMENTS

173

LEGAL BASIS

174 – 175

THE ALTANA GROUP
WORLDWIDE

176 – 177

TEN-YEAR REVIEW

178 – 179

GLOSSARY

180

INDEX



Dr. Nikolaus Schweickart
Chairman of the Management Board

Dear Shareholders,

2005 was a very successful year for the ALTANA Group in terms of operating results. It was a new record year, the tenth in succession, with significant increases in the most important corporate figures. The pharmaceuticals business was again outstanding, characterized by a clear dynamism and driven by the ongoing success story of Pantoprazole, our main sales driver. The fact that this innovative gastrointestinal preparation from our own research has been on the market for over ten years and still boasts double-digit growth rates and market sales approaching three billion euros, reflects the innovative quality of this product as well as the continued successful sales structure. The pharmaceuticals business is strongly dominated by this product group both in terms of business volume and its contribution to earnings, a development expected to continue in the coming years until the patent expires in 2009/2010 in the most important volume markets.

In the Specialty Chemicals division, which posted rather moderate earnings in 2005, but has shown a sustained and disproportionate growth for ten years, the strategic course was set for the future along with restructuring measures and the divestment of marginal businesses. With the acquisition of the ECKART group at a volume of €630 million, the largest takeover in ALTANA's history, the division obtained an entity of a caliber enabling it to move into the future as an independent company listed on the stock exchange.

With this step, the structure of the ALTANA Group will change in 2006, along the lines of a creative further development: one house will turn into two independent houses with different residents. The future group and shareholder structure of ALTANA Chemie AG will be different from that of ALTANA Pharma AG.

Thanks to the outstanding success of Pantoprazole and the targeted internationalization strategy, the Pharmaceuticals division is in good shape despite delays and setbacks as to the development of new products. This is the result of decisions that were partly made more than ten years ago, including the decision to concentrate on innovative, self-developed research products, to streamline the production structure with a focus in Germany (Singen, Oranienburg), to develop global forms of distribution and a targeted cooperation and partnership strategy, as well as the decision to significantly increase the U.S. presence. The strategy to be active on the world's largest and most attractive pharmaceutical market found expression in the listing of the ALTANA share on the New York Stock Exchange in May 2002. The successful implementation of these strategic decisions in the last decade created many new jobs in Germany and abroad.

It is my firm conviction that it is important today, at a time when ALTANA Pharma is in good shape, to set the course for the long-term development and safeguarding of the pharmaceuticals business in the future. In the face of significant changes as to the conditions of the worldwide pharmaceutical industry, especially when it comes to innovative, patent-protected products, we cannot rest on yesterday's laurels. I refer to government cost reduction programs worldwide, to interventions in the pricing of innovative products, to the hollowing out of patent protection, to significantly higher Research & Development costs as well as to the substantial increase in the approval requirements of the health authorities.

In order to safeguard the future of the Pharmaceuticals division and its employees, we in the Management Board are of the firm conviction that we have to set the basic course now, and in two directions:

- > On the one hand, we have to strengthen the pharmaceuticals business by making acquisitions, purchasing products, or inlicensing product candidates.

- > On the other hand, we have to open the company for a strategic partner.

Against this background, this is the last annual report of ALTANA in its current form. Since 1995, when ALTANA's more widely diversified product range at that time was focused on two corporate divisions, the company has developed a success story highly regarded by all sides – and apparent from the stock market, the dividend development, and the number of jobs created in Germany and abroad. This success, which – I am convinced – will continue in the future in two independent corporate units, this success is first and foremost due to our employees and executives, who did not view the corporate structure as a purely economic event.

Growth needs minds. ALTANA's almost 30-year success story proves this in an impressive way. And this insight will be the guiding principle for the successful future of the two pillars on which the ALTANA Group has been built thus far. The company emerged in 1977 after the reorganization and splitting, and following another reorganization in 2006, it will be able to develop successfully in the future – on different tracks. Dear shareholders, please be confident in these newly structured companies.

Please allow me to close with a personal remark. I have had the honor of serving on the Management Board of this company for nearly 20 years, 16 of them as Chairman of the Management Board – a long, exciting, exhilarating, and, I believe, also a successful period. To pave the way for the future, and to think in long-term dimensions – completely in keeping with the philosophy of the Quandt family – is a very personal matter for me toward the end of my tenure.

A handwritten signature in blue ink, reading "Nikolaus Lehmbeck". The signature is written in a cursive style with a small flourish at the end.

Chairman of the Management Board



ALTANA HOLDING >>>

SUSTAINED CORPORATE DEVELOPMENT

"A formula for growth?"



...“We rely on intelligent concepts.”

A portrait of Dr. Nikolaus Schweickart, a middle-aged man with grey hair, wearing a dark blue suit and tie. He is seated and looking slightly to the right of the camera with a neutral expression. The background is a bright, out-of-focus window with wooden frames.

>> Dr. Nikolaus Schweickart:

...“THEREFORE WE DO NOT ADHERE TO OLD RECIPES FOR SUCCESS.
IT REQUIRES THINKING IN THE LONG TERM AND NOT WITHIN A
PERIOD OF ONE YEAR.”



ALTANA GROWTH STRATEGY

1989

1990

1991

1992

1993

1994

From a financial holding to a management holding company

Increase in the degree of internationalization and the intensity of research

Approval and market launch of Pantoprazole in Germany



Interview with Dr. Nikolaus Schweickart

“We shape our future according to Schumpeter’s principle of ‘creative destruction’.”

> TEN RECORD YEARS IN SUCCESSION, THAT MEANS CONTINUITY AND UPWARD DEVELOPMENT. IS THIS NOT UNDERLINING YOUR STRATEGY OF A CORPORATE STRUCTURE BALANCING OUT RISKS, DR. SCHWEICKART?

When ten years ago, in 1995, we concentrated on both the Pharmaceuticals and the Chemicals divisions, the strategic argument was their much greater potential, compared to dietetics and software. The decision proved to be right, as it gave rise to an inner dynamic strength. This means when I ask myself today what the company will look like in ten years – in 2015 – I have to take the

business environment into account. For the Pharmaceuticals division it will develop in a completely different way than for the Chemicals division, so different business models will be required. If both parts of the company are strong enough in terms of their size, profitability, and financial strength, I have to look at the structure in which they are incorporated and see whether it is in line with the transformation process. This is what I call “creative destruction.” The necessary inner diversification; that means, the balancing of the risk profile, will in the future occur within both of the companies.

1995

Concentration on Pharmaceuticals and Specialty Chemicals; sale of Milupa (Dietetics) and DAT (Software)

1996

New technologies in pharmaceutical research

1997

1998

1999

Introduction of the management Stock Option Plan (SOP)

2000

U.S. market launch of Pantoprazole; introduction of the stock option plan for employees (AIP)

“The announced change in the Group structure is based on a forward-looking strategy: both corporate divisions gain new creative freedom.”

> THE CORE BUSINESS OF ALTANA PHARMA – INNOVATIVE, ETHICAL DRUGS – IS A HIGH-RISK BUSINESS, AS YOU SAY YOURSELF. IS THIS THE RIGHT STRATEGY FOR A MEDIUM-SIZED COMPANY?

In the last ten years ALTANA Pharma has developed from a widely diversified company with established products towards an innovative firm operating internationally and therefore in competition with big global players. The latter have much different diversification possibilities than a company of our size. We cannot and do not want our business model to cover all areas in the pharmaceutical range. Not least against the background of health-policy developments, we have consistently opted for the research-driven, but also riskier and higher-margin business with innovative drugs.

> WHAT ARE THE EFFECTS ALTANA PHARMA HAS TO COPE WITH DUE TO THE GENERAL CONDITIONS FOR RESEARCH-DRIVEN PHARMACEUTICAL COMPANIES THAT HAVE CHANGED CONSIDERABLY IN RECENT YEARS?

Today we have to set our sights on the products as of 2009/2010 after the patent expiration of our main product Pantoprazole. In the face of considerably higher research costs and approval requirements, a company like ALTANA Pharma, which is medium-sized compared to other companies on the world market, can only master its future successfully by entering into intelligent alliances to control costs and to balance out risks. And

that also means consciously opening ourselves up for a strategic partner investor. As an innovative company based on successful products, ALTANA Pharma is now in a position to open itself up for a partner due to its inner strength and its future viability.



> AND ALTANA CHEMIE?

Strengthened by acquisitions, the Chemicals division is now in a position to come out of ALTANA Pharma's shadow. Thus the substantial strength of the chemicals concept – which has been proven again and again for over 20 years – will be evident and transparent for investors as well as for the staff and customers.

Dr. Schweickart, thank you very much for the interview.

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

2001

Establishment of own genome research in Boston (U.S.); new products in the respiratory pipeline

2002

U.S. listing under “AAA”, DAX30 member; new corporate image; the Pharmaceuticals and Chemicals divisions become stock corporations

2003

2004

2005

Acquisition of ECKART as the fourth division of ALTANA Chemie

2006



REORGANIZATION OF THE GROUP

One company will become two

Since it was founded as the result of a reorganization and splitting in 1977, the ALTANA Group has undergone several transformations with the aim of further strategic development. First, from being a diversified company with a financial holding to a group concentrating on Pharmaceuticals and Chemicals with a strategic management holding. As a result of the new reorganization and splitting planned for 2006, the Pharmaceuticals and Chemicals divisions will become independent companies.

<<<

A CHALLENGING FINANCIAL YEAR 2005

> Stock market environment

The DAX closed 2005 with a substantial increase of 27.1% to achieve 5,408 points. The Dow Jones STOXX Healthcare rose by 27.8% in the course of the year, while the Dow Jones STOXX Chemicals climbed by 30.3%.

> The ALTANA share

With an overall performance of -1.1% for the year, the ALTANA share lagged behind the DAX as well as the DJ STOXX Healthcare and DJ STOXX Chemicals industrial indexes. In the long run, however, the ALTANA share is more profitable than the DAX. On the New York Stock Exchange, the development of the ALTANA share corresponded to the German stock market.

> Valuation of the company

In 2005, earnings per ALTANA share increased by 16% to €3.23. The market capitalization of ALTANA AG was €6.5 billion at the end of the business year.

> Dividend

Due to the tenth, double-digit increase of the dividend to € 1.10 per share, the total dividend will for the first time and clearly exceed the nominal capital of € 140 million. Based on the year-end price, the dividend return amounts to 2.4%.

> Shareholder structure

The majority of shares is held by our principal shareholder Susanne Klatten. 49.9% of the issued capital are free float, the majority thereof is owned by institutional investors. Of the more than 13,000 employees, around 35% are ALTANA shareholders.

FUTURE OF THE COMPANY HAS AN IMPACT ON THE ALTANA SHARE

In the face of record high oil prices, a sluggish economy, and rising interest rates, the German stock market index surprisingly recorded an increase of 27.1% in 2005, ending the year at 5,408 points, its highest level since 2002 whereas the Dow Jones closed at the prior-year level. The positive business development gave impetus to the ALTANA share in the first months. In the second half of the year, the termination of the DAXAS® cooperation with Pfizer and the announcement that the ALTANA Group would be restructured following the acquisition of the ECKART group by ALTANA Chemie, led to strong fluctuations in the share price.

Following a restrained price development in January, the ALTANA share was able in the course of the first quarter to pick up on the positive development that had begun at the end of 2004. This trend was accelerated in March.

In contrast to the DAX, the ALTANA share continued its upward development, which was fostered by new record results for the 2004 business year and the positive outlook for 2005, at the beginning of the second quarter,

> Comparative performance ALTANA/DAX from January 1 – December 31, 2005



reaching its high for the year on April 15 at €53.95. However, at the end of April the market reacted with disappointment to the good results of the first quarter. The ALTANA share only picked up again when the demand for European pharmaceutical titles increased at the end of May. In June, profit-taking and a further consolidation phase on the capital market led to a renewed decline of the share.

The share price plummeted following the announcement on July 1, 2005, that ALTANA and Pfizer had ended their cooperation on DAXAS® development and marketing as of June 30. The ALTANA share price fell up to a

maximum of roughly 16% to €39.88. Subsequently, the share was able to recover, climbing by roughly 5%, before moving laterally on a level of around €42.

On August 3, the announced acquisition of ECKART GmbH & Co. KG, a worldwide leading manufacturer of metallic effect pigments, by ALTANA Chemie, and the plans to restructure the Group resulting from this move, gave impetus to the ALTANA share. In the period to follow, the share benefited from “fantasies about the future” provoked by the planned listing of ALTANA Chemie and the opening of ALTANA Pharma for a strategic alliance.

	in €	2005	2004
> ALTANA share			
Net income ¹		3.23	2.78
Cash flow from operating activities ¹		4.75	3.14
Dividend ¹		1.10²	0.95
Market capitalization (at year-end)		6.5 billion	6.5 billion
Number of shares outstanding (in thousand)			
annual average		135,605	135,858
at year-end		135,857	135,381
Carrying value*		14.33	11.74
in €¹			
> Frankfurt Stock Exchange (FSE), Xetra			
High		53.95	54.35
Low		39.88	39.31
Price at year-end		46.00	46.51
Security code number			ISIN DE0007600801
Ticker symbol			ALT
Reuters code			ALTG.DE
Bloomberg code			ALT GR
in U.S. \$¹			
> New York Stock Exchange (NYSE), American Depositary Receipt (ADR*)			
High		69.53	66.28
Low		47.70	50.33
Price at year-end		54.47	60.30
Security code numbers			CUSIP 02143N103
			ISIN US02143N1037
Ticker symbol			AAA
Reuters code			AAA.N
Bloomberg code			AAA US
ADR ratio			1:1

¹All figures refer to a single share

²Management recommendation

The excellent business performance in the first three quarters and the resulting increased earnings forecast for 2005 as a whole helped the share at the beginning of November overcome the weak period following the R&D day in London in mid October. Bolstered by continuing “fantasies about the future” in connection with the reorganization of the Pharmaceuticals and Chemicals divisions, the share price topped the €48 level. But the withdrawal of the European application for DAXAS® (Roflumilast) approval led to another clear decline on November 15. The price fell up to a maximum of 8%, to €44.25. Not least due to the buoyant mood especially on the German stock market, the ALTANA share recovered again in December and concluded the 2005 financial year at €46.00.

With an overall performance of -1.1% for the year, the ALTANA share lagged behind the DAX, and also the industry indexes. The DAX concluded the year at 5,408 points, up by a substantial 27.1%. The Dow Jones STOXX Healthcare pharmaceutical index rose by 27.8%, while the Dow Jones STOXX Chemicals climbed by 30.3%.

ALTANA SHARE MORE PROFITABLE THAN THE DAX IN THE LONG TERM

The ALTANA share is especially attractive for long-term investors interested in a sustained increase in value. In the last ten years people who have invested in the

> Comparative performance p.a. (in %)

Investment period	1 year	5 years	10 years
ALTANA ¹	1.2	1.4	16.3
DAX	27.1	-3.4	9.1

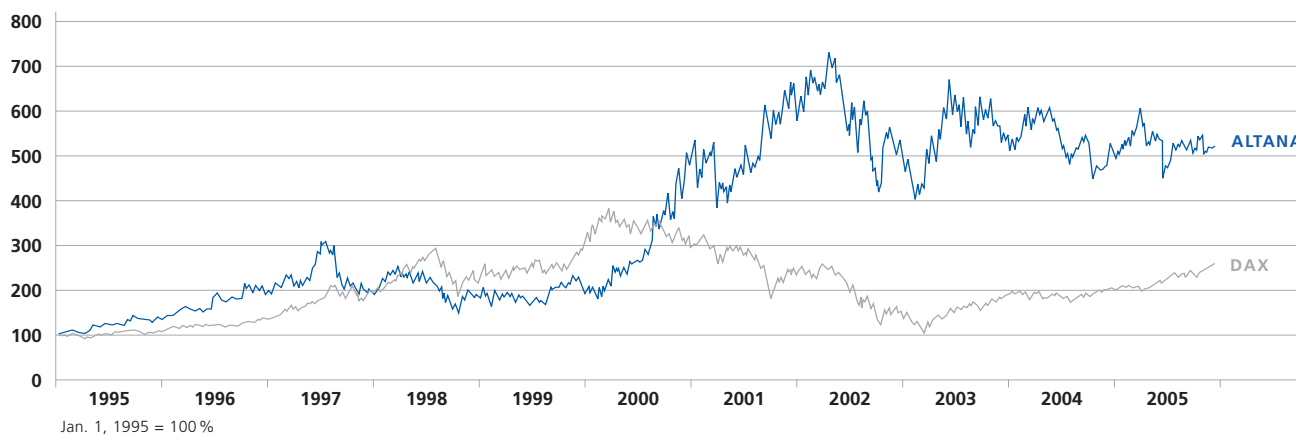
¹ Including dividend

ALTANA share have achieved an average annual return of 16.3%. As a result, the ALTANA share has proved to be a considerably better investment than the DAX, which recorded an average annual increase in value of only 9.1% during the same period. While the ALTANA share has grown in value by 1.4% in the last five years, the DAX has depreciated by 3.4%.

TRADING VOLUME ACHIEVES A NEW RECORD HIGH

In 2005, a total of roughly 200 million ALTANA shares were traded on the German stock exchanges, over 30% more than in the prior financial year (2004: 150 million shares). The average daily trading volume amounted to 775,165 shares (2004: 582,689). At the end of the year, ALTANA was ranked number 30 in terms of market capitalization* and 27 regarding total trading volume (2004: 29 respectively 26) in the official German stock exchange list.

> Comparative performance ALTANA/DAX from January 1, 1995 – December 31, 2005



LISTING ON THE NYSE

The development of the ALTANA share on the New York Stock Exchange (NYSE) corresponded to the German stock market. It reached its year high of U.S. \$ 69.53 on April 15, and recorded its year low of U.S. \$ 47.70 on July 1. The share closed 2005 at U.S. \$ 54.47, down by 13.5%. Taking into account the exchange rate difference, the ALTANA share decreased by 1.0%.

The ALTANA share is traded on the New York Stock Exchange as American Depositary Receipts (ADRs*). The number of ADRs totaled 723,312 at the end of December. The average trading volume in 2005 was 14,366 ADRs (2004: 5,476).

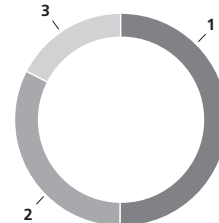
STABLE INTERNATIONAL SHAREHOLDER STRUCTURE

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 135.6 million shares were freely negotiable in 2005.

Based on an analysis of the shareholder structure, more than 45 million shares were owned by institutional investors on July 1, 2005. This corresponds to roughly 32% based on the nominal capital*, and more than 69% based on the number of shares freely negotiable at that time (free float). In the study, 361 institutional investors from 28 countries were identified.

As in 2004, institutional investors from the U.S. owned the highest percentage of shares (roughly 18 million of more than 45 million identified shares). This is

> **Shareholder structure**
(reference date July 1, 2005)

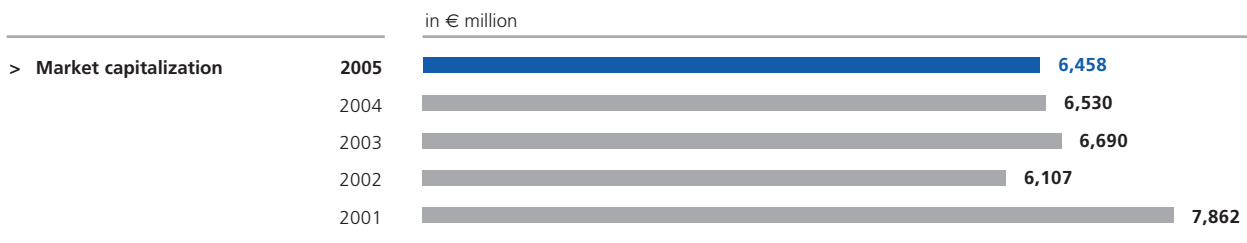


		%
Majority shareholder Susanne Klatten	1	50.1
Institutional investors	2	32.4
Other (proprietary possession, private shareholders, unidentified)	3	17.5

equivalent to around 40% (2004: 45%) of the shares. The decline is primarily due to differences in the way deposits are identified. The two next-largest blocks of shares were again held by institutional investors from Germany and the U.K. The share of German institutional investors rose from 21% to 25%.

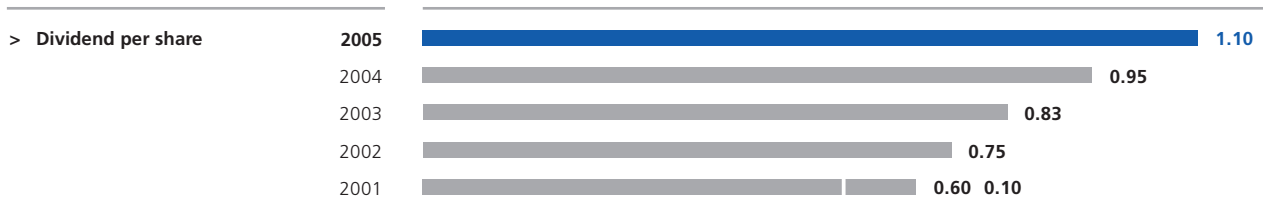
On July 1, 2005, four institutional investors from the U.S., three from Germany, two from the U.K., and one from Finland were among the top 10. The majority of investors keep their ALTANA shares from a period of 18 to 36 months ("moderate turnover ratio").

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 compensation report on p. 30. Employees in the Supervisory Board can obtain stock options within the framework of the employee incentive plans.



* Glossary

in € Dividend Bonus



ROUGHLY 35 % OF THE EMPLOYEES ARE ALTANA SHAREHOLDERS

Around 4,600 of the more than 13,000 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. Of a total of 7,653 authorized employees, 2,138 participated in the AIP in 2005, amounting to a subscription rate of 27.9%.

DIVIDEND INCREASE FOR THE TENTH YEAR IN SUCCESSION

In keeping with our earnings-oriented dividend policy, the Management and Supervisory Boards will propose to the Annual General Meeting on May 2, 2006, to distribute a dividend of € 1.10 per share for the past financial year. Due to the 16% increase of the dividend, the total dividend will rise to € 154 million (2004: € 133 million). Based on the year-end price, the dividend return amounts to 2.4%.

INVESTOR RELATIONS

In financial 2005, investor relations (IR) activities were characterized by new products developed by ALTANA Pharma and the announced change of the group structure in the wake of the acquisition of the ECKART Group. The 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 16 roadshows and eight investor conferences in Europe, the U.S. and Asia. Of particular importance were the ALVESCO® Launch Briefing held on January 28, 2005 and the R&D Day on October 12, 2005, both in London.

The F.A.Z. Institute, the Frankfurter Allgemeine Zeitung, and PRIME research international presented the Image Award 2005 to Dr. Nikolaus Schweickart for his corporate management skills embodying continuity and long-term thinking, the basis for ALTANA's continuing success, its dynamic growth throughout the prior years and the remarkable innovative corporate culture. Dr. Thomas Gauly and his team were awarded for their successful work in corporate communications.

ALTANA regards sustainable 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 private investors as well 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.

More than 1,000 shareholders used the Annual General Meeting, held on May 4, 2005 at the Congress Center in Frankfurt, as an opportunity to obtain information directly from the company. In financial 2006, ALTANA intends to continue the trustworthy dialog with current and potential investors and analysts in the hope of contributing to a fair assessment of the ALTANA share.

REPORT OF THE SUPERVISORY BOARD



In the year under review, the Supervisory Board closely followed the work of the Management Board and dealt in detail with the economic situation and development of the company as well as with special issues. The Management Board regularly submitted written reports to the Supervisory Board informing it, outside of its meetings, too, about the current state of affairs of the company and about important developments without delay and comprehensively. The Supervisory Board was involved in all major company decisions.

In the 2005 business year the Supervisory Board held four regular meetings and one special meeting. Outside of these meetings, too, the Chairman of the Supervisory Board was kept regularly informed by the Chairman of the Management Board about current business developments and important matters of the company.

MEETINGS OF THE SUPERVISORY BOARD

At its meetings, the Supervisory Board examined in detail the current business developments of the Group and of ALTANA Pharma and ALTANA Chemie. In addition to current sales, earnings, and financial data, the committee's meetings focused on sophisticated investment programs, research efforts, and the development of workforces.

In addition, the Supervisory Board discussed in detail key issues relating to the business environment of ALTANA Pharma such as the sales development of Pantoprazole, competitive changes in the proton pump inhibitor segment, and effects of health-policy measures on European markets. The Management Board reported regularly on the state and progress of the approval procedures of the new respiratory tract substances Ciclesonide and Roflumilast. Special focuses of the meetings were the first market launches of ALVESCO®, the termination of the DAXAS® cooperation with Pfizer, the temporary withdrawal of DAXAS® from European approval procedures, as well as the strategic expansion of marketing and sales organizations related to these projects, particularly in the U.S.

Key issues in the Chemicals division included the continued measures in 2005 to concentrate its product portfolio and the acquisitions and divestments connected with these activities. In addition, special attention was paid to the effects of the rather weak economy in the specialty chemicals business environment, which contrasted the very pleasing development of the chemical industry as a whole, higher raw materials prices, and the resulting measures taken by the Management Board to stabilize earnings.

The special Supervisory Board meeting held in June 2005 focused on the acquisition project of ECKART. Following extensive discussions about the company, its market environment, the strategic background and the risk profile of the acquisition, the Supervisory Board approved the acquisition.

The Supervisory Board meeting in September 2005 took place at ALTANA Pharma's production site in Oranienburg. There, the Supervisory Board had the opportunity to gather information about the most recent extension of the modern manufacturing site that went into operation in the summer of 2005. Within the framework of a primary subject matter, at this meeting, the Supervisory Board extensively discussed ALTANA Pharma's research pipeline* and the candidates from its R & D portfolio.

At the meetings in September and November (at which the Management Board was partly absent), the Supervisory Board dealt extensively with the planned reorganization of the ALTANA Group, with the plans for ALTANA Chemie to operate as an independent company, and with strategic future perspectives of the pharmaceutical business. Employee and shareholder representatives in the Supervisory Board discussed these elementary company issues with the Management Board in a trusting and constructive way. At the November meeting the Supervisory Board concentrated on corporate planning for the next few years, discussing both the strategic aims of ALTANA Pharma and ALTANA Chemie as well as the operating budget for 2006.

MEETINGS OF THE COMMITTEES

The Supervisory Board has installed three committees:

- > The Audit Committee met four times in 2005. 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 Securities and Exchange Commission (SEC). 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 (SOA). Furthermore, the Audit Committee dealt in depth with the identification and monitoring of risks in the Group, with the work and findings of its internal auditing, as well as with the success hurdle of the management stock option plan. Several meetings were devoted to the implementation of regulations of section 404 of the Sarbanes-Oxley Act on internal control systems.
- > The Human Resources Committee met twice. It dealt with personnel matters of the Management Board, the structure and amount of Management Board compensation, and the stipulation of share-based components of compensation. The structure of the Management Board compensation was also discussed at the Supervisory Board plenum.
- > The Mediation Committee, established in accordance with section 27 (3) of the German Codetermination Act, did not convene.

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

CORPORATE GOVERNANCE

At its meetings, the Supervisory Board dealt regularly with the further development of the corporate governance principles and their application in the company. At the meeting held in March 2005, the Supervisory Board focused in depth on the efficiency of its activities. At the meeting on November 24, 2005, the Supervisory and Management Boards issued the annual declaration of compliance in accordance with section 161 of the German Stock Corporation Act and published it on the company's website where it is accessible to all shareholders. ALTANA complies with all of the recommendations of the new version of the German Corporate Governance Code of June 2, 2005, and follows all of the suggestions of the Government Commission. The Management and Supervisory Boards provide further information on corporate governance in the company, on pages 24 ff of its annual report.

ANNUAL FINANCIAL STATEMENTS

The annual financial statements of ALTANA AG, the consolidated financial statements for the year ended December 31, 2005, and the combined management report were audited by PricewaterhouseCoopers 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 pursuant to section 91 of the German Stock Corporation Act was audited. The examination revealed that the system properly fulfils its function. The financial statement documentation, the annual report, and the reports of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft 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 plenum inspected the documentation and dealt with it in depth at its meeting to approve the balance sheet 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 15, 2006, 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 recommendation.

**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 2005. 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 15, 2006

For the Supervisory Board



Justus Mische
- Chairman -

CORPORATE GOVERNANCE REPORT

Corporate governance again played an important role for ALTANA in 2005. The Management and Supervisory Boards issue the following report:

DECLARATION OF COMPLIANCE 2005

Including the change made to the German Corporate Governance Code by the Government Commission on June 2, 2005, ALTANA complies with all of the recommendations of the Code and follows all the suggestions.

On November 24, 2005, 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 explains that ALTANA has complied with all of the recommendations made by the Government Commission German Corporate Governance Code in the version of May 2003 and with the Code's recommendations in the altered version of June 2, 2005. Some of the new recommendations can only be complied by this Annual Report for 2005 and at this year's Annual General Meeting, e. g. with the publication of this corporate governance report with the content provided by the new recommendations and the individual appointment of the Supervisory Board members.

The declaration of compliance has been published on our website so that it is accessible to our shareholders, along with our annual declarations of compliance since 2002.

ALTANA also follows all of the suggestions of the German Corporate Governance Code. In 2005, ALTANA shareholders were able to watch the entire Annual General Meeting on the Internet for the first time. As in the prior years, the speech made by the Chairman of the Management Board was broadcast on the Internet accessible to everyone.

MANAGEMENT AND SUPERVISORY BOARDS

The Management and Supervisory Boards cooperate closely to benefit the company. Their joint aim is to ensure the corporate value and to achieve its sustained increase. The Management Board informs the Supervisory Board regularly, without delay and comprehensively, about business proceedings, the economic situation of the Group, important events, corporate planning and the Group's strategic further development. The report of the Supervisory Board provides more detailed information on these issues on pages 20 ff.

There were no conflicts of interest of Management and Supervisory Board members which would have had to be disclosed to the Supervisory Board without delay. The Supervisory Board proposes for the first time to the Annual General Meeting 2006 that Supervisory Board members be elected or reelected on an individual basis. Traditionally, the tenures of ALTANA's shareholder representatives have ended at different times. In 2006, three of six shareholder representatives are to be elected.

SUPERVISORY BOARD COMMITTEES

In addition to the Mediation Committee required by law in accordance with section 27 (3) of the German Codetermination Act, the Supervisory Board formed an Audit Committee and a Human Resources Committee, each consisting of two shareholder representatives and two employee representatives. The Chairman of the Human Resources Committee is the Chairman of the Supervisory Board, Justus Mische. The Audit Committee also assumes the responsibilities in accordance with U.S. capital market regulations. The Chairman is Dr. Schmieder, appointed by the Supervisory Board as a “financial expert”.

SECURITIES TRADING LAW

With the Act on the Improvement of Investor Protection of October 2004, new regulations apply to essential parts of the German Securities Trading Act (WpHG), such as insider law, ad hoc disclosure, and the duty to report directors’ dealings. The issuer guideline of the German Federal Financial Supervisory Authority of July 2005 has made an important contribution to a clear understanding and sensible implementation of the act. ALTANA keeps a list of potential insiders, and announced insider information several times ad hoc last year.

The requirement that any buying and selling of shares be reported, in accordance with section 15a of the German Securities Trading Act (WpHG), pertains to all members of the Management and Supervisory Boards of ALTANA AG. In January 2005, each member of the Supervisory Board received 215 ALTANA shares as part of fixed Supervisory Board compensation for 2004. The Chairman of the Supervisory Board received 430 shares, the two deputy chairmen 322 shares each.

Dr. Martin, Supervisory Board member, sold 186 shares at a price of €44.82 each in February 2005, and 70 shares at a price of €46.45 each in October. In July 2005, Dr. Schweickart bought 2,500 shares at price of €40.69 per share, and Dr. Lohrisch purchased 2,000 shares at a price of €41.00 a share. Mr. Gajewiak, Supervisory Board member, sold 150 shares at a price of €46.20 each in August 2005 and bought 121 shares within the framework of the ALTANA Investment Plan in October. Mr. Becker, Deputy Chairman of the Supervisory Board, purchased 137 shares, also as part of the Investment Plan, in October.

Susanne Klatten owns 50.1 % of the nominal capital of our company. The other members of the Supervisory Board – excluding Mrs. Klatten – and the members of the Management Board each together hold less than 0.1 % of the nominal capital. The options held by the Management Board members from the stock option plans are indicated and explained in the compensation report on page 30.

AMERICAN CAPITAL MARKET REGULATIONS

As a company listed on the New York Stock Exchange, ALTANA is also 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). A great effort has to be made to implement the regulations of section 404 of the SOA (“internal controls over financial reporting”). After the SEC gave non-American companies an additional year to set up internal control systems pursuant to section 404, this will now be examined and testified by the auditor initially for the financial year 2006.

In May 2005, the Audit Committee implemented a procedure for the receipt and handling of complaints regarding accounting and auditing, as well as internal reporting and auditing procedures in accordance with SOA regulations.

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

COMPENSATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The compensation of Management and Supervisory Board members including details about the compensation system and individualized information is shown in the compensation report to follow (see pages 28 ff).

STOCK OPTION PLANS

In 2005, ALTANA again issued a management Stock Option Plan (SOP) and an ALTANA Investment Plan (AIP) for employees not authorized to take part in the SOP. The management stock option plan entitles participants, after a waiting period of two years, to purchase ALTANA shares at a price of €47.49 per share, in so far as the exercise hurdle is exceeded. The options can only be exercised if the stock market price of the ALTANA share develops better than a market-based, weighted mixed index (70 % Dow Jones STOXX Healthcare and 30 % Dow Jones STOXX Chemicals). A total of 1,177,100 options were granted to the participants. The prerequisite for participation, depending on the group, is an investment in ALTANA shares of between €5,000 and €150,000. Selling these shares while the participant is affiliated with the ALTANA Group leads to a loss of the option rights. After a two-year waiting period, the options are exercisable for three years.

Employees in European countries, the U.S., Canada, and India not entitled to participate in the SOP were offered a plan (AIP) for the sixth time in 2005. Participants can spend up to 10% of their annual salary to purchase ALTANA shares at a fixed price, i.e. the lowest price of the share on the day the Management Board approves the plan. Each participant receives a profit-related discount per share, which for the AIP in 2005 amounts to €5.88. This discount is limited to a maximum of €450 per participant. For each share purchased an option is granted at no extra charge which can be exercised after two years at the price of €42.60, and entitles to receive the difference between the stock market and the exercise price. After deduction of the discount, the purchase price of an ALTANA share was €36.72. Further information on the stock option plans can be found in the Notes to the Financial Statements (pages 135 ff).

RESPONSIBLE RISK MANAGEMENT

Early recognition of risks is extremely important to protect our company in the long term. Our systematic risk management ensures that risks are recognized, identified, and evaluated at an early stage in order to take suitable preventive and other measures. Our risk management system is audited in accordance with section 317 (4) of the German Commercial Code (HGB). Details can be found in the risk report (pages 96 ff).

VOLUNTARY COMMITMENT TO RESPONSIBLE BEHAVIOR

ALTANA joined the UN "Global Compact" initiative, whose members are voluntarily committed in their corporate policy to adhere to social and environmental standards as well as the protection of human rights. By joining Global Compact, ALTANA not only acknowledged the principles of the initiative, but showed a general willingness to support and promote also general UN aims. With regard to the UNESCO strategy of "global intellectual cooperation," ALTANA has also made various contributions for years now. The company's social involvement is primarily based on three pillars: The Herbert-Quandt-Stiftung (the Foundation of ALTANA AG), the ALTANA Cultural Forum, and the ALTANA Forum for Education and Science.

ALTANA's "Code of Conduct" contains precise rules and references regarding responsible behavior. It calls on all employees to act lawfully and ethically and aims to raise the awareness of certain issues, such as antitrust and insider law, environmental protection, safety, anti-corruption regulations, as well as discrimination. In accordance with U.S. capital market regulations, the Audit Committee of the Supervisory Board has resolved a "Code of Ethics" for members of the Management Board and for "Senior Financial Officers". Both codes have been published on the Internet (www.altana.com).

COMPENSATION REPORT

The compensation report outlines the principles governing compensation of the Management Board of ALTANA AG, as well as its structure and amount of compensation. In addition, it includes explanations on the regulation, composition, and amount of the Supervisory Board compensation.

COMPENSATION OF THE MANAGEMENT BOARD

The Human Resources Committee is responsible for establishing the structure of the compensation system as well as the compensation of the individual Management Board members. The Supervisory Board regularly discusses and reviews the compensation structure.

The amount of compensation of the Management Board members of ALTANA AG is related to the size of the company, to its economic and financial situation, as well as to the amount and structure of management compensation in comparable companies. Furthermore, the scope of duties, the experience, and the contribution of the respective Management Board member are taken into account when assessing the compensation.

The compensation of the Management Board is predominantly dependent on success. It consists of three components: a fixed compensation, a variable bonus, and a share-based compensation. For the fixed compensation and the variable bonus, a target annual compensation is defined, composed of approximately a third of fixed and two thirds of variable emoluments. In addition, the Management Board members receive pension grants.

The fixed basic compensation is paid monthly as salary. It is reviewed in the course of contract extensions. Additionally the Management Board members receive non-cash compensation, primarily from using the company car, and premiums for insurances.

The variable compensation is conceived as an incentive system combining the absolute earnings component and the relative earnings component in the form of return on capital. It is assessed based on the operating income before amortization of goodwill (EBITA) and the return on capital employed (ROCE) each in comparison to the planning. For the Chairman of the Management Board and the Chief Financial Officer, the assessment is based on Group data. The variable compensation of the Management Board members responsible for ALTANA Pharma and ALTANA Chemie is assessed based on comparable parameters on the corporate division level. The target values for EBITA and ROCE are stipulated by the Human Resources Committee of the Supervisory Board at the beginning of each year on the basis of the corporate planning adopted by the

Supervisory Board. 100 % of the variable compensation is due when 100 % of the specified budget values for EBITA and ROCE are achieved. The effective variable compensation can range from 0 % to 150 % of the variable target compensation defined in advance, dependent on whether the specified EBITA and ROCE target values are achieved. In 2005 the members of the Management Board achieved target values between 82 % and 131 %. The individual components to determine the ROCE can be found on pages 89 ff in the Management Report to the Financial Statements.

Cash compensation of the Management Board including benefits in kind in the 2005 business year amounted to €5.1 million (2004: €4.7 million) and were attributable to the members of the Management Board as follows:

(in € thousand)		Fixed compensation	Bonus	Other ¹	Cash compensation Total	Stock options Value at the day of grant
Dr. Nikolaus Schweickart	2005	480	1,536	20	2,036	203
(Chairman)	2004	480	1,325	20	1,825	461
Dr. Hermann Küllmer	2005	330	691	12	1,033	152
	2004	330	626	11	967	346
Dr. Hans-Joachim Lohrisch	2005	360	914	15	1,289	152
	2004	360	758	15	1,133	346
Dr. Matthias L. Wolfgruber	2005	315	459	4	778	152
	2004	300	491	6	797	346
Total	2005	1,485	3,600	51	5,136	659
	2004	1,470	3,200	52	4,722	1,499

¹ Other emoluments include non-cash compensation from company car usage amounting to €41 thousand (2004: €42 thousand) and premiums for insurances of €10 thousand (2004: €10 thousand).

Additionally, the members of the Management Board receive options from the management stock option plans as variable component with long-term incentive. The number of stock options is specified by the Human Resources Committee of the Supervisory Board. In the year under review, 117,000 stock options were granted to the Management Board (2004: 130,000) with an option value at the day of grant amounting to €659 thousand (2004: €1,499 thousand), 9.9 % (2004: 10.6 %) of the total options issued within the framework of the 2005 management stock option plan. Each option entitles, after various conditions are met, to acquire an ALTANA share at a price of €47.49 (2004: €51.01). More information on the stock option plans can be found on pages 135 ff of the Notes to the Financial Statements.

At December 31, 2005 the members of the Management Board held a total of 529,500 options (2004: 412,500), of which 282,500 options from the plans 2001 to 2003 could be exercised. The distribution of options is as follows:

Options (exercisable in the future) (in € thousand)	Plan 2001		Plan 2002		Plan 2003		Plan 2004		Plan 2005		Total	
	Amount	Value at the day of grant	Amount	Value at the day of grant	Amount	Value at the day of grant	Amount	Value at the day of grant	Amount	Value at the day of grant	Amount	Option value at Dec. 31, 2005
Dr. Nikolaus Schweickart (Chairman)	30,000	502	40,000	1,080	40,000	547	40,000	461	36,000	203	186,000	1,137
Dr. Hermann Küllmer	0	0	30,000	810	30,000	410	30,000	346	27,000	152	117,000	726
Dr. Hans-Joachim Lohrlich	22,500	376	30,000	810	30,000	410	30,000	346	27,000	152	139,500	853
Dr. Matthias L. Wolfgruber	0	0	0	0	30,000	410	30,000	346	27,000	152	87,000	457
Total	52,500	878	100,000	2,700	130,000	1,777	130,000	1,499	117,000	659	529,500	3,173
Option value at December 31, 2005		296		896		630		498		853		

The fair value* of the options at the day of grant was calculated based on the Binominal option pricing model which since January 1, 2005 has been the basis for calculating the compensation expense recorded in the income statements in accordance with IFRS 2 "Share-based Payment". The compensation expense determined is distributed over the waiting period. IFRS 2 is applied retroactively for all stock option plans issued after November 7, 2002. Accordingly, the compensation expense of € 78 thousand previously calculated in 2004 for options granted to Management Board members based on the difference between the average price of treasury shares acquired by ALTANA and the base price, was adjusted in accordance with IFRS 2. The expense arising for ALTANA AG from granting options to Management Board members within the framework of its stock option plans amounted to € 1,396 thousand in the financial year 2005 (2004: € 1,339 thousand). The realizable profits from exercising the stock options can deviate significantly from the figures provided in the table. The option value at December 31, 2005, represents the fair value also calculated based on the Binominal option pricing model at the end of 2005.

In the year under review the members of the Management Board did not exercise any options.

The members of the Management Board have individual pension grants in the form of fixed amounts which are oriented to the market. The service cost for the pension obligations of members of the Management Board amounted to €323 thousand in 2005 (2004: €271 thousand). The cash value of the total obligation (Defined Benefit Obligation/DBO*) totaled €5,533 thousand on December 31, 2005 (2004: €4,437 thousand). A pension accrual in the amount of €6,787 thousand (2004: €6,940 thousand) was made for prior members of the Management Board and their surviving dependents. The compensation expense totaled €618 thousand (2004: €618 thousand).

The members of the Management Board do not receive loans from the company.

COMPENSATION OF THE SUPERVISORY BOARD

The compensation of the Supervisory Board was stipulated by the Annual General Meeting and is determined in section 18 of the articles of incorporation. The Supervisory Board compensation is oriented to the tasks and responsibilities of the Supervisory Board members and to the size and economic success of the company.

The fixed compensation for each member of the Supervisory Board amounts to €20 thousand a year, thereof €10 thousand is provided in shares of the company. The value of the shares is based on the closing price of the ALTANA share in Xetra trading on the Frankfurt Stock Exchange on the last day of stock market trading in the business year for which the compensation is granted. The variable compensation amounts to €700 for every percent of the dividend, exceeding 4% of the nominal capital* that is approved at the Annual General Meeting. The chairman of the Supervisory Board receives twice and the deputy chairmen receive one and a half times the compensation. The chairmen of the Human Resources and Audit Committees receive a further €40 thousand each per year and the members receive a further €20 thousand each per year.

Pending the approval of the Annual General Meeting on the dividend proposed, the compensation of the Supervisory Board for the 2005 business year amounts to € 1.5 million (2004: € 1.4 million). It 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	149	40	229
Marcel Becker (Deputy chairman)	30	112	20	162
Susanne Klatten (Deputy chairwoman)	30	112	20	162
Dr. Uwe-Ernst Bufe	20	74	20	114
Yvonne D'Alpaos-Götz	20	74	20	114
Dr. Rango Dietrich	20	74	0	94
Ulrich Gajewiak	20	74	20	114
Ralf Giesen	20	74	20	114
Prof. Dr. Dr. h.c. mult. Wolfgang A. Herrmann	20	74	0	94
Dr. Thomas Martin	20	74	0	94
Prof. Dr. Heinz Riesenhuber	20	74	0	94
Dr. Klaus-Jürgen Schmieder	20	74	40	134
Total	280	1,039	200	1,519

¹ Thereof 50% in shares of the company at a price of € 46.00 (Xetra closing price on December 30, 2005)

In addition, all expenses arising in connection with the mandate, as well as the added VAT (Value-added tax), are reimbursed to the members of the Supervisory Board.

The members of the Supervisory Board do not receive loans from the company.

THE MANAGEMENT BOARD OF ALTANA AG



Dr. Nikolaus Schweickart
(62)

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

Degree in Law

Dr. Hermann Küllmer
(62)

Member of the ALTANA Management Board since 1990
Chief Financial Officer

Degree in Business Administration

Dr. Hans-Joachim Lohrlich
(57)

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

Degree in Chemistry

Dr. Matthias L. Wolfgruber
(52)

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

Degree in Chemistry

EXECUTIVE BODIES

Supervisory Board		Management Board	Senior General Managers
Justus Mische (Chairman)	Ulrich Gajewiak*	Dr. Nikolaus Schweickart Chairman Bad Homburg v. d. H.	Dr. Thomas Gauly
Marcel Becker* (Deputy Chairman)	Ralf Giesen* Prof. Dr. Dr. h.c. mult. Wolfgang A. Herrmann	Dr. Hermann Küllmer Chief Financial Officer Bad Homburg v. d. H.	Klaus Malkomes
Susanne Klatten (Deputy Chairwoman)	Dr. Thomas Martin* Prof. Dr. Heinz Riesenhuber	Dr. Hans-Joachim Lohrisch Head of the Pharmaceuticals division	General Counsel <hr/> Dr. Rudolf Pietzke
Dr. Uwe-Ernst Bufe	Dr. Klaus-Jürgen Schmieder	Constance	
Dr. Rango Dietrich*		Dr. Matthias L. Wolfgruber Head of the Chemicals division Wesel	

* Employee representative

ALTANA PHARMA >>>

SUSTAINED CORPORATE DEVELOPMENT

“Progress in treatment
and business success?” ...





... "Innovation is the link."

A portrait of Dr. Ulrich Thibaut, a middle-aged man with short, light brown hair, wearing round glasses, a white dress shirt, and a blue and white striped tie. He is looking slightly to the right of the camera with a neutral expression. The background is a blurred office setting with large windows and a desk.

>> Dr. Ulrich Thibaut

Chairman of Research & Development of ALTANA Pharma

“COOPERATION WITH COMPETENT EXTERNAL PARTNERS IS EXTREMELY IMPORTANT FOR A MEDIUM-SIZED COMPANY LIKE ALTANA PHARMA IN ORDER TO HEIGHTEN THE KNOWLEDGE AND EXPERIENCE WITHIN OUR COMPANY AND TO STRENGTHEN OUR INNOVATIVENESS. THE BEST EXAMPLE: OUR CICLESONIDE BUSINESS.”



ALTANA Pharma Research Strategy

Focus 1

Concentration on small molecules (SMOLs), innovative products and a few indication areas

Focus 2

Optimization of the drug development process, i.e. through technological cooperation

Focus 3

Replenishing the pipeline through own research, acquisitions, incensings and strategic alliances

>>> PARTNERSHIPS TO THE BENEFIT OF PATIENTS. An allergy or a cold? Every fifth person in Western industrial countries complains of sneezing attacks, itching, watering eyes and obstructed nasal breathing. In the wintertime one would expect these to be symptoms of a cold. But nasal mucosa that have become very sensitive or oversensitive due to constant irritation and inflammation can also react to non-specific allergens such as cold, tobacco smoke or exhaust fumes. In such cases, symptoms of hay fever similar to those of the common cold can occur throughout the year.

TODAY ALLERGIC RHINITIS, TOMORROW ASTHMA

At present, hay fever (allergic rhinitis) is the most common form of allergy among adults and children in Germany and the most common chronic children's illness. If instead of the upper airways, as with allergic rhinitis, the mucous membranes of the lower respiratory tracts are inflamed, the heightened irritation reaction triggers recurrent asthma. Typical symptoms of this disease are wheezing, shortness of breath, respiratory distress and coughing. In 85 percent of the cases asthma is caused by an allergy, 86 percent of which are triggered by flower pollen. Hay fever patients' risk of developing allergic bronchial asthma is 3.8 times higher once the illness has moved into a new stage. Previously diagnosed and treated as two separate diseases, today asthma and allergic rhinitis are dealt with as two forms of one inflammatory process. Since 1997, the "guidelines"* of the German Respiratory Tract League have demanded not only treating acute symptoms – asthma attacks – but rather the

inflammation at the root of the illness. The aim of this approach is to prevent the disease from getting worse and to avoid permanent or long-term damages, which can impede the efficacy of drugs, thus stopping the inflammation from moving into a new stage.

TACKLING THE ROOT OF THE PROBLEM

At the beginning of 2005, ALTANA Pharma started the launch of ALVESCO® (Ciclesonide), a novel inhaled corticosteroid (ICS) to treat asthma. Today corticosteroids are considered the most effective anti-inflammatory substances and, based on the "guidelines," are the drugs of choice when it comes to treating bronchial asthma. Although in most cases corticosteroids enable chronic airway illnesses to be controlled, even 20 years after their market launch they still need to be optimized. Side effects such as oral candidiasis, throat inflammation and hoarseness, and also worries that cortisone treatment could lead to reduced bone density and growth distur-



“Via our partnerships we have gained access to additional resources, technologies and patents and strengthened our position in the U.S. and Japan.”



balances in children, as well as unsuitable drug instructions reduce the acceptance and thus the compliance* of patients. But the latter is an important prerequisite for controlling illness. Spahn and Szeffler (2002) assert that “the ideal ICS should have little or no systemic effects with a high degree of topical activity in the lungs...” Release and distribution properties corresponding to this demand were in the focus of the ALVESCO® development. ALVESCO® is not transformed into its active form until it reaches the lungs which represents a considerable advancement in terms of safety of application and tolerability. In addition, a once-daily administration is sufficient, hoping for an increased compliance. And well-treated asthma should enable patients to lead normal, active lives.

FROM THE IMPROVEMENT OF TREATMENT ...

When ALTANA Pharma entered corticoid research with the acquisition of the Spanish pharmaceutical company ELMUQUIMICA at the beginning of the 1990s, it early paved the way for an optimization of the risk-benefit ratio. As Ciclesonide was further developed into a modern, tailor-made drug, the latest corticoid research

knowledge and current developments were brought to ALTANA Pharma’s own research in Constance following the acquisition. This gave rise to many new challenges – starting with the separation of the isomer mixture*, to the development of a new method of synthesis and a specific production facility, right through to the search for an appropriate inhalation device. In an effort to bring its research expertise in the new field up to an internationally competitive level, and compelled to use existing resources as efficiently as possible, ALTANA Pharma has entered various alliances.

... TO BUILDING THE RESPIRATORY BUSINESS

We began looking for partners for the development, production and marketing of Ciclesonide at a time when all of the competitors in the respiratory area were busy adapting their products to environmentally friendly CFC-free metered-dose inhalers (MDI). In 1999, we obtained Dynamit Nobel as a competent partner for Ciclesonide production, 3M for the development of an HFA metered-dose inhaler in 1996, Teijin in 1998, and sanofi-aventis for the development and approval of Ciclesonide in Japan and the U.S. in 2002. Today 3M supplies us with ALVESCO® and contributes important data for ongoing approval procedures. We have extended our ALVESCO® cooperation with Teijin to the development of a nasal spray containing Ciclesonide. In the nasal formulation we have benefited from Teijin’s expertise in this field. Within the framework of our cooperation with sanofi-aventis, we have gained access to a dry powder inhaler (DPI) for the preparation combining Ciclesonide and a long-acting bronchodilator* currently in phase II. The partnerships have made it possible for us to clinically develop and register Ciclesonide in parallel on all continents.

* Glossary

RESPIRATORY BUSINESS

Ciclesonide

German pulmologists ranked ALVESCO® the “most innovative product in 2005” according to a market research study commissioned by the magazine PharmaBarometer. Apart from the pharmacological and the side-effect profile, the criteria to be selected “the most innovative product” included the efficacy, and compliance-friendly dosage. Since 2005, ALVESCO® has been available in 16 countries for treating asthma, further market launches will follow. The application for approval of the Ciclesonide nasal spray against allergic rhinitis for the U.S. market has been filed by ALTANA Pharma with the FDA in December 2005.

<<<



STRATEGIC FOCUS 2005: MARKET LAUNCH OF THE FIRST NEW RESPIRATORY PRODUCT

> Strategy

In 2005, ALTANA Pharma successfully brought ALVESCO®, the first new respiratory therapeutic from its own research, on to the market in 16 countries.

We will resubmit DAXAS®, our second innovative respiratory product, for E.U. approval after further clinical studies are carried out. Following the termination of its cooperation with Pfizer, ALTANA Pharma is continuing the U.S. studies on DAXAS® on its own.

> Business performance

In the year under review, ALTANA Pharma once again achieved record figures as to sales and earnings. With double-digit sales growth, our top product Pantoprazole was again the driving force behind our dynamic business performance.

> Research & Development

In financial 2005, our research budget increased by 2% to € 418 million. The application for approval of the Ciclesonide nasal spray, our second product candidate, was submitted in North America.

> Supply chain management

Our supply chain management was able to guarantee a smooth market supply, especially with the strategically important products Pantoprazole and ALVESCO®.

> Human resources

ALTANA Pharma's workforce grew by around 8% to 8,832 employees worldwide in 2005. New jobs were created mainly in Marketing & Sales as well as in Research & Development.

> Environmental protection

Our activities in 2005 further improved our environmental record.

ALTANA Pharma closed the business year 2005 again with record figures. Sales rose by 12 % to €2.4 billion, earnings before taxes increased by 16 % to €608 million. The gastrointestinal medication Pantoprazole was again the engine of our growth. Our new respiratory medication ALVESCO® whose market launch started in 2005, generated first sales. The EBIT margin of 25.5 % was a record-breaking figure. As a result, ALTANA Pharma continues to be one of the most profitable companies in Europe.

The ALTANA Pharma Group comprises more than 30 subsidiaries and affiliated companies in Europe, North and Latin America, South Africa, Asia and Australia. Our products are offered in almost 100 countries worldwide.

OUR GROWTH STRATEGY

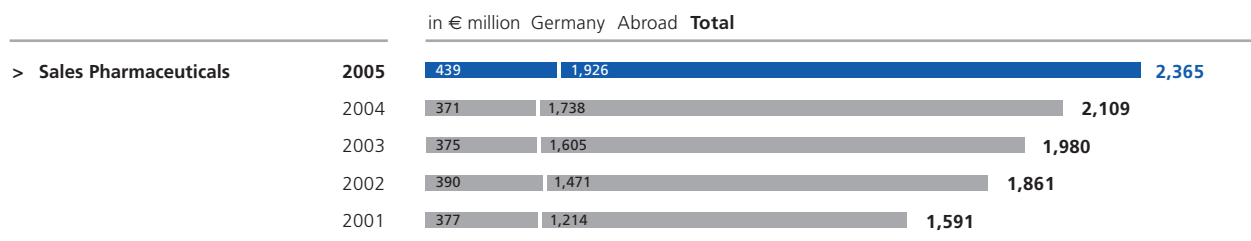
The core business of ALTANA Pharma is the development and marketing of innovative “therapeutics,” that is prescription drugs. In addition, we produce and market contrast media for imaging procedures and non-prescription preparations for self-medication.

Thanks to Pantoprazole, our “gastrointestinal therapeutics” business has been the driving force behind our dynamic growth so far. With new products stemming from our own Research & Development (R & D), we intend to position ourselves in the “respiratory disease” area and, with “oncology,” to establish a third therapeutics’ pillar in the medium term. Furthermore, we plan on expanding our portfolio of active substances and products increasingly through inlicensing and acquisitions.

We supplement our expertise in a targeted way with research, marketing, and sales alliances with competent partners. ALTANA Pharma’s business activities concentrate on high-sales markets, especially in Europe, North America, and Japan. In addition to consistently further developing our traditionally strong position in the most important and valuable drug markets in Europe, we are striving in the medium term to expand our presence in the world’s largest and second-largest drug markets, the U.S. and Japan, respectively. At present, we achieve 81 % of our sales outside of our home market Germany.

PROGRESS IN 2005

- > The market launch of ALVESCO® (Ciclesonide) began in the middle of January. Following the U.K. and Germany, the drug was launched in Europe, Latin America, and Australia in the course of the year. By the end of 2005, the first new respiratory medication from our own R & D had been approved in 34 countries and was available in 16 countries.
- > At the 61st annual meeting of the American Academy of Allergy, Asthma and Immunology (AAAAI) in March, new study findings were presented which prove that our new asthma preparation ALVESCO® is comparably effective when taken once a day as the inhaled corticosteroids already on the market, budesonide and fluticasone propionate, are when they are taken twice a day.
- > In April, ALTANA Pharma brought Pantoprazole-Magnesium onto the Mexican market under the trade name TECTA®. The medication is indicated for GERD* symptoms occurring at night.
- > After roughly a year of construction, ALTANA Pharma celebrated the topping-out ceremony for its new tablet production facility in Cork, Ireland, in April. The aim of the facility is to safeguard the supply chain for Pantoprazole and DAXAS® (Roflumilast) for the future.
- > A comparative study published in May proved that ALVESCO® 160 µg resulted in comparable improvements for children as budesonide 400 µg; moreover, the study showed that children grow significantly more during ALVESCO® therapy compared to the budesonide therapy.
- > At the Oranienburg site, in the presence of the German Chancellor Gerhard Schröder and the Minister President of the state of Brandenburg, Matthias Platzeck, a new



pharmaceutical production facility went into operation in June, increasing capacities for existing and future products.

- > As the first one-year RATIO/M2-112 study showed the lung function (FEV1) of COPD* patients improves considerably with a DAXAS® (Roflumilast) therapy over placebo. A significant decrease as to the frequency of moderate and severe exacerbations*, however, could be proven in this study only for a sub-group.
- > In September, ALTANA Pharma received “the most innovative product in 2005” prize for ALVESCO® in Germany.
- > An application for approval of Ciclesonide nasal spray for allergic rhinitis was submitted to the FDA, the U.S. Food and Drug Administration, in December.
- > Since 2005, PANTOZOL® (Pantoprazole) has been able to be prescribed to GERD* patients in the first European countries for usage on demand. As a result, the therapeutic potential of the medication can be even better exploited.
- > In financial 2005, applications were submitted for patent protection of 67 inventions of ALTANA Pharma R & D.

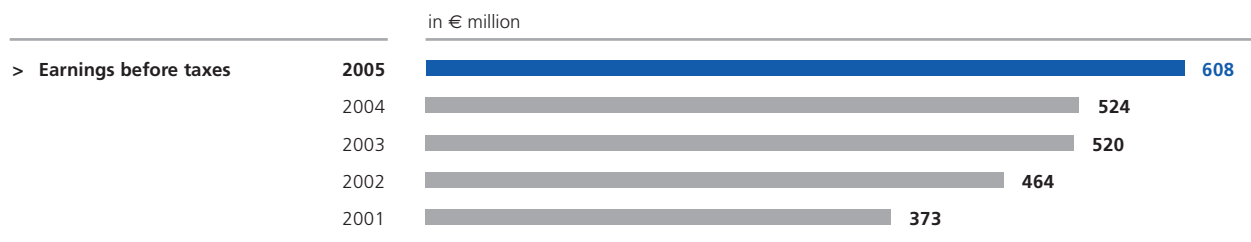
IMPORTANT EVENTS IN 2005

- > In July, ALTANA Pharma took over Pfizer’s U.S. studies on DAXAS® after the cooperation between the two companies ended as of June 30, 2005.
- > Following the withdrawal of the E.U. application for approval, further clinical studies for DAXAS® are carried out which are intended to sharpen the profile of the novel respiratory drug and boost its market potential before an application is resubmitted.

OVERVIEW OF SALES AND EARNINGS

Sales rose by 12 % to €2,365 million in financial 2005 (2004: €2,109 million). In terms of operating sales, i.e. without exchange rate and acquisition effects, ALTANA Pharma grew by 10 %.

Earnings before taxes (EBT) totaled €608 million at the end of 2005, 16 % higher than the prior-year level. The growth rate reflects the ongoing dynamic sales development particularly of our gastrointestinal medi-



* Glossary

cation Pantoprazole. Research costs slightly exceeded the already high level of 2004. Marketing costs were higher due to the market launches of our new respiratory drug ALVESCO®.

ALTANA Pharma's profitability remains above average. The return on sales amounted to 25.7 % (2004: 24.8%), the operating margin measured in terms of EBITDA rose from 28.7 % to 29.2 %.

BUSINESS PERFORMANCE BY REGION

The sales growth achieved in the business year 2005 was primarily driven by the dynamic business of the ALTANA Pharma Group in Europe which has a share of 51 % in the Group's sales with sales amounting to €1,219 million (+16%). Sales in Germany, our domestic market, had a considerable share with a growth of more than 18 %.

In North America, we generated sales amounting to €770 million (2004: €749 million), 3 % up on the prior year. Thus we achieved 33 % of our sales volume in the U.S. and Canada. ALTANA Inc. grew considerably with "topical drugs and special products". In October we further strengthened the American subsidiary by purchasing the U.S. dermatology business of GlaxoSmithKline.

With an increase of 19 % to €279 million, sales in Latin America now comprise 12 % of ALTANA Pharma's total sales. The sales growth was primarily achieved with Pantoprazole and the pain remedy Neosaldina®.

Altogether, sales outside of Germany accounted for 81 % in 2005.

PERFORMANCE BY BUSINESS UNIT

Our strategic core business, "therapeutics" generated a sales volume of €2,071 million in 2005 (2004: €1,839 million), 13 % up on the prior year. In the year under review, the share of "therapeutics" in total sales of the ALTANA Pharma Group amounted to 87 %.

The "Imaging" business unit achieved sales of €108 million, equivalent to the prior-year level. The product portfolio of Imaging includes modern, non-ionic X-ray contrast media such as Imeron® and Solutrast®, as well as innovative magnetic resonance contrast media* such as ProHance® and MultiHance®. Contrast media are mainstays of the product portfolio of some of our European companies.

Our business with non-prescription preparations for self-medication (OTC*) grew by 13 % to €131 million, with sales of Neosaldina® playing a decisive role. We bought the pain remedy in 2003, which is established in the Brazilian OTC market. Further proven products in our OTC range include Buerlecithin®, Faktu®, Riopan® and Sanostol®.

GASTROINTESTINAL THERAPEUTICS:

TOP-SELLING BUSINESS AREA RECORDS DOUBLE-DIGIT GROWTH

The "gastrointestinal therapeutics" business area increased its sales in 2005 by 12 % to €1,536 million. Gastrointestinal therapeutics are by far our top-selling product group and the main pillar of our therapeutics business. Our proton pump inhibitor* (PPI) Pantoprazole (PANTOZOL®, PROTONIX® et. al.), was again responsible for the largest contribution to sales with 66 % of our therapeutics sales. Proton pump inhibitors are the medication of first choice when it comes to treating widespread acid-related illnesses such as reflux disease (GERD*) and gastrointestinal ulcers.

PANTOPRAZOLE SALES GREW FASTER THAN THE PPI MARKET

ALTANA Pharma boosted its own sales of Pantoprazole by 12 % to €1,361 million in the year under review. Together with our partners, we achieved worldwide market sales of €2,768 million, also a 12 % increase on the prior year.

> Sales by region

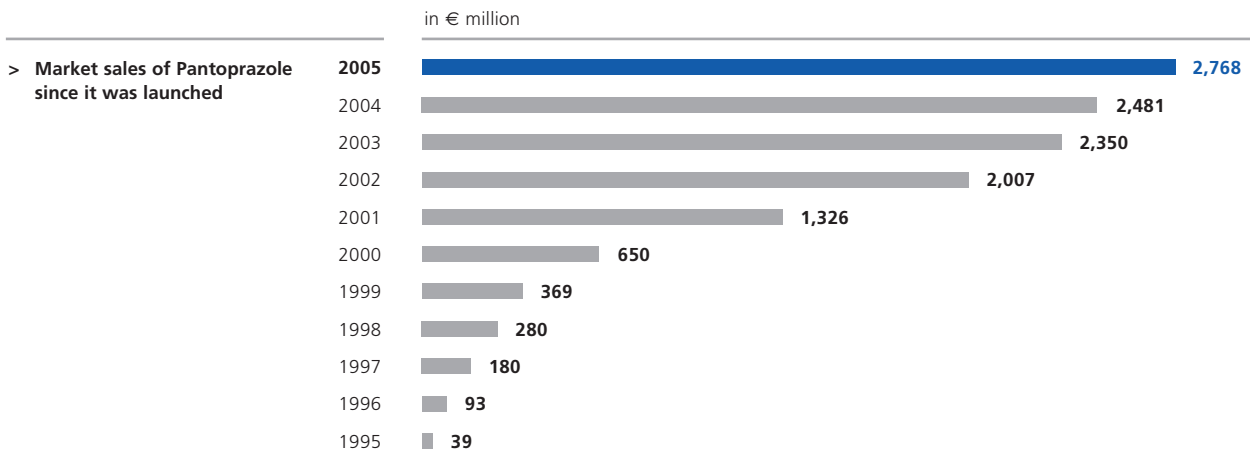
		2005	2004	Δ %
in € million				
Europe	1	1,219	1,050	16
thereof Germany		439	371	18
thereof outside of Germany		780	679	15
North America	2	770	749	3
thereof U.S.		651	647	1
Latin America	3	279	235	19
Other regions	4	97	75	29
Total		2,365	2,109	12

> Sales by business unit

		2005	2004	Δ %
in € million				
Therapeutics	1	2,071	1,839	13
Imaging	2	108	109	-
Self-medication (OTC)	3	131	115	13
Other	4	55	46	19
Total		2,365	2,109	12

> Sales Therapeutics by application area

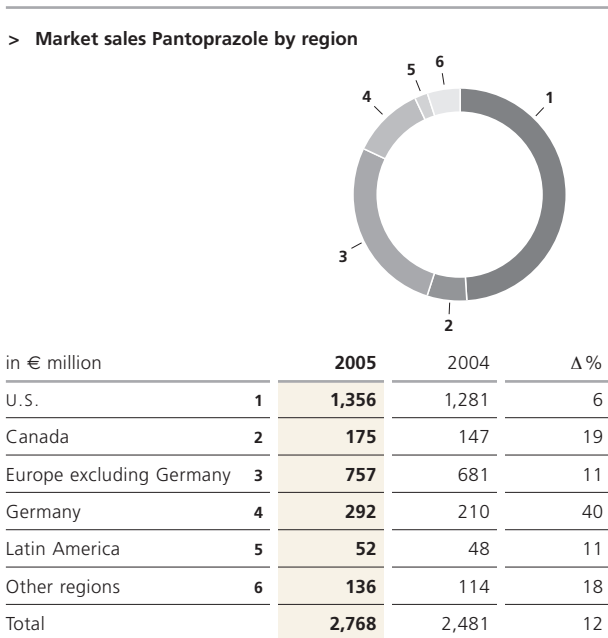
		2005	2004	Δ %
in € million				
Gastrointestinal	1	1,536	1,367	12
thereof Pantoprazole		1,361	1,216	12
Respiratory	2	69	59	17
Other	3	466	413	13
Total		2,071	1,839	13



Sales of acid-inhibiting drugs in the 20 most important markets rose to over € 17 billion. Proton pump inhibitors (PPI), recording an average market growth of 5%, accounted for the largest share with more than € 14 billion.

Pantoprazole is available in almost 100 countries. The high worldwide demand for Pantoprazole makes it the currently most successful patent-protected drug from a German research laboratory. On account of its

convincing product profile, Pantoprazole is now market leader in 13 countries. 49% of the worldwide market sales of Pantoprazole are generated in the U.S. Sales in the U.S. amounted to € 1,356 million in 2005. Pantoprazole is sold there under the trade name PROTONIX® by our American partner Wyeth, who – despite high competitive pressure – achieved a sales increase of 6% in U.S. dollars in year-to-year terms. With a share of around 20% in prescriptions, our gastrointestinal drug continues to have a strong market position in the U.S. among proton pump inhibitors*.



RESPIRATORY THERAPEUTICS: MARKET LAUNCH OF THE FIRST NEW INNOVATIVE PRODUCT

ALTANA Pharma posted respiratory drug sales totaling € 69 million in 2005. In the first year of its launch, ALVESCO® generated € 8 million of the business unit's sales. The asthma drug stemming from our own research is a new-generation inhaled corticosteroid* (ICS), which due to its novel active substance properties and its innovative pharmaceutical formulation is highly effective and especially well tolerated. ICSs reduce inflammatory processes in respiratory diseases such as bronchial asthma, and are therefore first-choice drugs. In Germany, ALVESCO® already accounts for more than 6% of mono-ICS sales. The market share and sales volume of ALVESCO® are steadily increasing in all of the 16 countries in which it has been launched. In addition to the

* Glossary

U.K. and Germany, these countries include Ireland, Poland, Chile, Colombia, Brazil, Australia, the Netherlands, the Czech Republic, Slovakia, Peru, Ecuador, Slovenia, Hungary and Hong Kong.

The mono-ICS market segment is worth around €2 billion. As opposed to the ICS combination drug segment, which currently has a value of more than €4.5 billion and is growing by 20% every year, the mono-ICS market is stagnating.

We expect the “respiratory therapeutics” business area to become considerably more important in the forthcoming years, once further products from the Ciclesonide family such as Ciclesonide nasal, the medication combining Ciclesonide and Formoterol, and DAXAS® are approved and on the market.

CHALLENGES AND MARKET OPPORTUNITIES

In addition to a consistent further development of ALTANA Pharma’s traditionally strong position in important European pharmaceutical markets, our growth strategy targets an expansion of our presence in North American and Japan in the medium term. An essential prerequisite are our innovative respiratory products.

The respiratory medication market is growing above average: In 2005, sales of drugs for the treatment of asthma, COPD*, and allergic rhinitis climbed in the 20 most important pharmaceutical markets by roughly 9% to over €23 billion. While asthma and COPD therapeutics generated sales of more than €14 billion, sales of products for the treatment of allergic rhinitis totaled around €9 billion.

Nearly 300 million people worldwide suffer from bronchial asthma, five million thereof in Germany alone. And the number is increasing. According to the World Health Organization, roughly 600 million people have chronic obstructive bronchitis (COPD), in many cases as a result of smoking. If this development continues, COPD will be third most common cause of death in Europe by 2010. There is an urgent need for innovative thera-

peutics for the treatment of both of these severe chronic widespread diseases. The largest market for hay fever medications is the U.S. market, with a volume of 78% and a value of over €6.5 billion. The “nasal corticosteroids*” market segment is growing with 8%.

ALVESCO® is the first product of a whole family of Ciclesonide-based products. In addition to a metered-dose inhaler of ALVESCO® for asthma treatment, a nasal spray for the treatment of hay fever (allergic rhinitis) and a product combining the corticosteroid Ciclesonide and the long-acting bronchodilator* Formoterol are in an advanced stage of development.

We are developing the metered-dose inhaler ALVESCO® and the fixed combination for the U.S. market together with our partner sanofi-aventis, with whom we will later also market both products there. Our partner Teijin is developing the metered-dose inhaler and the nasal spray for the Japanese market, and will market these products there after their approval. We estimate the sales potential of the entire Ciclesonide product family at around €1 billion in the long term.

ALVESCO® has meanwhile been approved in 35 countries. It has been submitted for approval in the U.S. and Canada.

Since January 2004, ALTANA Pharma has been represented in Japan, the world’s second-largest pharmaceutical market, by its own company, organizing the cooperation with our Japanese partners and progressing the clinical development of DAXAS® (Roflumilast) for the Japanese market, together with our partner Tanabe. DAXAS® is a PDE4 inhibitor. Its efficacy in treating COPD and asthma is being tested in current clinical studies. Due to its therapeutic profile we think DAXAS® is capable of achieving blockbuster* potential in the large, growing respiratory medication market.

Since it was launched eleven years ago, Pantoprazole has been used to treat over 300 million patients. Due to its convincing product profile, it is now market leader in 13 countries concerning drugs used to treat acid-relat-

ed gastrointestinal diseases. The aim of treatment is to achieve a sustained release of symptoms and to improve the quality of the patients' lives. Pantoprazole is available both in intravenous form and also for oral treatment as a tablet. Since 2005, it can also be used on demand in a few European countries to treat the reflux disease GERD*. In Mexico, TECTA® (Pantoprazole-Magnesium) for the treatment of nocturnal GERD symptoms was brought on the market in April. We expect – not least on account of our life cycle management – that Pantoprazole sales will continue to grow in the years to come.

SUCCESS FACTOR R & D PIPELINE*

CONCENTRATION ON SELECT, HIGH-VALUE FIELDS OF RESEARCH

The aim of ALTANA Pharma researchers is “adding value to patients' lives”. We develop innovative drugs to enable patients to lead a more active, longer and healthier life. For years now, we have invested roughly 20% of our sales achieved from prescription medications in researching new therapy principles and drug development. As a result, our research budget has steadily increased, amounting to €418 million (+2%) in the 2005 business year. In the year under review, patent protection was applied for 67 inventions from our R&D.

Our R&D focuses on gastrointestinal, respiratory and cancer diseases, three indication areas where there is still a great therapeutic need. In the field of oncology, the

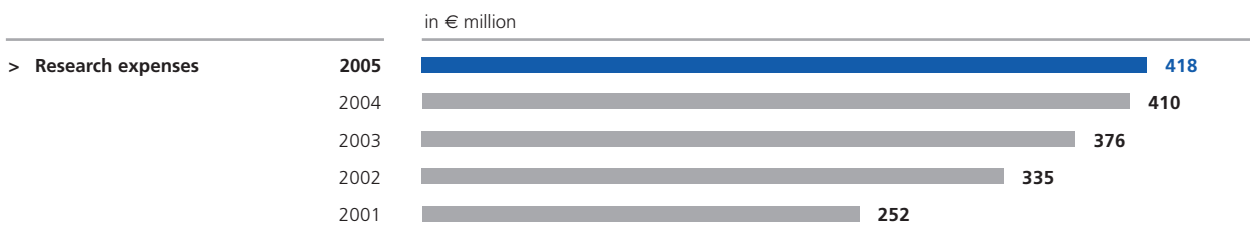
first projects are in pre-clinical* development. We expect candidates for clinical development in about a year. By concentrating on just a few indication areas, ALTANA Pharma can explore them in depth and may thus successfully compete with major players in the industry. Pantoprazole is an excellent example.

INTERNATIONALIZATION OF R&D ACTIVITIES FURTHER CONTINUED

Most of our research work is done in Constance. In recent years, however, we have internationalized our R&D activities by locating specific areas such as genomics* and proteomics* (Waltham, U.S.), and medical chemistry (Mumbai, India).

With the ALTANA Research Institute (ARI) in Waltham near Boston, we have positioned ourselves in a very creative environment with renowned universities and research centers and gained access to qualified scientists and researchers in the fields of information technology, molecular medicine, and the biomedical sciences. As an integral unit of Discovery Research, the ARI is exploring new approaches to treat inflammatory and cancer diseases. In future, the institute's scope of duties will also comprise pre-clinical research in the area of respiratory diseases.

We have heightened our expertise in the field of synthetic chemistry via our research institute in India, with which we have expanded our capacities for active pharmaceutical ingredient synthesis (API). In addition, we have set up a department there which as part of a global network supervises and evaluates clinical studies.



* Glossary

PROMISING PIPELINE PROJECTS

Our research work focuses on the following classes of substances: phosphodiesterase (PDE) inhibitors*, P-CABs* (an abbreviation for Potassium Competitive Acid Blocker), histone deacetylase (HDAC) inhibitors*, kinase inhibitors, as well as further enzyme inhibitors which may be used for inflammatory processes and for the treatment of respiratory, gastrointestinal and cancer diseases.

> **Focuses of research**

Target* Families		Indications	
Ion Pumps	PDEs*	GERD*	Inflammatory Bowel Disease
Ion Channels	GPCRs*		
Kinases	HDACs*	Asthma	Rheumatoid Arthritis
Proteases	iNOS*		
		COPD*	Sepsis
		Allergic Rhinitis	Acute Respiratory Distress Syndrome
		Acute Lung Failure	
		Solid tumors	Hematologic tumors

Focus on SMOLs – Strategic Extension Biologics*

<p>Discovery Programs in 2005</p> <p>25 Lead* discovery programs; 6 Lead optimization programs</p>

RESPIRATORY DISEASE PROJECTS

> Ciclesonide nasal spray for the treatment of allergic rhinitis is in phase III* of clinical trial in the U.S. and Canada. In December 2005, this product candidate was submitted to the FDA for approval, and in January 2006 to the Canadian authorities.

- > The preparation combining Ciclesonide and Formoterol is in phase II* of clinical trial.
- > A comprehensive study program is being conducted on DAXAS® in order to work out the therapeutic profile of the active substance Roflumilast in detail. In February 2006, two further large phase III studies with COPD patients were started. The development of a representative of a new class of substances like Roflumilast is much more expensive and much riskier than for a new representative of a group of substances already known and on the market. As soon as the database enables us we will re-submit DAXAS® for approval in the E.U. We are also preparing an application for approval in the U.S. Since the termination of our DAXAS® cooperation with Pfizer in July 2005, we have developed Roflumilast for the U.S. market ourselves. On account of the existing structures and resources, we are in a position to carry out the program of studies and the registration process without any outside help. In the meantime, however, we have taken over Pfizer's current studies and are continuing them on schedule. For the Japanese market, we have concluded a development and marketing agreement with Tanabe. DAXAS® is in phase II/III in Japan and in clinical phase III in the U.S. and Europe.
- > Many years of experience from a number of our own research projects and successful cooperations with universities and other research laboratories have enabled us to select further effective and well tolerated PDE inhibitors* to treat inflammation-related respiratory diseases that are to follow DAXAS®.
- > Venticute® is a surfactant* preparation consisting of the proteine SP-C and phospholipids. A large clinical study is currently examining the efficacy of Venticute® with patients who have to be intubated or mechanically ventilated due to pneumonia-induced lung failure or aspiration of their stomach contents.

* Glossary

GASTROINTESTINAL DISEASE PROJECTS

Over decades, we have gathered extensive knowledge and a wide spectrum of methods and substance libraries on the basis of which we can develop new product candidates for acid-related gastrointestinal diseases.

- > In addition to life cycle management projects revolving around Pantoprazole, the focus is on novel acid inhibitors such as P-CABs*. Soraprazan, an interesting representative of this class of substances, is in phase II* of clinical trial. Soraprazan takes effect very quickly. Whether it also swiftly alleviates symptoms has to be shown by clinical studies.
- > Phase I* clinical studies have been conducted on a further acid inhibitor from our P-CAB research since 2005.

CANCER DISEASE PROJECTS

In the field of oncology, we work together with various research partners. In 2004, we made considerable progress in finding and validating medically relevant targets* for drug development so that leads* for drugs were examined. On the basis of these leads, project candidates could be defined which are now in pre-clinical* development. These interesting project candidates act as HDAC inhibitors* and could enter clinical development in around a year.

SUCCESS FACTOR SUPPLY CHAIN MANAGEMENT

In 2005, ALTANA Pharma’s supply chain management was consistently and successfully further developed in terms of supply capacities, product quality requirements, and manufacturing cost optimization.

- > We achieved excellent results regarding our capacity to supply all ALTANA Pharma products, especially the strategically important ones. Supply of our largest and most important product, Pantoprazole, is guaranteed by a comprehensive multi-sourcing concept, and even in cases of unexpected increases in demand there were no supply shortages.

Even in the launch phase of ALVESCO®, a technologically sophisticated inhaled spray and a challenge in terms of supply logistics, we ensured that the market could be supplied smoothly.

- > The market is supplied in strict adherence to the most stringent quality requirements. Most of our production facilities are not only regularly inspected by local supervisory bodies, but also by the U.S. health authority. The last time our tablet production facility in Oranienburg was inspected by the FDA, at the beginning of 2005, there were no objections. Apart from routine quality controls and quality assurance measures, we have implemented process and risk analyses to ensure that processes function properly. In addition, we have set up a worldwide system for continuous product improvement (CPI).
- > Due to a reduction of costs per unit, the cost of sale ratio could be decreased to 22 % in 2005. The performance of our production sites is continually monitored in a key performance indicator system in order to document their competitiveness in comparison with other companies. In all production facilities the capacity utilization was further increased. Delivery reliability, precision of planning, and amount of inventory worldwide are monitored and optimized by our supply chain management.

> Cost of sale ratio (COS)	
2005	22.0 %
2004	23.5 %
2003	24.6 %

All production plants comply with high technological standards, and some of them are largely automated. While in prior years our investment activities centered on our sites in Poland, the U.S., Brazil, and Germany (Singen and Oranienburg), the focus in 2005 was on the construction of a new production facility in Ireland and the expansion of the chemical production in India. The plant

* Glossary

in Cork (Ireland) is, after Oranienburg, our second modern, high-quality production site for solids. The new facility ensures that we can continue to supply our strategically important products, particularly Pantoprazole, to the market and enhances our flexibility to react to unforeseeable fluctuations in demand. Following the completion of construction of the new factory building in 2005, now efforts are being made to begin operation of the production plant and to prepare the registration with the health authorities.

Thanks to its experience manufacturing its own products, the unit Operations (manufacture, quality control and quality assurance, purchasing and logistics) is increasingly carrying out contract manufacturing for other pharmaceutical companies. This enables us to further optimize utilization of our global production network, to exploit cost advantages, to generate know-how, and to increase our flexibility.

SUCCESS FACTOR HUMAN RESOURCES

As of December 31, 2005, ALTANA Pharma employed 8,832 people worldwide (2004: 8,200), a roughly 8 % increase on the prior year. 3,770 employees (+2 %)

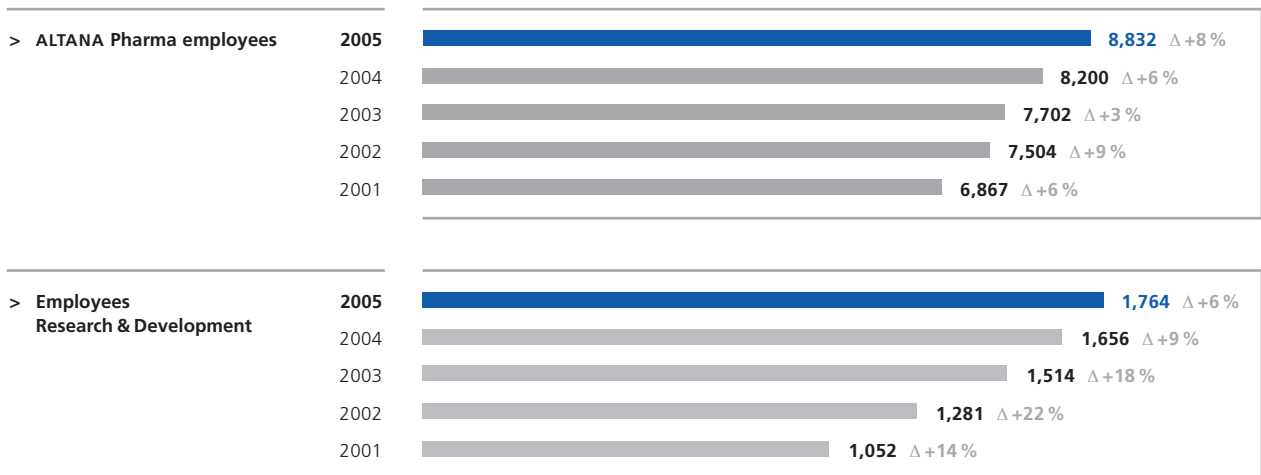
worked for our German companies, and nearly 5,100 for our companies outside of Germany. 57 % of our staff now work for our companies abroad.

68 of 632 new positions were created in Germany, above all in Research & Development and in Marketing & Sales. Outside of Germany, the number of employees grew in the U.S., in Ireland, India, and Australia.

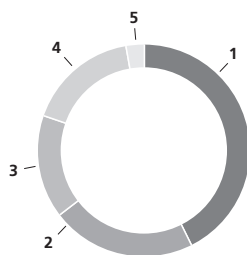
INTEGRATING STAFF AS TO THE REALIZATION OF CORPORATE GOALS

Only when the aims and contributions of individual employees are transparent, then all the resources can be geared ideally to the realization of our corporate strategy. Based on our corporate values and individual target agreements we have therefore introduced a uniform performance review system, a review process, and a new variable compensation system, called Allegro, for our top 250 executives worldwide. The amount of variable compensation takes the success of the ALTANA Pharma Group and the success of the respective individual company into account, and whether individual goals are reached. Allegro is another monetary incentive to achieve our corporate aims.

In addition to the existing stock option plan (SOP), our top talents in North America have been entitled



> **Employees by region**



in € million		2005	2004	Δ%
Germany	1	3,770	3,702	2
Europe excluding Germany	2	1,934	1,805	7
North America	3	1,381	1,090	27
Latin America	4	1,500	1,439	4
Other regions	5	247	164	51
Total		8,832	8,200	8

since 2005 to participate in our market- and industry-related medium-term corporate success via the new ALTANA Pharma Performance Plan AP³, a long-term incentive plan.

SENSIBLY GUIDING MANAGEMENT AND PERSONNEL DEVELOPMENT

We have a great need for up-and-coming managers and executives and intentionally only partly fill this gap externally. Within the framework of our newly founded School of Leadership, an element of the ALTANA Pharmacademy, we impart important management and leadership knowledge to promising new managers as well as acknowledged and experienced ones once a year, and inform them about changes in our corporate strategy. Aside from interdisciplinary exchange, these events, attended by people from all over the world, give participants the opportunity to build and expand their own internal company networks.

We promote international potential, which we identify within the framework of our systematic international talent and strategic leadership reviews, via three management development cycles, among other things. In 2005 we initiated an international staff development circle; in

2006 we are preparing a second for the U.S. in parallel. These management development measures supplement traditional assistance measures, such as further education and training programs, career promotion through individual high-quality management courses at renowned institutions, by sending staff to other countries, etc. The success of our efforts to fill more management positions internally, both in Germany and internationally, is reflected by the increase in the number of our expatriates from 20 in 2001 to 50 in 2005.

DUAL EDUCATION PLAYS AN IMPORTANT ROLE

In the light of the demographic development and our future need for staff, we have expanded our capacities, particularly in scientific and commercial technological areas, to such an extent that we can significantly increase the number of our trainees in the years to come. At the end of the 2005 business year, 158 people in Germany received training in 13 professions.

PROGRESS IN ENVIRONMENTAL PROTECTION, HEALTH AND SAFETY

ENVIRONMENTALLY FRIENDLY RESEARCH AND PRODUCTION

ALTANA Pharma has committed itself to an environmentally friendly production and research at all locations. In line with the considerable increase in production, in recent years environmental protection, safety standards, and the utilization of renewable resources could be continually improved, and a balanced relation could be created between ecological and economic concerns. In these areas ALTANA Pharma meets the most up-to-date, internationally valid standards.

An integrated management system for environmental protection, health, and safety at work ensures that we comply with the standards. The effectiveness of our systems is certified and validated at our German production sites by externally approved environmental auditors, as it was done in 2005 – once again successfully.

SUSTAINABILITY DUE TO CONTINUOUS IMPROVEMENT

In our environmental statements we regularly report on the state of implementation of our demanding goals as well as the measures we take in order to reduce impacts on the environment. Their success is reflected by key performance indicators, by our higher awareness for environmental protection, health, and safety, as well as by the positive results of the certifications and validation of our environmental management system by the environmental auditors.

SAFETY AT WORK AND ENVIRONMENTAL PROTECTION FROM THE VERY OUTSET

One of our goals is to integrate environmental protection and safety into operating processes. The greatest ecological and economic success can be achieved through such measures. For this reason, at our new international tablet production facility in Cork, Ireland, external advisers and internal safety, environmental, and health experts were integrated into the planning and construction phase at an early stage to implement defined criteria and standards. While the buildings and installations were being set up, a safety and environmental management system was established. We involved our neighbors in the process early on and have regularly informed them in newsletters about the planning and current activities.

SAFETY TRAINING CUTS NUMBER OF ACCIDENTS IN HALF

The safety training of our line management at our largest production site in Singen in the past year has heightened and strengthened the safety awareness of all the em-

ployees there. In 2005, the number of reportable accidents was cut in half compared to the prior year. This success is due to 343 safety audits that were carried out at regular intervals in the operating areas. As a result, we have managed to improve safety at work in a sustainable way. We are planning to establish this system also at other locations as of 2006 and to raise the sales force's awareness for this topic. Together with our sales force we have therefore carried out a detailed risk analysis, and follow-up measures are planned to inform them and improve safety motivation.

ECONOMIZING RESOURCES

At the Singen production site, there is a tradition adhering to an economical consumption of drinking water. In spite of increasing production over the past years, the water consumption there has been kept almost constant. Due to further intelligent solutions, water consumption could be cut by 10,560 m³ last year for one facility, corresponding to 6% of the consumption in 2005.

Our energy consumption has grown in recent years as a result of increasing requirements placed on ventilation technology and air processing at pharmaceutical production sites and at our new R&D laboratories. Apart from the usual measures taken to recover energy in ventilation and air-conditioning systems, we also rely on regenerative energies. Hence we are now cooling and heating the third building at our Constance research location also with geothermal energy. These measures help save energy and improve our CO₂ record.

ALTANA CHEMIE >>>

SUSTAINED CORPORATE DEVELOPMENT

“Is strength a question of size?” ...





...“Our recipe for success are tailor-made solutions.”

A portrait of Dr. Christoph Schlünken, a middle-aged man with short grey hair, wearing a light-colored suit jacket, a white shirt, and a blue patterned tie. He is looking slightly to the right of the camera with a subtle smile. The background is a blurred industrial setting with blue lighting and structural elements.

>> Dr. Christoph Schlünken

President of the Effect Pigments Division/
Chairman of the Management Board ECKART group

"ECKART'S PRODUCT PORTFOLIO AND SCOPE OF SERVICES OPTIMALLY COMPLEMENT AND EXTEND THOSE OF ALTANA CHEMIE. THE INNOVATION-DRIVEN SPECIALTY EFFECT PIGMENTS BUSINESS REQUIRES THE SAME EXPERTISE AND STRENGTHS AS THE BUSINESS OF THE THREE OTHER DIVISIONS."



“As a division and independent brand, ECKART will bolster the sustained growth of ALTANA Chemie. The effect pigment market is a growing, sophisticated specialty market and thus perfectly compatible with us.”

Dr. Matthias L. Wolfgruber, President and CEO of ALTANA Chemie



>>> BRANDS STRENGTHEN BRANDS. What actually prompted you to buy your car? In all probability, the outer appearance of your car played a significant role in your decision. For no matter whether it is small and quick, sporty and elegant, or funny and an eye-catcher, almost nobody buys a product he or she cannot identify with.

THE IMAGE HAS TO BE RIGHT

The appearance of a product, whether it is a car, a cell phone, or a shampoo bottle, transports a whole bundle of messages: value, reliability, exclusivity, aggressiveness, fun, etc. The resulting image sticks in our minds. With countless products on the market today which differ only very little from one another in functional terms, a product that grabs your attention has a decisive competitive advantage. In the competition for attention the image of a brand is very important. It enables the product to stand out from the "masses," distinguishes it from competing offers, increases benefits for consumers, and instills trust. If you "know what you have got," the price is less important as a purchase criterion. A successful brand constitutes a capital on the market which is reflected in the awareness, market shares, and ultimately the long-term value of the company.

PROFILING WITH EFFECT

Brands are associated with "necessary" properties, such as the safety and technological standards of a car, as well as with "differentiating" product qualities. In terms of "differentiating qualities," the core expertise of ECKART (which since October 2005 has been the fourth main pillar of ALTANA Chemie) lies in effect pigments, in which the company is the world market leader. Through gloss and brilliance, depth and color gradient, effect pigments give colors new dimensions; effect pigments underline the emotional effects of color and emphasize the product qualities. In some branches of the industry the color is 90 percent responsible for the success of a product. Even if it has an unmistakable, appealing design, a product can be a flop if it has the "wrong" color. Thus it is not surprising that cars are not available in every color. 47 percent of all new cars have silver or gray tones, a

“ECKART’s unique portfolio of high-tech effect pigments and services gives the company a competitive edge and constitutes a growth opportunity.”



much higher percentage than all other colors. Silver stands for state-of-the-art technology, symbolizes speed, expresses elegance and understatement. Silver is very low-maintenance compared to other colors. In addition, the color contributes to safety, because it is more visible in traffic, and it guarantees that the car will have a higher resale value.

If you have a look around supermarkets and department stores, you will notice that many packagings and labels of drinks, creams, and shampoos have metallic effects. Effect pigments create unique rainbow effects on nail polish and give eye shadows and lipsticks an extraordinary gloss. They are found in the plastic of ski boots, MP3 players and cell phones, as well as in gleaming metallic home trainers, racing bikes, car rims, and exterior panels.

BRILLIANT PERSPECTIVES

ECKART has ensured brilliant effects in gold, silver, and non-ferrous metals for many decades. In close contact with our customers, we research and develop innovative solutions tailored to our clients’ specific needs, as well as technologies related to applications and methods. An example: pigment types for new hues. New color trends are given impetus by the dominant materials in

the consumer goods industry, by the fashion world, and, increasingly, by the consumer electronics industry. But the automobile industry still has the strongest impact, and the highest demands regarding quality and technological perfection. The development period of a new color depends on whether new or proven pigment types are used. Up to four years can elapse before a new car paint goes into production.

Every year some 600 new color tones for car paints go on the market. In order to constantly offer our customers special products, we also carry out development projects that we initiate ourselves. In each phase of product development – from the raw material to the high-quality product – special attention is paid to environmental compatibility. This is evidenced by the fact that ECKART is the market leader when it comes to effect pigments for water-based coating systems.

Due to the systematic addition of pearlescent pigments to the existing metal pigment and color product portfolio, ECKART offers its customers an extensive range of high-quality effect pigment-based products for various applications today. As our branded products are developed under conditions very close to actual practice, we possess comprehensive process and application know-how that benefits our customers, and we guarantee industrial reproducibility.

SYNERGIES DESPITE INDEPENDENCE

In addition to having brilliant effects and fascinating, gleaming color tones, coatings with effect pigments from ECKART protect materials from corrosion, climatic conditions, and chemicals. With additives produced by BYK-Chemie, which improve the property profile, manufacture and processing of coatings and plastics, ALTANA will be able to offer its customers even more innovative solutions from one source in the future.



REFINEMENT OF SURFACES

Effect pigments

Effect pigments comprise metallic and pearlescent pigments. The former consist of small aluminum or copper/zinc plates; the latter are mineral based. While surface-covering metallic pigments produce a surface sheen, pearlescent effects are semitransparent and, due to the multiple reflection of light, characterized by a deep gloss familiar from natural pearls.

The most important and sophisticated application of effect pigments are automotive series coatings, which today usually consist of aqueous or water-dilutable coating systems for reasons of environmental protection. ECKART presented innovations from STAPA® Hydrolux, Hydrolac, and Hydrolan at the European Coatings Show (ECS) 2005 in Nuremberg. How can they be recognized? From their bright, brilliant, silver-metallic shine with a glitter effect.

<<<

STRATEGIC FOCUS 2005: CONSIDERABLE EXPANSION OF THE BASIS FOR FUTURE GROWTH

> Strategy

With the acquisition of ECKART, the fourth division called "Effect Pigments," ALTANA Chemie succeeded in moving into a new league. With this step, the critical mass for an independent existence on the stock exchange is achieved.

By acquiring Kelstar International, one of the leading U.S. manufacturers of overprint varnishes for the paper and cardboard packaging industries, "Coatings & Sealants" has bolstered its core business in the packaging area.

> Business performance

ALTANA Chemie records a 3% organic growth despite a weak demand in every market. All the divisions contribute to this development.

The nominal growth including the contribution of the acquired companies amounts to 6%; the return on sales measured in terms of EBITDA still ranges on a very high level at 18%.

> Research & Development

The new "Effect Pigments" division opens up potential for synergies, for instance within the framework of product developments together with the Additives & Instruments and Coatings & Sealants divisions.

> Human resources

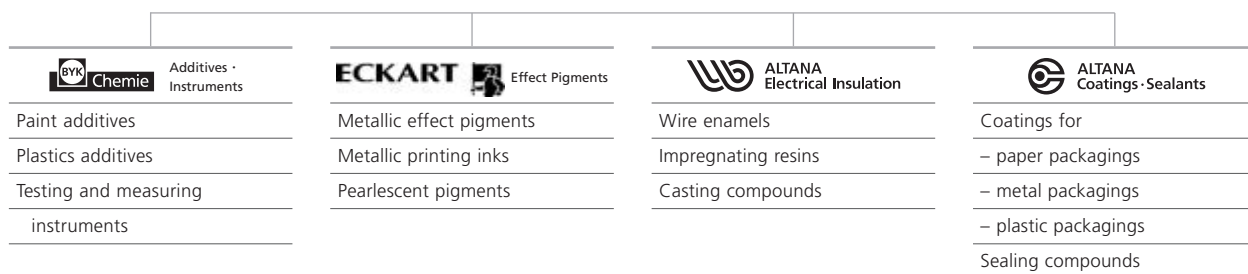
With the integration of ECKART and Kelstar, ALTANA Chemie's workforce increased worldwide to 4,384 employees. As an innovation-oriented company, the qualification of our staff remains an essential investment priority.

> Environmental protection

In 2005, progress was made in terms of responsibility for products, safety at work, health protection, and plant safety, and measures were successfully implemented to protect resources and to reduce emissions and waste.

In financial 2005, sales of ALTANA Chemie rose to €907 million, up by 6% compared to the prior year. When adjusted for effects from targeted acquisitions and divestments, the Specialty Chemicals group posted an organic growth of 3%. The sales and earnings development was burdened by a weakened demand in all marketplaces compared to the prior year and by record-high raw materials price increases. With an EBITDA margin of 18%, ALTANA Chemie continues to be one of the world's fastest growing and most profitable specialty chemicals companies.

ALTANA Chemie



FOURTH PILLAR BOOSTS BUSINESS

Following the acquisition of ECKART, the largest purchase in the history of our company, ALTANA Chemie now stands on four pillars: the “Additives & Instruments”, “Effect Pigments”, “Electrical Insulation”, and “Coatings & Sealants” divisions. ALTANA Chemie is the management company of the globally operating group of companies headquartered in Wesel (Germany).

As a specialty chemicals company, ALTANA Chemie offers coatings manufacturers, coatings and plastics processors, as well as the electrical, electronics, graphics and cosmetics industries worldwide innovative, environmentally compatible solutions with the corresponding special products. We specialize in the broadest sense in surface protection and refinement, be it for cars, food packagings, wires, electronic circuit boards, plastic furniture or lipsticks. Our products range from additives*, to effect pigments, specialty coatings, sealing and casting compounds, and impregnating resins, to testing and measuring instruments. Our products are available in

over 100 countries. This is possible due to a competitive global network. The divisional structure of ALTANA Chemie consists of 37 operating companies with 32 production facilities.

OUR STRATEGIC GUIDELINES

The basis of all our activities is our business model. It is geared to our main corporate goal: Creating value with sustainable high growth rates while maintaining the clearly above average profitability.

GROWTH BY OUR OWN EFFORTS...

The basis of our organic growth is the dynamic expansion of our sales markets. Basically, we concentrate on challenging, growing niche markets in which we maintain respectively strive for leading market positions. In order to participate in an above-average way in the developments of our target markets, we strive for a higher market penetration, first by opening up new customer

markets, second by expanding our business, especially with our largest customers, and third through regional expansion in strong growth markets such as Asia and Latin America. In addition to the dynamism of our sales markets, our innovative strength is the most important engine of our organic growth, which together with our service and global presence, constitutes our decisive competitive advantage. ALTANA Chemie is leading as to the technology of its target applications. In order to maintain or further extend our edge, we intend to further increase our R&D expenses – which are already higher than the industry average – in the short term to more than 6% of our sales.

The core competence of all four divisions of ALTANA Chemie are specialty chemicals – products tailored to our customers' wishes and corresponding services not sold based on the price alone due to their emphasis on specialty chemicals. Such tailor-made "solutions" create a measurable added value for our customers, which can consist in an improvement of the quality, the appearance or performance of their products, or in a simplification of their manufacturing processes. Unique products like these emerge primarily in close cooperation with our international, industrial customers, which is why we are positioned close to our business partners in the value added chain. In addition to developing products in cooperation with our customers, we carry out projects initiated by ourselves, enabling us to set trends in our markets in a targeted and sustainable way.

In order to meet ever higher customer requirements in terms of time, quality, costs, and flexibility, and to ensure the desired high advisory and service intensity locally, all divisions support a worldwide network of application technology laboratories and specialists which is expanded in a specific region corresponding to business developments. Market and customer orientation require speed, flexibility, and qualified employees. We create the scope needed for corporate commitment by means of a flat, decentralized organization.

...AND THROUGH TARGETED ACQUISITIONS

We continually examine whether our portfolio is in line with our business model and our corporate aims, and develop it further to this end by means of targeted acquisitions and divestments. By purchasing complementary products and new technologies such as, for instance, nanotechnology, we gain access to additional markets and customers in existing fields of business. If it is possible in the sense of creating value and in line with the existing business model of ALTANA Chemie we strive to also enter further problem-solving, innovation-oriented businesses. The decisive acquisition criteria are as follows: no dilution of the high profitability of the company, creation of additional corporate value taking into account our capital costs, as well as ensuring a positive earnings contribution after deduction of all acquisition-related costs within two years. On account of our numerous acquisitions in recent years, we have broad experience in the efficient handling of transactions and successful integration of purchased companies.

PROGRESS IN 2005

- > **New "Effect Pigments" division.** As of October 1, 2005, ALTANA Chemie acquired the ECKART group, one of the world's leading manufacturers of effect pigments. The company, headquartered in Fürth, Germany, is one of the most profitable representatives of the specialty chemicals industry. ECKART will operate as an independent, fourth division called Effect Pigments.
- > **Market launch of new, innovative products.** BYK-Chemie, the management company of the Additives & Instruments division, brought numerous new developments on to the market. These include – in addition to defoamers, stabilizers, and wax, rheological, processing, and dispersing additives – as well additives based on nanotechnology. The latter considerably improve the scratch and abrasion resistance of solvent-based coating

and plastics systems. Since they meet FDA requirements, the new defoamers for aqueous overprint varnishes and printing inks can be used in printing inks that come into contact with food.

The BYK-Chemie subsidiary BYK-Gardner introduced several novel measuring instruments. Due to the increasing importance of design for the purchase decision, a harmonious combination of different materials such as leather, synthetics or textile in car interiors is becoming more and more relevant. In order to ensure that suppliers can comply with the very tight tolerances, the spectro-guide gloss S family was developed. The spectro-guide gloss S is the only instrument that can measure color and gloss at the same time. With the help of the wave-scan dual, it will in the future be prevented that substrate quality can telegraph through to the clear coat and cause a "fuzzy" appearance. The color view enables a replicable calibration of the plastic granulate yellowness, an important parameter influencing the color of the final product.

- > **Expansion of the worldwide network of application technology laboratories.** BYK-Chemie opened a new, state-of-the-art laboratory in Pune, 120 kilometers southeast of Mumbai, at the end of 2005. Thus, the company is catering to the growing demand for additives in India and the increased need of customers for on-site service from local specialists.
- > **Synergies realized within "Electrical Insulation."** In March 2005, the subsidiaries Wiedeking and Rhenatech were merged with Beck Electrical Insulation GmbH in Hamburg. Wiedeking, based in Kempen, supports Beck Electrical Insulation in local customer service. The product portfolio was optimized to the target segments electrical engineering and electronics.
- > **Withdrawal from industrial coatings business completed.** With the sale of the Austrian subsidiary Rembrandtin and the coil coating business of Rhenania Coatings, the Coatings & Sealants division withdrew completely from the commodity, non-core business industrial coatings.

In the last two years the portfolio has been largely rebuilt and is now geared to sophisticated solutions for the packaging industry.

- > **Bolstering the core business of packaging coatings and the U.S. market position.** The acquisition of Kelstar International, one of the leading U.S. manufacturers of overprint varnishes for the paper and cardboard packaging industries, immediately enables the Coatings & Sealants division to have a strong market presence in the U.S. and strengthens its profile as a specialist for sophisticated solutions as to flexible packagings.
- > **More efforts to join the different companies.** The structured strategy development was intensified through further elaboration of the strategy evaluation process in the divisions introduced in 2004.

The supply of data and information on demand as well as the effective and efficient management of knowledge are key factors for our business. Therefore, new connecting technologies and data lines were installed worldwide in 2005 and the technology and structure of the computer network were standardized.

OVERVIEW OF SALES AND EARNINGS SITUATION

As opposed to the basic materials chemical industry, fine and specialty chemicals fell victim to high raw materials prices and a worldwide weak demand in the year under review. With a sales volume of €907 million ALTANA Chemie was, however, able to achieve a 6% sales growth in year-to-year terms. Adjusted for exchange rate, acquisition, and divestment effects, operating sales rose by 3%.

In terms of earnings before taxes (EBT), ALTANA Chemie suffered a decline of 8% to €104 million. Primarily the following factors had a negative impact: In addition to the costs for restructuring measures in the Coatings & Sealants and Electrical Insulation divisions and higher depreciations resulting from the acquisition

of ECKART, there was a weakening demand in all the markets. The higher raw materials prices could be passed on to the full extent, however, they had a negative impact on the development of sales and earnings due to inventory effects as well as due to the weakening demand along the value added chain.

As a result, the return on sales (EBT) fell from 13.2% to 11.4% in financial 2005. The EBITDA margin slightly declined from 18.3% to 18.1%. However, ALTANA Chemie continues to maintain a worldwide leading position in the chemical industry.

PERFORMANCE BY REGION

In our domestic market Germany the sales volume rose by 19% to achieve € 142 million – mainly due to acquisitions. International business expanded by 4% to achieve € 765 million thus contributing 84% (2004: 86%) to total sales of ALTANA Chemie.

In European markets outside of Germany the effects from the divestments in the Coatings & Sealants division outweighed the effects of the acquisition of ECKART. Sales amounted to € 313 million, 7% down on the prior year. The ECKART acquisition had a positive impact in the other regions. In North America sales increased by 19% to € 157 million, in Asia by 10% to € 214 million, and in Latin America by 12% to € 48 million.

PERFORMANCE BY DIVISION

Although all four divisions were affected by the weak demand in their target markets, they generated operating sales growth: The Additives & Instruments division achieved a sales growth of 4% to € 364 million, and again made the largest contribution to ALTANA Chemie's total sales for the year, at 40% (2004: 41%). Electrical Insulation recorded sales slightly above the prior year

(+1%). Worldwide, wire enamels, impregnating resins, and casting compounds achieved sales of € 293 million, comprising 32% of total sales of ALTANA Chemie (2004: 34%). With a sales volume of € 175 million, Coatings & Sealants fell by 19% compared to the prior year due to divestments. The continued businesses posted an operating growth of 5%, however. The share of Coatings & Sealants in total sales fell accordingly from 25% to 19%. The new division Effect Pigments has been consolidated since October 1, it generated sales of € 75 million, 9% of ALTANA Chemie's total sales.

In the Additives & Instruments division, additives of BYK-Chemie recorded a 4% growth to € 333 million. Thus the additives business area once again had a stronger expansion than the coatings and plastics market (+1%). Around three fourths of additives sales were achieved with paint additives (€ 234 million; +3%). The highest sales growth was generated by plastics additives (+7%). BYK-Gardner boosted its sales of testing and measuring instruments by 4% to € 28 million.

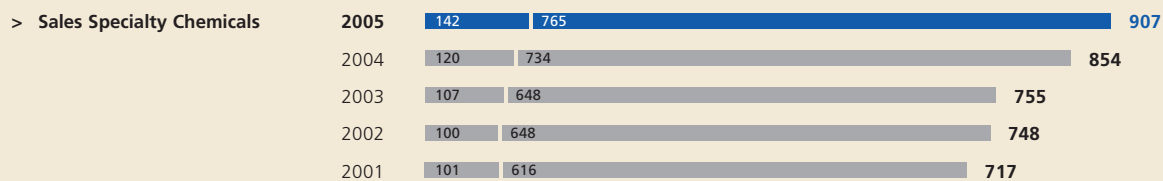
Additives & Instruments achieved around 86% of its sales outside of Germany. With a sales increase of 9%, Germany is the division's second most important single market after the U.S. (+7%).

In 2005, the Electrical Insulation division had to cope with substantial increases of raw materials costs. These costs were – in so far as possible – passed on to the market, which had a dampening effect over the entire value added chain on inventory management and consequently on the customers' development of demand. Some of the higher raw materials costs were absorbed by measures to improve productivity in all plants.

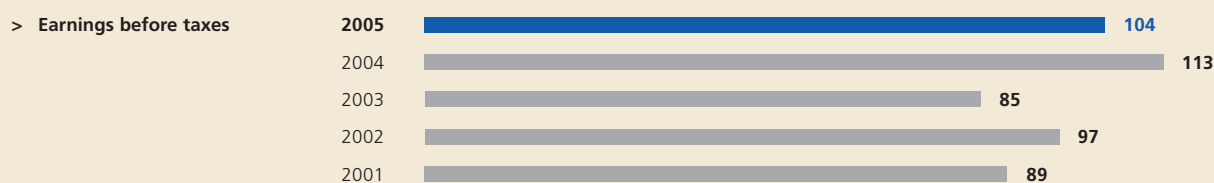
The share of wire enamels in total annual sales of Electrical Insulation amounted to 57% at € 166 million (-2%), and the share of impregnating resins and casting compounds totaled 43% at € 127 million (+4%).

The Electrical Insulation division achieved 96% of its sales outside of Germany. The highest growth was recorded in Asia (+4%) and in Latin America (+22%).

in € million Germany Abroad Total



in € million



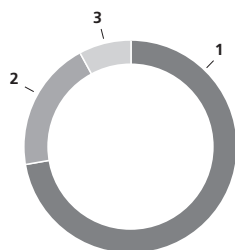
> Sales by region

	1	2	3	4	5
in € million		2005	2004		Δ%
Europe	1	455	454		0
thereof Germany		142	120		19
thereof outside of Germany		313	334		-7
Asia	2	214	195		10
North America	3	157	131		19
thereof U.S.		144	122		18
Latin America	4	48	43		12
Other regions	5	33	31		10
Total		907	854		6

> Sales by division

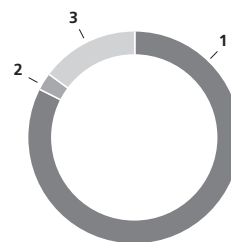
	1	2	3	4
in € million		2005	2004	Δ%
Additives & Instruments	1	364	348	4
Effect Pigments	2	75	-	-
Electrical Insulation	3	293	291	1
Coatings & Sealants	4	175	215	-19
Total		907	854	6

> Sales Additives & Instruments



in € million		2005	2004	Δ%
Paint additives	1	263	253	4
Plastics additives	2	72	67	7
Testing and measuring instruments	3	29	28	4
Total		364	348	4

The sales as part of the divestment program carried out in 2004 and 2005 for a strategic reorientation of Coatings & Sealants reduced the sales volume of the division by altogether almost €90 million. The portfolio adjustment had the strongest impact on the sales development in European markets outside of Germany, which were 36 % down on the prior year. In its home market Germany, sales amounted to €49 million and were 5 % down on the prior year due to divestments. With sales revenues of €9 million, China is a market with growing importance which is also supplied from our own production site in Shunde. In line with the withdrawal from the industrial coatings business, the division began to expand its new core business of coatings and sealing compounds for paper, metal and plastic packaging materials in 2005. A first step was the acquisition of Kelstar International, representing the successful entry of Coatings & Sealants into the U.S. market. After the transaction was concluded on October 21, Kelstar generated sales of €9 million for the division in the remaining weeks of financial 2005. We expect disproportionate sales growth for the U.S. business in 2006 due to the

> Sales Effect Pigments¹

in € million		2005	2004	Δ%
Metallic effect pigments	1	248	254	-2
Pearlescent pigments	2	8	8	11
Metallic printing inks	3	45	40	11
Total		301	302	-

¹The division contributed €75 million (October 1 – December 31, 2005) to ALTANA Chemie's total sales in 2005.

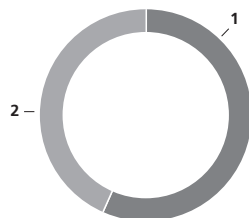
business expansion which was supplemented with the acquisition of Rad-Cure at the beginning of 2006. In 2005, Coatings & Sealants generated around 90 % of its sales in the area of packaging applications and only 10 % in the area of industrial coatings.

The new Effect Pigments division has a total of eight production facilities in Europe and the U.S., marketing its products in over 70 countries. Total sales in 2005, amounting to €301 million, were on the prior-year level (2004: €302 million). In the last three months of the year, during which the ECKART Group was consolidated, sales of €75 million were achieved, 73 % thereof outside of Germany.

CHALLENGES AND MARKET PROSPECTS

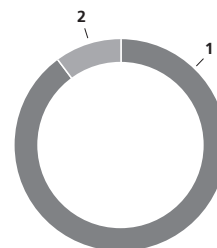
The acquisition of the ECKART group as of October 1, 2005, represented a quantum leap in the development of ALTANA Chemie, not only in terms of the group's size. The workforce increased to more than 4,300 employees worldwide. ALTANA Chemie's sales will grow to

> Sales Electrical Insulation



in € million		2005	2004	Δ%
Wire enamels	1	166	171	-2
Impregnating resins/ Casting compounds	2	127	120	4
Total		293	291	1

> Sales Coatings & Sealants



in € million		2005	2004	Δ%
Packaging	1	157	153	2
Industrial coatings	2	18	62	-71
Total		175	215	-19

well over one billion euros in 2006. Due to its clear emphasis on specialty chemicals and its leading position in closely related markets, ECKART is an ideal strategic addition to ALTANA Chemie, with which we will continue to extend our offer as well as our innovative strength and competence in the market. Moreover, by acquiring ECKART, we have set the strategic course for ALTANA Chemie's listing.

EFFECT PIGMENTS: EXPLOITING SYNERGIES FROM PORTFOLIO AND MARKET OVERLAPS

The expansion to four divisions gives additional impetus to the further development of ALTANA Chemie. The integration of ECKART opens up new synergy potential, particularly in terms of joint product development and market cultivation.

ECKART, the management company of Effect Pigments, offers pigments tailored to the demand of customers, precisely meeting every requirement in terms of visual effects and the desired technical properties always with a focus on processing, supply form, and environmental compatibility. As far as the technical properties of

coatings and plastics are concerned, there are overlaps between Effect Pigments and Additives & Instruments. An example is CERATIX® 8466. The aroma-free wax dispersion developed by BYK-Chemie improves the orientation of ECKART's effect pigments in solvent-based effect basecoats, where the desired change in color, or flip flop effect, is intensified.

In the future, the new Effect Pigments division intends to grow stronger in Asia and the NAFTA region (U.S., Canada, Mexico). To be able to offer our customers in all of the markets the same products, the same quality, and the same degree of specialization, we intend to rapidly expand the presence of ECKART in all growth regions, particularly in China. In addition to the successful import business of the local marketing company, we plan on supplying the Chinese market from our own production in the medium term. The longtime experience of the other three divisions, which already have their own production sites, application technology laboratories, and local sales offices there, and which are in a prime position to take advantage of the economic boom in China, will help Effect Pigments establish its own local

production facilities. Further growth chances are given by the product line pearlescent pigments which is about to be established or the cosmetics market. We also see clear competitive advantage in the fact that ECKART is the only competitor on the market possessing expertise over the entire processing and value added chain in the manufacture of metallic effect pigments – from the production of starting materials to pigment coating and formulation of finished products such as specialty and printing inks.

ADDITIVES & INSTRUMENTS: CONTINUED DYNAMIC GROWTH

BYK-Chemie, the management company of Additives & Instruments, is the world's market leader in the field of highly specialized paint and plastics additives. The business unit has a clear competitive advantage due to its wide spectrum of products and areas of expertise, which is reflected by its portfolio. Its products range from wetting and dispersing additives, for the even distribution and stabilization of solids in liquids, via flow and rheological additives to defoamers and air-release additives, which eliminate air bubbles in coatings and plastics. But BYK-Chemie does not focus solely on additives: Its subsidiary BYK-Gardner offers measuring and testing instruments to measure the surface properties of paints and plastics. Hence BYK-Chemie is the only provider of system solutions for various applications in the paint and plastics industries.

The growth driver is an increasing demand for additives and the need for close-to-the-customer support. We intend to extend our leading position in many markets and product areas in the future by means of increased R&D activities and even closer cooperation with our customers. When it comes to efficient development of customer-oriented and highly innovative products, research, application technology, production, and marketing are closely intertwined.

In the future, nanoparticles will play a more important part in the development of innovative products and solutions. This does not only concern paint and plastics applications, but also electrical insulation applications. As a result, this new technology will be used more across divisions in the future.

ELECTRICAL INSULATION: SUCCESS CONCEPTS FOR SATURATED AND GROWING MARKETS

The products of the Electrical Insulation division – wire enamels, dipping and casting materials – are extremely important for our customers in the electrical and electronics industries, because without these materials the progressive miniaturization of electric machines and the conservation of material and energy connected with this, as well as improved efficiency, would not be possible. We are the leading manufacturer of wire enamels in North America and Europe; in Asia, we have been able to strengthen our market position in the high-performance wire enamels sector thanks to the opening of a second plant in China in 2004. We are also the leading producer of dipping materials in Europe and North America. In the casting compounds sector, we are consistently extending our position in individual special markets and countries.

In order to maintain our leading market position, we are relying increasingly on our innovation in the applications we have chosen. Our size and our extensive product range for electrical insulation systems make us a target customer for many international raw materials suppliers and a supplier of preference of the electrical industry and the main supplier of large international customers.

In the largely saturated markets of Europe and North America, the realization of synergy potential remains a top priority, primarily through consolidation of our production capacities for insulating coatings and resins. In

the Asian market, we are trying to stand out from the competition with our technologically state-of-the-art products and to expand our presence in line with the growth of the market. Our second production site, in Zhuhai near Hong Kong, quickly stepped up its utilization. It is the second facility following the first in Tongling and meets international standards. It went into operation after being built in just one and a half years and has developed to our complete satisfaction and faster than expected. The production volume and the number of products manufactured are increasing rapidly, while the accustomed high quality of our products is maintained.

In terms of casting compounds, we intend to grow by means of innovative products and acquisitions in specialized markets, such as the protection of electronic components.

COATINGS & SEALANTS: STANDING OUT FROM THE COMPETITION BY MEANS OF SYSTEM SOLUTIONS

Coatings & Sealants has a strong market position in overprint varnishes and has a leading technology position when it comes to coatings for flexible packagings which promise rapidly growing sales figures. Regarding closure liner compounds and can end sealants, the division is already one of the world's leading manufacturers, and we have the leading technology position when it comes to water-based can end sealants. We intend to achieve sustained growth in several ways: through regional expansion, by shifting our focus to stronger growing market segments, and by means of innovations.

As a result of our customer-oriented R & D, we expect further clear growth impetus due to our greater proximity to our customers outside of Europe. We will also step up our activities in China. Coatings & Sealants is well positioned to expand its leading market positions in well-defined application areas in Europe and worldwide. This applies especially to water- and UV-based

overprint varnishes for folding cardboards and paper, foil coatings and sealing coats as well as to PVC-free closure liner compounds and can end sealants.

There is a much higher demand for innovative solutions in the area of flexible packagings than rigid packagings. This has for instance to do with the complexity of manufacturing these packagings. 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 of packagings and the growing demand for innovative solutions regarding flexible packagings and more stringent customer requirements, providers of system solutions have growth opportunities. As a result, we will step up our activities in this direction. For example, in addition to sealing compounds, we offer our customers manufacturing equipment that is specifically tailored to more environmentally friendly, water-based sealants.

For plastic and composite packagings, we intend to compile an innovative and extended product range and service portfolio. Projects to this end – also in cooperation with the Effect Pigments division – are already underway, and measures have been taken to improve processes.

NUMBER OF EMPLOYEES INCREASED BY 74 %

As a result of the integration of ECKART and Kelstar, ALTANA Chemie's workforce increased by 74 % to 4,384 employees. As the company has grown, new chances and challenges arise facing the individual employees as well as ALTANA Chemie. Management, education as well as training play a key role in our business driven by knowledge.

Key points of our management model include management by objective, flat structures, managers as entrepreneurs, and locally staffed management positions in

all regions. 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.

The knowledge and abilities of our staff are an essential prerequisite for innovations, continuously better customer service, and a broader product portfolio. The qualification of our employees will therefore remain an investment priority. In the 2005 business year, € 1.3 million was spent in Germany on further training measures (2004: € 1.1 million).

Our international Management Development Program (MDP) particularly promotes especially talented, competitive, and committed employees. The 18-months further training program consists of four components: training, project work, mentoring, and intercultural exchange. Apart from opening up new perspectives, knowledge and understanding concerning the whole company and thus the creation of internal communications networks are promoted. 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 in all regions.

Average sales of € 311 thousand were generated per staff member of ALTANA Chemie in 2005. This high figure compared to the industry as a whole, as well as the very low employee fluctuation (<1%), reflect our employees' outstanding performance, their satisfaction, and their identification with the company. Through an attractive, performance-related, success-oriented compensation system linked to our strategy of sustained

increase in corporate value as well as through an employee participation in the company's performance, we increase the commitment of our employees to the company.

ENVIRONMENTAL PROTECTION FURTHER IMPROVED

OUR ENVIRONMENTAL POLICY

Sustained protection of the environment and human health are integral components of ALTANA Chemie's guiding principles. In 2002, moreover, all of the companies of ALTANA Chemie signed the basic principles of "Responsible Care," a worldwide initiative of the chemical industry. We have committed ourselves to continually improve regarding product responsibility, safety at work and health protection, to enhance plant safety, to work increasingly on preventing dangers from arising, to promote the conservation of resources, as well as to use energy more efficiently, to reduce emissions in the air, soil, and water, to reduce waste, to achieve a better transport safety, and to engage in an appropriate dialogue about these topics. For us, creating a balanced relation between ecological and economic concerns means shaping environmental and health protection in such a way that they contribute to the value creation of our company.

Due to our decentralized corporate structure, so far the individual companies have been solely responsible for implementing the Responsible Care principles. With the growth of our company in mind, we at ALTANA Chemie created a "Corporate Environment, Health & Safety" unit at the beginning of 2006. The environmen-

tal management systems of a large part of our E.U. locations are audited and certified (EMAS or ISO 14001) by independent auditors. This also applies to the two German sites of the ECKART group acquired in 2005. For ALTANA Chemie, an effective improvement process is of even greater importance than certification.

ENVIRONMENTAL PROTECTION RECORD IN 2005

Our efforts relating to environmental protection, health, and safety embrace all areas of our corporate activity – from the development of products to their safe manufacture and storage.

PRODUCT RESPONSIBILITY

During the development of new products the course is already set to a large extent regarding the safety of raw materials and manufacturing processes, resource consumption, and waste. As a result, new product development is an essential focus of our environmental protection activities.

- > An example: "Development of solvent-free coating systems." When conventional coatings and paints are processed, their main components, solvents, are emitted into the atmosphere. In one of the alternative approaches pursued, the volatile solvent is replaced by water (water-based coatings); in another, no solvent is used at all (powder coatings). However, water-based coatings and powder coatings often have certain disadvantages compared to conventional coatings: unstable color tones, poor color gradient, the orange peel effect, or cratering. To remedy these problems, we have developed a number of additives with which water-based and powder coatings can be manufactured in a quality similar to that of conventional coatings.

For environmentally friendly aqueous coating systems, new wetting and dispersing compounds were developed, for example DISPERBYK® 194.

This will continue to be a focus of the R & D work of Additives & Instruments in the future, as there is a need for environmentally friendly coatings in many areas of application. At present, 40% of the research expenses is spent on this area.

- > An example: "Low VOC* finished products." VOCs are volatile organic compounds often used as solvents in paints, coatings, plastics, and carpet floor coverings. We have developed a completely new product series with which we also meet the high requirements of our customers and in terms of VOC.
- > An example: "Nanotechnology-based products." These products can be used to achieve dirt-resistant surfaces and thus reduce the cleaning-related environmental impact. Naturally, we keep an eye out for any information about possible toxicological effects of nanoproducts.

SAFETY AT WORK AND HEALTH PROTECTION

As measurements taken in 2005 show we have managed to prevent an increase in noise despite an expansion of production thanks to several measures, such as encasing of various aggregates, installing soundproof walls, etc.

PLANT SAFETY AND DANGER PREVENTION

When the new production facility at the Wesel location went into operation, we had an external institute examine all manufacturing methods and facilities and, if necessary, adjusted them to meet the latest safety technology specifications. The insights gained will now be applied to other additives sites.

PROTECTION OF RESOURCES

- > Since 2005, we have used well water rather than municipal drinking water to refill water that has evaporated from our closed cooling water system.
- > In order to shape manufacturing processes in an economical way, all production methods are devised in a way that at none of the sites chemical-related impure wastewater emerges necessitating a complex sewage plant. The only exception: at the newly acquired ECKART site in Pori (Finland) the manufacture of pearlescent pigments gives rise to wastewater containing sodium chloride.

ENERGY CONSERVATION

- > Through the use of heat recovery systems in all ventilation facilities installed since 1999 (Wesel: new laboratory building, new production plant, social, and administrative building; Deventer: laboratory and administrative building), it was able to save energy.
- > An energy network enables us to obtain energy for heating and hot water in all of the other buildings at the Wesel site from the production thus making better and more efficient use of vessel systems and of the heat from the exhaust air combustion.

REDUCTION OF EMISSIONS

- > Thanks to a new exhaust air cleaning system for old and new production facilities, emissions at the Wesel site could be reduced by 96%. To make the investment eco-

nomical, solvents that accumulate during vessel cleaning are used instead of natural gas to generate the combustion temperature of 900°C needed to clean the exhaust air. Hence the costs previously needed for disposal are cut.

- > At the location in Ascoli (Italy), an exhaust air combustion plant is planned with which emissions are to be further reduced.

WASTE REDUCTION

- > By cleaning drumming pipes with the help of pig technology the product loss is decreased. Through optimization of powdery catalysts in silicone chemistry, the filter waste in Wesel was reduced by 15%.
- > Through the expansion of tank farms for raw materials whose annual amount is above a certain threshold value, container waste and thus raw materials loss could be reduced by up to 5%.

DIALOGUE

ALTANA Chemie wants to provide its customers with safe products that do not involve additional costs and bureaucracy. Therefore we further entered into an intense dialog in 2005 on the new E.U. chemicals policy REACH on a national and E.U. level, for instance by presenting findings from pilot projects in which we tested the consequences of REACH with considerable resources.



ALTANA >>>

CORPORATE CITIZENSHIP

“Culture promotes growth.” ...



...“Does growth require creativity?”

>> ALTANA CORPORATE CITIZENSHIP

“THE PROMOTION OF EDUCATION IS ONE OF THE KEY CONCERNS OF ALTANA’S CORPORATE CITIZENSHIP PHILOSOPHY. IT IS THE DRIVING FORCE FOR INNOVATION AND GROWTH AND THUS THE FOUNDATION UPON WHICH A PROSPERING SOCIETY AND A SUCCESSFUL COMPANY WILL FLOURISH.”

<p>> Herbert-Quandt-Stiftung The Foundation of ALTANA AG</p> <p>Society and Politics</p> <ul style="list-style-type: none"> > 24th Sinclair House Debate “Europe and Latin America – Toward a Strategic Partnership?” Bad Homburg, April 22/23, 2005 > 25th Sinclair House Debate “Corporate Patriotism in the Age of Global Markets” Bad Homburg, November 25/26, 2005 > “The Battle against Intellectual Piracy in Historical Context,” discussion circle with Prof. Doron Ben-Atar in cooperation with the Einstein Forum, Berlin, November 21, 2005 > “Political Leadership in Democracy,” essay competition for scholarship holders from “Begabtenförderwerke”, German institutions sponsoring the intellectually gifted, and for students of selected universities. Closing date July 10, 2005 <p>Triologue of Cultures</p> <ul style="list-style-type: none"> > “Schools in Triologue – European Identity and Cultural Pluralism,” competition, starting in January 2005 > “Education and Intellectual Discourse in the Middle East,” conference with the Hudson Institute, Washington, D. C., June 9, 2005 > 10th International Triologue Conference “Mediterranean Sea – Gap or Bridge? Perspectives on Cooperation in Education and Science Between Germany and the Arab World,” in cooperation with the GTZ, Berlin, September 12/13, 2005 	<p>> ALTANA Forum for Education and Science</p> <p>Promotion of Excellence in Science and Research</p> <ul style="list-style-type: none"> > Herbert Quandt university chair in “International Management,” Otto Beisheim Graduate School of Management (WHU), Koblenz-Vallendar > ALTANA university chair in “Bioinformatics,” University of Constance > Frankfurt Institute for Advanced Studies (FIAS), Frankfurt am Main > “Zukunftspreis” – prize awarded by the German President (Stifterverband), Berlin, November 11, 2005 <p>Impetus for a Competitive University and Research Landscape</p> <ul style="list-style-type: none"> > “The Path to Elite Universities – Is it Possible in a Land of Hopeless Romantics?”, lecture by Prof. Michael C. Burda, Berlin, June 29, 2005 > “Can Our University System Create a German Berkeley?”, symposium on forming elites at state-run universities, Berlin, December 6, 2005 <p>Fostering a Competitive and Responsible Elite</p> <ul style="list-style-type: none"> > Schloss Hansenberg boarding school, Rheingau/Hesse > Exchange scholarships for Eastern European students and up-and-coming scientists, TU Dresden and University of Constance <p>Improving the Quality of Education and the Education Policy Dialog</p> <ul style="list-style-type: none"> > Post-graduate course “Business and Law” for high-school teachers in the federal state of Berlin 	<p>> ALTANA Cultural Forum</p> <p>ALTANA Art Collection</p> <p>Art Exhibitions at Sinclair House</p> <ul style="list-style-type: none"> > Ernst Ludwig Kirchner “First Vision. Graphics from the Kupferstichkabinett Berlin,” February 15 to April 24, 2005 > Jürgen Partenheimer “Artists Books,” May 10 to July 24, 2005 > Markus Lüpertz/Durs Grünbein “Daphne – Metamorphosis of a Figure,” September 6 to November 6, 2005 > Joan Miró “Fantastic Worlds,” November 29, 2005 to January 15, 2006 <p>National and International Cooperations</p> <ul style="list-style-type: none"> > Jürgen Partenheimer, “Artists Books,” Villa Massimo, Rome <p>Cultural Sponsorship</p> <ul style="list-style-type: none"> > Max Ernst: A Retrospective Metropolitan Museum, New York, April 7 to July 10, 2005 > Artist’s space by Bridget Riley at “Prolog,” the opening exhibition of the Academy of Arts, Berlin, April 3 to June 4, 2005 > Bernhard Heisig: Retrospective Museum of Fine Arts, Leipzig, March 20 to May 29, 2005 > ALTANA Städel Foundation, Frankfurt am Main
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Religious education at the Wilhelm-Heinrich-von-Riehl school

From left to right: Ingrid Wildemann, Nafissa Bouzeriouh and Miriam Kosmova.



HERBERT-QUANDT-STIFTUNG

From words to deeds

From a film documentary, to posters, photo collages, and readings, through to the model of a mosque – the pupils and their teachers had many ideas for the presentation of their projects. Their excitement and their vibrant exchange regarding their own projects and those of other applicants suffused the ALTANA headquarters in Bad Homburg in mid December 2005. Representing their classmates, Katharina Weiß, Janaina De Almeida Favarrato, and Alexander Lauf talked about their visits to the Catholic youth church as well as the Jewish and Moslem communities of their city. The religion group of the 9th grade of the Wilhelm-Heinrich-von-Riehl school in Wiesbaden researched the (leisure time) activities for young people in the three communities regardless of the denomination. Now the group intends to publish continual updates of its findings on its own website to arouse the interest of other pupils. Their school is one of 25 in Hesse and three neighboring German states which has entered

the competition entitled “Schools in Trialogue – European Identity and Cultural Pluralism.” The school competition was announced by the Herbert-Quandt-Stiftung at the beginning of 2005. The impetus for the contest came from a study on “Judaism, Christianity and Islam in European Curricula” conducted by the University of Birmingham for the foundation from 1999 to 2003. The aim of the competition is to “inspire the printed word.”

The project work of the pupils embraces the foundation’s main objective of promoting knowledge, tolerance, and understanding across religions and cultures on a broad basis, now and in the future. If the competition proves successful, the project is not only to be continued but rather expanded with the goal of giving impetus to the educational system. The Foundation for instance seeks to achieve the competition “Schools in Trialogue” to be acknowledged as non-governmental promotional measure for teachers.



"Women in Judaism, Christianity and Islam" – topic of the school project day.



Project presentation on the occasion of the "Market of possibilities" at Herbert Quandt House.

"Our schools are venues where different religions and cultures get together. Mutual understanding promotes tolerance and paves the way for a peaceful coexistence. Therefore interreligious learning is an essential part of education."

Karin Frisch, teacher at the Wilhelm-Heinrich-von-Riehl school in Wiesbaden

In June 2005, chaired by Susanne Klatten, the Board of Counsellors and the Executive Board used the occasion of the 25th anniversary of the Herbert-Quandt-Stiftung to consider its future fields of activity. One of the conclusions drawn was that it is sensible to anchor corporate citizenship more as a foundation of a sustainable public order, which is an essential task of nonprofit institutions. Impetus for this can be provided by well-founded approaches and proven models, as the study on school curricula and the school competition developed from it show in exemplary fashion.

The terms "idea agency" and "provider of impetus" serve as guidelines for the reorientation of the foundation's work. As an idea agency, the foundation seeks to incite, summarize, and prepare academic research for society and politics with a focus on Germany and Europe. As a provider of impetus, it intends to show, based on pilot projects such as "Early Start" and reference projects including the "Exchange Program for Up-and-coming Journalists," that ideas and reform suggestions can be

practicable and "effective." Corresponding to the "Triad of Cultures," this means for the second pillar, "Society and Politics," that on the basis of expert knowledge stemming from the "Sinclair House Debates" and additional "think tank" work, persistent dialog is sought with official policymakers, especially in Berlin. The focus in 2005 was on the subject of "Europe and Latin America – Toward a Strategic Partnership?". In a first step the foundation, together with young experts from three continents, drew up a theory paper on how to improve foreign-policy relations within Europe and with the two Americas. The 24th Sinclair House Debate picked up on this topic and formulated the following as a joint aim: making the world safer through democratization, promoting the idea of a free market economy and liberal trade, and fighting to guarantee the personal liberty of every individual. As a follow-up project resulting from the Sinclair House Debate, ALTANA and the TU Dresden set up a student-exchange program to promote especially talented students from Mexico and Brazil.

“... A university education is not only the crowning completion of the education itself but also the source of our intellectual capacities of tomorrow...”



ALTANA FORUM FOR EDUCATION AND SCIENCE

From state-run to competitive elite universities

Education, science, and research are key factors for the society's ability to prosper in the future and for Germany as a location for business. However, the competitiveness of Germany's educational and university-level institutions has been eroding for years, and is insufficient compared on the international level. The universities are considered too bureaucratic, slow, and inflexible – simply not attractive enough in the “war for talent” on the global education market. The brain drain – top German researchers relocating to other nations, in particular the U.S. – has not been reduced significantly despite concerted efforts. An innovation-driven, research-oriented company like ALTANA, which is dependent on qualified staff,

scientific excellence in fundamental research, and an innovation-friendly environment, cannot simply observe this development without acting.

At least some of the responsible people now seem prepared to take new paths, and universities are striving increasingly for more autonomy. In addition, policymakers have recently showed an interest in “fostering an elite,” and the subject of tuition fees is no longer a taboo topic. Following lengthy discussions in the late summer of 2005, the German federal government and the federal states reached a consensus on the “excellence initiative” (formerly referred to as “elite universities”). But all of this will not be enough to become internationally

“... I am firmly convinced that creative ideas and concepts will emerge from responsible autonomy and competition – concepts that may solve the shortage of resources [at German universities] ...”

From “The Path to Elite Universities” by Prof. Michael C. Burda

competitive, because most German universities are still run like public authorities and their budgets are decreasing from year to year. Today the issue has a high priority not only in politics, but also in business and business associations.

ALTANA has always viewed education as being intertwined with society as a whole, and for many years it has been involved in education and university issues as a “corporate citizen.” Since the end of 2003, numerous activities in the fields of education, research, and talent promotion have been bundled in the ALTANA Forum for Education and Science. The forum coordinates the company’s diverse activities in these areas, promotes forward-looking approaches with concrete projects, and makes contributions to the current debate on education. What does the path leading to a German elite university look like? Why are German universities not in the “top ten” in international rankings? How can German universities become attractive for talent from all over the world? To deal with these and other questions, the Forum engaged the celebrated economics professor Michael C. Burda from Humboldt University in Berlin at the beginning of 2005. As part of ALTANA’s Parliamentary Evening in June 2005, Professor Burda presented the ten point program he developed. At its core the

program calls for a consistent “denationalization” of German universities. According to Burda, if Germany is to have independent, internationally attractive universities in the medium term, private financing sources such as tuition fees, grants, third-party research funding, and donations from business are indispensable. In the future, his program stipulates, a university education should be offered as a high-value service based on market and competition principles. This also corresponds to the main requirements of the participants at the symposium entitled “Can Our University System Create a German Berkeley?” The ALTANA Forum for Education and the Federal Confederation of German Employers’ Associations (BDA) invited personalities from science, business, and politics to the symposium in Berlin, held in early December 2005, to exchange opinions. On a par with renowned private universities like Harvard and Stanford, the University of California, Berkeley manages as a state university to occupy top positions in international “rankings”. At the symposium, the underlying conditions needed for fostering an elite, reform approaches, and future financing possibilities were discussed. The education policy debate will continue in the first half of 2006 with a symposium entitled “Lisbon – or the Departure to a Europe of Knowledge.”



Attending German universities has become less attractive for German and foreign elites.

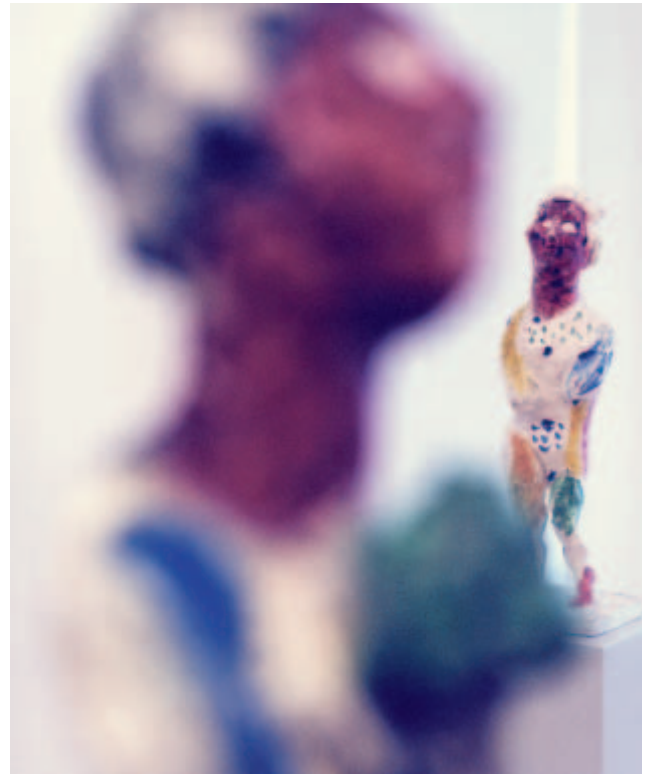


“Can our university system create a German Berkeley?” asked ALTANA and BDA experts on the occasion of a symposium.

Left:
Untitled (Daphne),
2002
Watercolor
and charcoal

Right (front):
Daphne 3, 2002
Bronze, composed
in color

Right (background):
Daphne 6, 2002
Plaster, composed
in color



ALTANA CULTURAL FORUM

The idea of transformation

“Daphne, Peneus’ child, was Apollo’s first love; not the result of blind coincidence – no: the wild wrath of Cupid [Amor]. ...” The artist Markus Lüpertz and the poet Durs Grünbein repeatedly focus on classical mythology in their works. In an encounter with Ovid’s metamorphoses, Lüpertz created the monumental bronze sculpture “Daphne” for ALTANA in 2001/2002. The work represents the final stage of a process of artistic creation which – from the first sketch to the final sculpture – could be witnessed for the first time in the exhibition “Daphne – Metamorphosis of a Figure.” The show included 60 drawings, watercolors, and etchings, as well as 30 plaster and bronze models, so-called “bozetti.” Durs Grünbein occupied himself with Lüpertz’ sculpture and Ovid’s metamorphoses and developed a small cycle of poems about the woman who escapes the god Apollo

by transforming into a laurel tree. Grünbein, who has won both the Büchner and Hölderlin prizes, was commissioned by the ALTANA Cultural Forum to write the poem “Daphne, großäugige” (Daphne, big-eyed) in 2005. At the exhibition, manuscript pages and the final text version were on display, providing insight into the genesis process. In Grünbein’s work, historical motifs and models undergo a compelling symbiosis with contemporary language. Both the poet and the artist deal with mythological themes in conjunction with current events. Both see (divine) power, love, wrath, and destruction as recurrent themes that have a strong impact on society.

A previous exhibition entitled “Jürgen Partenheimer – Artists Books,” which was mounted in cooperation with the Museum Burg Wissem in Troisdorf and the Villa Massimo in Rome, also presented a lively dialog between

“Her slim body, rooted, represented the trunk,
The trembling fingers turned into leaves,
Her arms – lifted up – into rigid branches.”

Excerpt from the poem “Daphne, big-eyed” by Durs Grünbein

“art and literature.” Partenheimer discovers the medium of the book as an independent artistic space. In addition to the “Roman Diary” which the artist created during a stay at the Villa Massimo, his latest lithography cycle was presented “straight from the press,” together with a current volume of poetry by Cees Nooteboom. Like Durs Grünbein, Nooteboom, a Dutch writer, also read from his work, and the reading was also very well received. Subsequently the exhibition was taken over by the Book Museum of the Saxon State Library – Dresden State and University Library (SLUB).

The 2005 exhibition year had begun with a presentation of graphics by Ernst Ludwig Kirchner from the Kupferstichkabinett in Berlin. On the 100th birthday of the German expressionist artists’ group “Brücke”, drawings, graphics, drawn postcards, and illustrated books by the group’s probably most important representative were shown at the Sinclair House. Following exhibitions of works by Karl Schmidt-Rottluff, Emil Nolde, and Max Beckmann, the ALTANA Cultural Forum again focused on a German expressionist artist. In the program accom-

panying the exhibition, two members of the Schauspiel Frankfurt read from Ernst Ludwig Kirchner’s letters. Among the many people who attended the reading were also pupils from the Schloss Hansenberg boarding school, which is sponsored by ALTANA. Apart from the readings, guided tours and workshops were offered again for all of the exhibitions.

With “Joan Miró – Fantastic Worlds” the final exhibition of the year, the ALTANA Cultural Forum presented an extensive selection of print graphics from the Fundació Joan Miró in Germany for the first time. Unaccustomed motifs and techniques cast a “new” light on the seemingly popular work of the Spanish artist, who is one of the most important 20th-century artists.

Aside from organizing its own exhibitions, the ALTANA Cultural Forum helped, sponsoring, among others, the artist’s space of the celebrated British painter Bridget Riley for the opening exhibition entitled “Prolog” of the Berlin Academy of the Arts. The sponsorship gave rise to talks about future possible joint projects.



Untitled (Daphne), 2002
Etchings

Daphne 5, 2002
Bronze, composed
in color



Head of Daphne, 2003
Plaster, composed in color

ALTANA GROUP: TENTH RECORD YEAR IN SUCCESSION

> Environment

The global economy continued to show a strong growth in 2005, although the dynamic strength slightly weakened towards the middle of the year. The growth engines U.S. and China clearly gathered momentum. The global pharmaceutical market once again expanded considerably. Specialty chemicals did not benefit from the positive trend to the same extent as the remaining Chemical industry.

> Business performance

In financial 2005, ALTANA for the first time exceeded the €3 billion sales threshold. At €3.3 billion, sales grew by 10% and earnings increased by 12% to achieve €684 million. The excellent Pharmaceuticals business contributed €2.4 billion (+12%) and the Specialty Chemicals business had a share of €907 million (+6%). The highest sales growth was achieved in Europe, Asia and Latin America.

> Earnings, financial, and asset situation

The earnings volume of €684 million exceeded our own expectations. The EBT return on sales, amounting to 21%, was once again clearly above the market average. As in the prior nine years, the dividend will grow in line with net earnings, by 16% to €1.10 per share.

The excellent business performance also reflects the operating cash flow which considerably increased in year-to-year terms.

In 2005, ALTANA again achieved an excellent return on the capital employed with 22.7%. Adjusted for acquisitions, the ROCE amounted to 27.2%. The absolute value added accounted for €294 million (+12%).

Total assets of ALTANA grew by 34% to €3.6 billion, mainly due to the acquisition of the ECKART group. Due to acquisitions, the equity ratio decreased from 61% to 55%. Group liquidity amounted to €604 million even after the relatively large purchase.

> Capital expenditure

Investments into the future achieved a new record level in 2005. Research & Development expenses were stepped up by 4% to €465 million. ALTANA invested €246 million into property, plant and equipment and intangible assets, an increase of 9% compared to the prior year.

> Forecast 2006

In 2006, ALTANA anticipates the dynamic business trend to continue. The strategic further development of the ALTANA Group with the planned independent operation of ALTANA Chemie and the opening of ALTANA Pharma for a strategic partner will be the focus of activities.

STRATEGIC FURTHER DEVELOPMENT OF THE ALTANA GROUP PREPARED

GENERAL ECONOMIC AND BUSINESS SITUATION

FURTHER ROBUST GLOBAL ECONOMIC GROWTH IN 2005

The global economy continued to show strong growth in 2005, posting an estimated increase of 4.3 % (2004: 5.1 %). The sharp rise in oil prices burdened economic development in the oil-importing industrial countries less than had been expected. The volume of world trade is expected to have expanded considerably stronger by 7.0 %, yet not as much as in the prior year (2004: 8 %).

The global economy was again driven by North America and in Asia, particularly by China and India. The U.S. economy continued to be robust (+3.5 %) thanks to continued high private consumption. The Chinese economy, which is expected to have grown by 9.5 %, did not lose any of its great dynamic strength, despite all the scepticism. India's economy expanded by 6.8 % in 2005, and the remaining Southeast Asian threshold countries also recorded above-average growth rates (+4.1 %). While the Japanese economy reported a strong upswing in the first half of the year thanks to a strong rise in domestic demand (+2.5 %), which started to slow down in the middle of the year, the euro region showed a counter-tendency. The economy grew only moderately, by estimated 1.4 %, not least on account of the sluggish development of the German economy (+0.9 %). Germany was able to recover slightly thanks to booming exports (+6.2 %) and increased investments (+4 %). An upturn in investments is considered the first sign of an economic upswing. Private consumption continued to stagnate.

The rising demand for raw materials and the high crude oil prices helped boost growth in a few Eastern European countries, especially in Russia (+6 %), and in Latin America. Latin America continued to show robust economic growth (+6.4 %), but at a somewhat slower pace. In Brazil, an increase in exports contributed to an overall economic stability (+3.1 %).

GLOBAL PHARMACEUTICAL MARKET POSTS SLOWER GROWTH

According to IMS Health, the 13 most important pharmaceutical markets (comprising roughly 90 % of the global pharmaceutical market) expanded considerably in 2005, by 5 % to U.S. \$366 billion. The growth drivers included increasing demand and the launch of innovative drugs. The North American pharmaceutical market grew by 5 %, the most important European markets on average by 3 %. The German drug market underwent a remarkably positive development, reporting growth of 7 %. The Japanese pharmaceutical market expanded by 6 %. In addition to Japan, the world's second-largest drug market, the strongly growing Chinese and Indian markets are gaining in importance. The Latin American pharmaceutical markets grew by 21 % in U.S. dollars due to currency effects.

SPECIALTY CHEMICALS HARDLY BENEFIT FROM GROWTH IN THE INDUSTRY

For 2005, total sales of the German chemical industry is expected to increase by around 7 % to €152 billion. Production expanded by roughly 7 % in year-to-year terms. The last time the German chemical industry achieved comparably high growth was in 1995.

Producer prices for chemical products rose by 3 % on average. The main reason for the continued high price level was the sharp rise in energy and raw materials prices.

Exports were again the growth driver in 2005, increasing by 7.5 % to €103.7 billion. Imports climbed even more sharply than exports, by 10 % to €73.2 billion. The positive development did not have an impact on the job market. In 2005, the employment rate was roughly 1 % lower than in the prior year.

As opposed to the rest of the chemical industry, fine and specialty chemicals fell victim to a worldwide weak demand, which could only be overcome in the third quarter. The fine and specialty chemicals industry benefited in particular from increasing domestic demand.

INDUSTRY-SPECIFIC FRAMEWORK CONDITIONS

In Europe, measures to dampen rising costs in government health systems were again a top priority in 2005. The regulation of drug prices continues to be viewed as one of the most important control instruments, and is slowing growth in European pharmaceutical markets.

In Germany, the mandatory discount was decreased from 16 % to 6 %. At the same time, further reference prices* were resolved and introduced, also for patent-protected drugs, in order to cushion the effects of the mandatory discount reduction. Reference prices are also becoming more and more a focus in other European countries.

In the U.S., there were no changes of legislation in 2005 that had a direct impact on the U.S. pharmaceutical market. The lower growth of the U.S. pharmaceutical market compared to the prior years is attributed to a more frequent use of generics*.

In the middle of December 2005, the E.U. Competition Council agreed on guidelines for the reorganization of the E.U. chemicals law. Based on this draft, the registration, evaluation, and authorization (approval) of chemicals (REACH) could go into effect as early as 2007. REACH would become effective right after the conclusion of the E.U. directive at the end of 2006, as an implementation in national law is not required. Due to important changes in the original draft of the law, the registration costs arising from implementation of REACH will probably be lower than they were estimated to be. Nevertheless, REACH will have an impact on the chemical industry.

BUSINESS PERFORMANCE IN 2005

OVERVIEW OF SALES AND EARNINGS

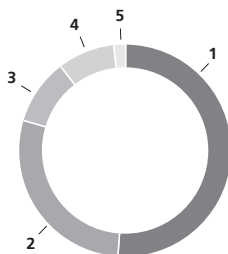
In financial 2005, ALTANA exceeded the €3 billion sales threshold for the first time. Net sales rose by 10 % to €3.3 billion. Adjusted for exchange rate as well as divestment and acquisition effects, ALTANA achieved an operating sales growth of 8 %. As a result, ALTANA slightly outperformed its own forecast. The extraordinary dynamic trend with a significant double-digit growth in earnings of ALTANA Pharma on the one hand, and the sustained high operating earnings level of ALTANA Chemie on the other hand provides us with an excellent starting base for the strategic further development of the ALTANA Group.

SALES GROWTH IN EVERY REGION

At €2.7 billion, international business accounted for 82 % of total sales. This corresponds to an increase of 9 % on the prior year. Sales growth differed significantly by region. In the European markets outside of Germany, ALTANA achieved sales of €1,093 million, an increase of 8 %. The development of domestic business was particularly satisfying. In Germany, its home market, ALTANA reported sales of €581 million, 18 % up on the prior year. In North America, we generated sales of €927 million, a 5 % increase. Due to exchange rate effects, among other things, sales in Latin America rose by 18 % to €327 million. Sales in Asia grew by 14 % to €285 million.

	in € million		
	Germany	Abroad	Total
> Sales Group			
2005	581	2,691	3,272
2004	491	2,472	2,963
2003	482	2,253	2,735
2002	490	2,119	2,609
2001	478	1,830	2,308

> Sales by region



in € million		2005	2004	Δ%
Europe	1	1,674	1,504	11
thereof Germany		581	491	18
thereof Europe excluding Germany		1,093	1,013	8
North America	2	927	880	5
thereof U.S.		795	769	3
Latin America	3	327	278	18
Asia	4	285	250	14
Other regions	5	59	51	16
Total		3,272	2,963	10

BUSINESS PERFORMANCE OF THE DIVISIONS

In 2005, ALTANA Pharma achieved sales of almost €2.4 billion, 12 % up on the prior year. Adjusted for exchange rate effects, operating sales climbed by 10 %. International business grew by 11 % to reach €1.9 billion.

Domestic sales developed at an especially dynamic pace, amounting to €439 million, an 18 % increase on the prior year. Sales in the European markets outside of Germany also rose significantly, by 15 % to €780 million. At €770 million, North American sales showed an increase of 3 %. Latin America rose by 19 % to €279 million. International business accounted for 81 % of total sales in 2005.

ALTANA Pharma further strengthened its strategic core business, Therapeutics, achieving sales of €2.1 billion with prescription drugs. In 2005, the main sales driver Pantoprazole (PANTOZOL®/PROTONIX®), a drug

used to treat acid-induced gastrointestinal diseases, again achieved double-digit growth in worldwide market sales, all sales partners included. Sales rose to €2.8 billion, corresponding to an increase of 12 %. ALTANA's own sales of Pantoprazole climbed to almost €1.4 billion, likewise up by 12 % on the prior-year figure.

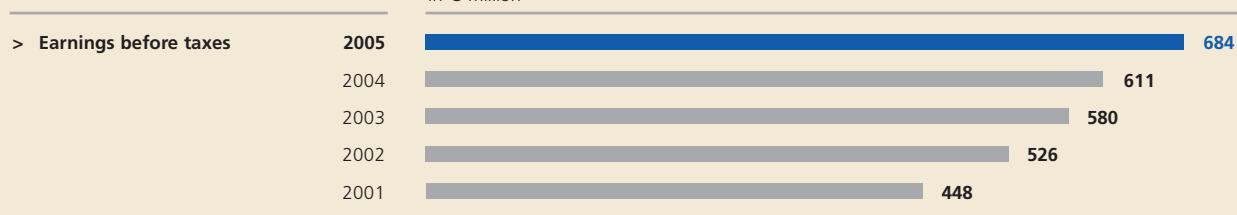
ALVESCO®, our inhaled corticosteroid launched in 2005, achieved sales of €8 million. At the end of 2005, ALVESCO® had been approved in 34 countries and launched in 16 countries. Further market launches are planned for 2006.

ALTANA Chemie increased its sales to €907 million in 2005, up by 6 % on the prior year. This development was influenced by targeted divestments and acquisitions. Adjusted for exchange rate, divestment as well as acquisition effects, operating growth amounted to 3 %.

Mainly due to acquisitions domestic sales rose by 19 % to €142 million. Sales outside of Germany climbed by 4 % to €765 million. Regional performances are heavily influenced by portfolio adjustments. In Europe (excluding Germany), the effects from the divestments in the Coatings & Sealants division are stronger than the effects from acquisitions, and as a result sales were down 7 % on the prior year, amounting to €313 million. In the other regions, acquisitions had positive effects. In North America sales rose by 19 % to reach almost €157 million; in Asia by 10 % to €214 million; and in all other regions by 11 % to €81 million. International business accounted for 84 % of total sales.

Generating sales of €364 million, the largest sales driver was the Additives & Instruments division (+4 %), followed by the Electrical Insulation division, which achieved sales of €293 million (+1 %). At €175 million, sales of Coatings & Sealants were down by 19 % on the prior-year figure, mainly due to divestments. The continued businesses achieved a growth of 5 %. The Effect Pigments division (ECKART group), which has been consolidated since October 1, 2005, contributed €75 million to sales.

in € million



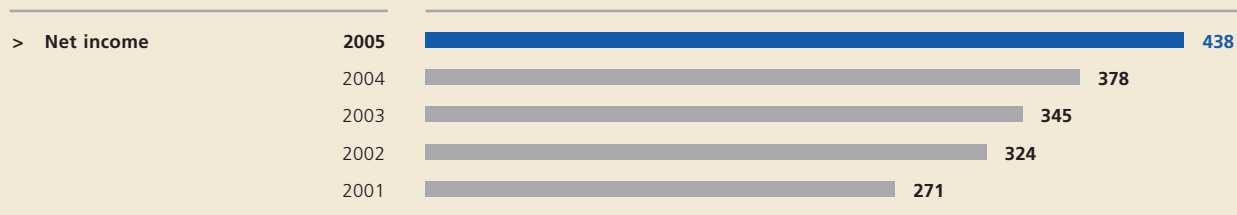
> Sales and earnings by division

in € million	Sales		Earnings before taxes		Return on sales in %	
	2005	2004	2005	2004	2005	2004
Pharmaceuticals	2,365	2,109	608	524	25.7	24.8
Chemicals	907	854	104	113	11.4	13.2
Holding	–	–	-28	-26	–	–
Group	3,272	2,963	684	611	20.9	20.6

> Structure of consolidated income ALTANA Group

	2005		2004	
	in million €	in %	in million €	in %
Net sales	3,272	100.0	2,963	100.0
Operating income	676	20.7	604	20.4
Financial income	8	0.2	7	0.2
Earnings before taxes (EBT)	684	20.9	611	20.6
Income before minority interests	438	13.4	378	12.8
Earnings per share (in €)	3.23	–	2.78	–

in € million



> Key figures by division

in € million	ALTANA Group			ALTANA Pharma			ALTANA Chemie		
	2005	2004	Δ %	2005	2004	Δ %	2005	2004	Δ %
Sales	3,272	2,963	10	2,365	2,109	12	907	854	6
EBITDA	815	725	12	691	605	14	164	156	5
EBIT	676	604	12	604	523	15	113	118	-4
EBT	684	611	12	608	524	16	104	113	-8

EARNINGS SITUATION**FURTHER SIGNIFICANT INCREASE IN EARNINGS**

ALTANA achieved a 12 % increase in earnings before taxes (EBT) in 2005. The earnings volume of € 684 million exceeded expectations. At a level of 21 %, the return on sales (EBT) of the Group was again substantially above the market average. The same applies to the operating returns (EBITDA) of both divisions: the EBITDA margin of ALTANA Pharma remained unchanged at roughly 29 %, while the margin of ALTANA Chemie amounted to around 18 %.

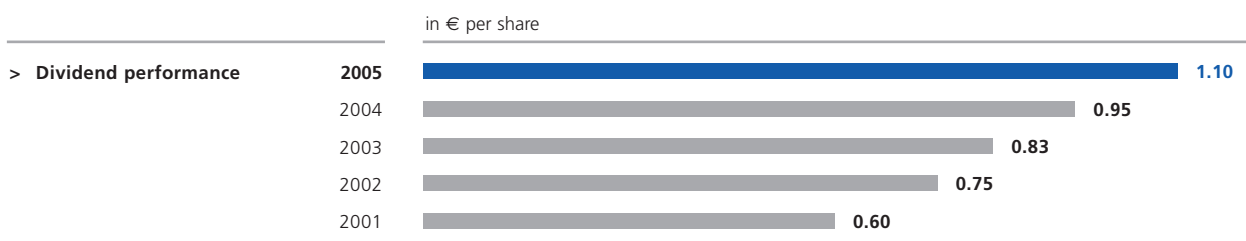
TENTH DIVIDEND INCREASE IN SUCCESSION

As in the prior years, ALTANA shareholders will fully participate in the positive earnings development. The dividend will grow in line with net earnings. The Management and Supervisory Boards will propose a dividend increase of 16 %, amounting to € 1.10 per share (2004: € 0.95 per share) at the Annual General Meeting on May 2, 2006. For the first time the total dividend of € 154 million will be significantly higher than the nominal capital of € 140 million.

FINANCIAL AND ASSET SITUATION**KEY FIGURES FOR GROUP CONTROL**

A number of key figures are used company-wide to control the ALTANA Group. The main key figures, gathered across the Group, which are used to control the ALTANA Group, are sales, the earnings figures EBITDA, EBITA, EBIT, and EBT, as well as return on capital employed (ROCE). The ROCE measures the return on capital employed by relating operating performance to capital employed. The earnings figures correspond to earnings before taxes (EBT), earnings before taxes and financial income (EBIT), earnings before taxes, financial income and goodwill impairment (EBITA), and earnings before taxes, financial income, depreciation and amortization (EBITDA). The key figures used to control the ALTANA Group ensure an appropriate, realistic depiction of the operating business. As a result, they can be used to control the ALTANA Group at short notice.

In addition to these quantitative key figures, at the level of the corporate divisions or in suborganizational areas, non-financial, qualitative key figures are employed, primarily to control the operating business. They make



it possible to compare the current business performance with medium- and long-term strategic goals.

To compare the strategy with business performance, various operational instruments are used, particularly portfolio analyses. The importance of the key figures is underlined by the direct connection with the compensation system of the ALTANA management based on the parameters ROCE and EBITA. Using a relative and an absolute parameter ensures that emoluments can only increase if there is profitable growth (refer to the compensation report on pages 28 ff).

ALTANA CREATES VALUES

2005 was another particularly successful business year for the ALTANA Group, in which we achieved record figures as to sales and earnings. The investments in the company's future were also at a record-breaking level, particularly due to the acquisitions in the Chemicals division. In 2005, ALTANA again achieved an excellent return on the capital employed, 22.7 %, which, how-

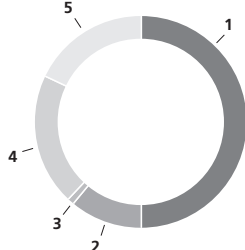
ever, was less than the prior-year figure of 25.5 %. The reason was the investment-related increase in the capital base which was higher than the growth of the operating performance. The increase in the capital base, by 30 % to € 1,966 million, is mainly attributable to the acquisitions made by ALTANA Chemie. Adjusted for these acquisition effects, the ROCE amounted to 27.2 % in 2005. Operating performance in the period under review rose particularly due to the excellent earnings of ALTANA Pharma. The tax ratio fell to 35.9 %. Operating earnings of the Group climbed by 16 % to € 446 million. In financial 2005, the ALTANA Group earned the costs of capital and created value. The absolute value added amounted to € 294 million, 12 % more than in the prior year.

Regular examination of the medium-term costs of capital (after taxes) of the ALTANA Group led to a decrease in costs of capital from 8.0 % to 7.7 %. The reason for this is the increased external financing due to the acquisitions made by ALTANA Chemie.

> Statement of value added of the ALTANA Group

in € million	2005	2004
Operating capital		
Equity	1,832	1,551
Pension provisions and accruals	320	268
Debt	223	77
Cash and cash equivalents and securities	-592	-580
Eliminated goodwill and cumulated goodwill amortization	183	193
	1,966	1,509
Operating performance		
Operating income	676	604
Interest on pension provisions and accruals	19	16
Correction goodwill impairment	-	-
Calculatory taxes	249	236
	446	384
ROCE (return on capital employed)	22.7 %	25.5 %
Cost of capital	7.7 %	8.0 %
Relative value added	15.0 %	17.5 %
Absolute value added	294	263

> ALTANA value added 2005



		%
Employees	1	50
Shareholders	2	11
Lenders	3	1
Companies	4	20
Public authorities	5	18

In financial 2005, ALTANA achieved a value added of €1,383 million, 13% more than in the prior year. Half of it accrued to the employees. Lenders had a 1%, and public authorities an 18% share in the value added. As a result, 11% was available for the shareholders and 20% for strengthening the company.

2005 BALANCE SHEET: SOLID**ASSET AND CAPITAL STRUCTURE**

In 2005, total assets of the ALTANA Group grew by €927 million (+34%) to €3,633 million, primarily due to the acquisition of the ECKART group, which increased the balance sheet total by €738 million. Within the framework of normal investment activities and through additions to intangible assets in conjunction with acquisitions made by the Chemicals division, long-term assets increased by €792 million to €1,931 million. The share of long-term assets in total assets was 53% (2004: 42%) as of December 31, 2005.

Short-term assets were up by €135 million to €1,702 million. Inventories and receivables climbed by €111 million to a total of €1,098 million, accounting for 30% of total assets at year-end (2004: 37%). The predominant part of the growth was a result of the first-time consolidation of the ECKART group. On the balance sheet date, cash and cash equivalents – comprising securities and cash in banks – amounted to €604 million (2004: €580 million), 17% of total assets (2004: 21%).

Due to acquisitions in the year 2005, the capital structure changed slightly. At the end of the year, the equity of the ALTANA Group totaled €2,013 million

> Key return figures

in %	2005	2004
Return on sales		
before interest, taxes, depreciation and amortization	24.9	24.5
before interest and taxes	20.7	20.4
before taxes	20.9	20.6
after taxes	13.4	12.8
Return on equity		
before taxes	37.4	39.5
after taxes	23.9	24.4
Total return on capital before taxes	21.9	23.6

(+22 %). The equity ratio decreased from 61 % in the prior year to 55 %. However, the share of short-term liabilities (€ 1,070 million) rose to 30 % (2004: 25 %), primarily on account of higher financial liabilities in connection with the acquisitions in the Chemicals division. Long-term liabilities, mainly provisions, remained virtually unchanged at 15 % of total assets (2004: 14 %), amounting to € 550 million.

Even after completion of the relatively large acquisition made by the ALTANA Group in 2005, its net cash position totaled € 215 million at year-end (2004: € 522 million).

SUSTAINED GOOD CASH FLOW

In 2005, the cash flow from operating activities amounted to € 645 million, significantly up on the prior year (2004: € 427 million). The higher cash flow was due to increased earnings, higher depreciations, and relatively favorable changes in working capital.

The cash flow used in investing activities was equivalent to € 637 million (2004: € 192 million). This was mainly due to ALTANA Chemie's acquisitions – in addition to the expansion of research and production capacities and investments in intangible assets, primarily for the acquisition of product and name rights by ALTANA Pharma in the U.S.

The positive cash flow used in financing activities of € 130 million (2004: € -201 million) comprises the cash flow from the dividend payment for the prior year (€ 129 million) and the higher cash flow from financial liabilities raised (€ 237 million) used to finance acquisitions made by ALTANA Chemie.

At year-end the Group's liquidity, consisting of securities and cash and cash equivalents, amounted to € 604 million (2004: € 580 million).

> Structure of consolidated balance sheet

	in € million	2005 in %	in € million	2004 in %
Long-term assets	1,931	53.2	1,139	42.1
Inventories and receivables	1,098	30.2	987	36.5
Cash and cash equivalents and securities	604	16.6	580	21.4
Total assets	3,633	100.0	2,706	100.0

> Structure of the consolidated balance sheet

	in € million	2005 in %	in € million	2004 in %
Equity	2,013	55.4	1,650	61.0
Long-term liabilities	550	15.1	392	14.5
Short-term liabilities	1,070	29.5	664	24.5
Total liabilities	3,633	100.0	2,706	100.0

INVESTMENTS

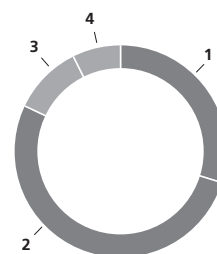
ALTANA invests a large part of the high profitability into the future of the company to ensure its long-term success.

In financial 2005 ALTANA invested €246 million in property, plant and equipment and intangible assets. At ALTANA Pharma the means were mainly used to build a production site in Ireland, to expand production capacities in Oranienburg and to build new research facilities in Constance and in India; at ALTANA Chemie to expand the Wesel site. The intangible assets mainly consisted of product and name rights acquired in the U.S.

RESEARCH & DEVELOPMENT EXPENSES INCREASED

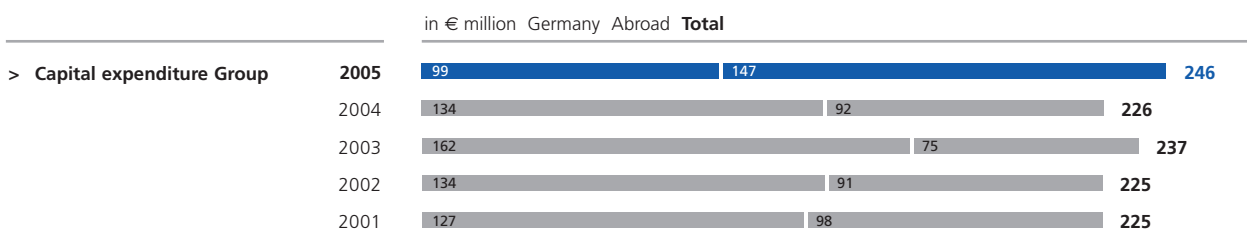
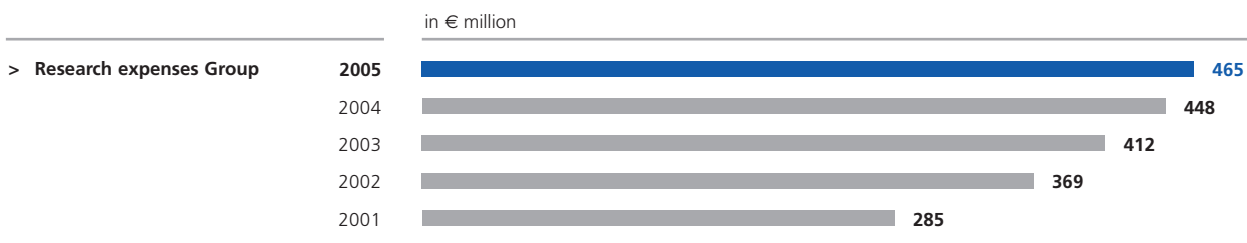
R & D expenses amounted to €465 million in 2005. Most of it (€418 million) was used by ALTANA Pharma to develop new pharmaceuticals. €47 million was employed by ALTANA Chemie to develop new products. The research ratios – 20 % of ALTANA Pharma’s therapeutics sales and 5 % of ALTANA Chemie’s sales – are top figures in an international comparison and an expression of the strong orientation of both corporate divisions

> Capital expenditure (property, plant and equipment and intangible assets)



in € million	2005	2004	Δ %
ALTANA Group	246	226	9
Germany	99	134	-26
Abroad	147	92	60
ALTANA Pharma	201	165	21
Germany	1	73	-29
Abroad	2	128	101
ALTANA Chemie	44	60	-25
Germany	3	26	-18
Abroad	4	18	-34

towards innovation. Further information on the research strategy and research projects can be found in the ALTANA Pharma (page 35 ff) and the ALTANA Chemie (page 55 ff) chapters.



> Research expenses by division

in € million	2005	2004	Δ%
ALTANA Group	465	448	4
ALTANA Pharma	418	410	2
ALTANA Chemie	47	38	22

> Research ratios by division

in %	2005	2004
ALTANA Group	14.2	15.1
ALTANA Pharma		
Total sales	17.7	19.4
Therapeutics sales	20.2	22.3
ALTANA Chemie	5.1	4.4

NEW JOBS CREATED

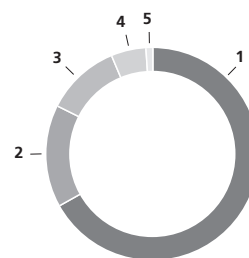
As of December 31, 2005, ALTANA employed 13,276 people worldwide, a 23% increase of the workforce on the prior year, primarily due to the acquisition of the ECKART group by the Chemicals division. Disregarding special effects, the workforce increased by 2% in Germany and by 6% abroad. Roughly 6,350 people work for our companies in Germany, and around 6,950 are employed outside of Germany. In the past ten years, the number of employees has increased from 7,136 in 1995 to more than 13,000 today. ALTANA plans to hire new staff in 2006, too.

EMPLOYEE INCENTIVE PLANS WELL RECEIVED

Since 1999, ALTANA has offered its executives a stock option plan. The "ALTANA Stock Option Plan (SOP)" was issued again in 2005. The model revised in 2004 is geared to a mixed index combining the two benchmark indexes, Dow Jones STOXX Healthcare and Dow Jones STOXX Chemicals. This benchmark-oriented model complies with the recommendations of the German Corporate Governance Code. External studies confirm the sophisticated

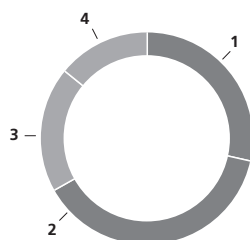
character of the concept. More information is available in the corporate governance report on pages 24 ff and in the Notes to the Financial Statements (pages 135 ff).

> Employees by region



		2005	2004	Δ%
Europe	1	8,877	7,273	22
thereof Germany		6,341	4,958	28
North America	2	2,055	1,416	45
thereof the U.S.		1,819	1,193	52
Latin America	3	1,500	1,439	4
Asia	4	705	566	25
Other regions	5	139	89	56
Total		13,276	10,783	23

> Number of employees



		2005	2004	Δ%
ALTANA Group		13,276	10,783	23
Germany		6,341	4,958	28
Abroad		6,935	5,825	19
ALTANA Pharma		8,832	8,200	8
Germany	1	3,770	3,702	2
Abroad	2	5,062	4,498	13
ALTANA Chemie		4,384	2,521	74
Germany	3	2,511	1,194	110
Abroad	4	1,873	1,327	41

For the sixth time, nearly all of the other ALTANA employees in Germany and abroad had the opportunity to take part in the "ALTANA Investment Plan (AIP)" in 2005. Details can also be found in the corporate governance report on pages 24 ff and in the Notes to the Financial Statements on pages 135 ff.

For four years now, employees of the German ALTANA companies have been entitled to invest part of their income (before taxes) in an old age pension plan structured by ALTANA called "AltersvorsorgeAktiv mit ALTANA" (AAA for short). The money is invested, depending on the age and risk inclination of the employee ("lifecycle concept"), in special share-based, bond-based or money market funds – the ALTANA Share-based Fund, the ALTANA Bond-based Fund, or the ALTANA Money Market Fund. The savings are paid out to the employees in several installments when they have reached the retirement age and have left professional life. As this money was not taxed when it was paid in, it is taxable when it is paid out (the concept of deferred compensation).

To safeguard against risks, ALTANA grants a guaranteed minimum interest of currently 2.75 % on the investments.

In addition to part of the employee's monthly income, 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.

Since the old age pension plan was introduced in October 2002, roughly 1,400 German employees have taken advantage of it. In this time period the share-based fund has had a performance of 40 %, which corresponds to an annual appreciation of 11 %. The performance of the bond-based fund is 17 %, and 5 % on an annual basis. Based on the value of the funds as per December 31, 2005, employees on average hold a per capita share of € 10,000, an increase of € 2,700 on December 31, 2004. About the same number of tariff and non-tariff staff are taking part in the plan. ALTANA also offers similar plans to employees abroad. People working for U.S. companies can invest part of their gross earnings in similar funds within the framework of retirement schemes, so-called "401 K plans."

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

For the financial year 2005, 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.

SUPPLEMENTARY REPORT

In January 2006, the metered-dose inhaler ALVESCO® (Ciclesonide) was approved in Serbia and launched in South Africa. At the beginning of February, the EMEA additionally approved ALVESCO® to treat adolescent patients aged 12 and older. The metered-dose inhaler had already been approved as a medication for ongoing treatment of persistent bronchial asthma of all degrees of severity among adults at the age of 18 or older.

In January 2006, ALTANA Pharma submitted Ciclesonide nasal spray for approval to the Canadian authority. The U.S. authority FDA accepted the application for approval in February 2006.

On January 20, 2006, ALTANA Chemie reached an agreement with the Italian company INVEX SpA on the purchase of production facilities for electrical insulation materials in Brazil. The purchase strengthens the worldwide presence of the Electrical Insulation division. The acquisition is expected to be completed in the second quarter of 2006.

On January 31, 2006, ALTANA Chemie signed an agreement to acquire the U.S. company Rad-Cure. Rad-Cure is a specialist in the field of overprint UV-curable coatings and adhesives for the paper and cardboard packaging sector. The completion of the transaction is planned for the first quarter of 2006. With this acquisition, the division Coatings & Sealants will further strengthen its technology position and market presence in the packaging materials area in North America. Rad-Cure Corporation, headquartered in Fairfield, New Jersey, generated sales of approximately U.S. \$ 10 million in 2005. ALTANA Chemie will take over all employees and production facilities of the packaging specialist.

With Rad-Cure we can add an acknowledged technology to our product portfolio of UV coatings and adhesives in the U.S. market.

RISK REPORT

RISK POLICY

The risk policy of the ALTANA Group is geared to the medium- to long-term strategy of increasing the company's value. Within the framework of the Group-wide value management system, the development of the value is analyzed both ex post and in the context of planning activities ex ante so that value-related effects of strategic corporate decisions are apparent at an early stage (see the remarks on the value management on pages 89 f). Active control of factors relevant for the medium- or long-term corporate value creation can therefore be implemented in time.

RISK MANAGEMENT SYSTEM

A comprehensive risk management is an essential component of the management and leadership system of a globally operating company. The task of our risk management system is to recognize, identify, evaluate, and document risks at an early stage so that appropriate preventive and safety measures can be taken. The Management Board of ALTANA AG is responsible for shaping the risk management. The opportunities and risks of the future development of ALTANA AG are directly influenced by the business performance of the operating corporate divisions ALTANA Pharma and ALTANA Chemie.

The risk management system established in accordance with the German Corporate Control and Transparency Act (KonTraG) is an integral component of the business, planning, and control processes of the ALTANA Group and is incorporated in the Group's information and communication system. Based on the structure of the group, separate risk reports are issued for the corporate divisions and then brought together at the Group level into a risk report. The risks can be divided into different categories, for example environmental risks or product risks, competitive risks or financial risks. The

quality of the risk assessed is based on the risk value, which in turn is derived from the probability of the risk occurring and the potential damage it can cause. A code of conduct on how to handle risks is derived from cause-effect analyses and can immediately lead to action or be shelved as plans of action in the event of a risk.

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 PROFILE OF ALTANA PHARMA

Risks in the economic environment

Pharmaceutical companies are in an economic environment that does not make them very sensitive to short- or medium-term economic developments.

Since we as a research-driven pharmaceutical company achieve a high sales and earnings contribution with innovative products, enforcement of patent laws is decisive for our financial success. Our activities are therefore limited on markets on which patent rights are not protected effectively.

Nearly all pharmaceutical markets are government-regulated. In countries with national health-care systems in particular, there is massive interference in the health market and so the development potential of companies is sensitively disrupted. In order to be able to sell its products on a certain market, a research-oriented pharmaceutical company has to comply with regulations concerning approval, pricing, production, and marketing of the products.

ALTANA Pharma sells its products in almost every region of the world. We are marketing the products ourselves, in cooperation with partners with which we have co-marketing or co-promotion agreements, or with licensees. 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.

Product/Portfolio risks

ALTANA Pharma currently generates a material part of its sales with one innovative product, the gastrointestinal drug Pantoprazole. Difficulties in the production or distribution of this product can have a considerable influence on our financial position, results of operations, or cash flows. We intend to decrease our dependency on this product in the medium term with further innovative products such as DAXAS® and other products from the Ciclesonide family especially against respiratory diseases.

Possible side effects of drugs not recognized within the framework of product development and approval, or drugs whose efficacy changes due to faulty production, storage, or for other reasons, can result in high product liability damages. In order to counter such product risks, we established a notification and warning system in conformity with international standards, which even reacts to weak signals. In addition, we continually carry out studies on the efficacy, tolerability, form of application, dosage, and administration of our products. Our production sites are subject to a number of regulations, and compliance with these regulations is continually documented and investigated, ensuring that our products are manufactured in a proper, safe way.

A patent provides economic incentive for research investments because it prevents the product from being copied for a certain period of time. In the U.S., our Pantoprazole patent was attacked by a few generics manufacturers. ALTANA Pharma, together with its American partner Wyeth, filed a patent violation suit in May 2004 against TEVA Pharmaceutical Industries and in April 2005 against Sun Pharmaceutical Industries, who had applied to the U.S. authority FDA for an Abbreviated New Drug Application ("ANDA* filing") to market a generic Pantoprazole in the U.S.

Competitive risks

The fierce competition in the pharmaceutical industry coupled with limited terms of patent forces research-driven pharmaceutical companies like ALTANA Pharma to regularly bring new, innovative products on to the market. Our R&D focuses on three indication areas: gastrointestinal, respiratory, and cancer diseases. The concentration on a few fields of research enables us to elaborate them in-depth and to successfully compete with large companies in the industry.

The development and marketing of new products requires significant effort in advance. That applies in particular to the development of innovative drugs such as DAXAS® (Roflumilast), a representative of a new class of substances. On account of a revised overall assessment, we withdrew the application for E.U. approval of DAXAS® in November 2005 and expanded the study program in order to create a solid data situation for a re-submission. We are also developing Roflumilast on our own for the U.S. market following the termination of our cooperation with Pfizer in July 2005. If a product development fails due to the stringent requirements of the approval authorities or if a product cannot be established in the market, the high investments are not compensated for by an earnings potential. Such undesirable developments can have a significant influence on the financial position, results of operations, or cash flows of a company.

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 supply processes that occur on a regular basis.

Investment risks

An effective R&D process is essential for our success as an innovation-driven company. In order to sensibly direct investments, the project progress of an active substance being developed is documented, monitored, and

analyzed by an R&D controlling. Decisions on whether to continue a project are essentially based on the categories of feasibility and market potential.

Investments are made in accordance with corporate strategy and operating necessities. In recent years, ALTANA Pharma has almost exclusively grown organically. In the future, we intend to promote our organic growth through acquisitions, to fill supply gaps regarding our products. Substantial financial means are available for acquisitions and investments. Possible objects of acquisition are continually scrutinized. Acquisitions involve complex risks. For this reason acquisitions, like other investments, are preceded by a multi-stage assessment and approval process. The evaluation of new active substances, especially those in early stages of development, is subject to many uncertainties. We assess such acquisition objects based on the methods of evaluation normally used on the market.

ALTANA Pharma carries out acquisition and integration projects according to standardized procedures, which ensure that material risks are recognized and monitored.

RISK PROFILE OF ALTANA CHEMIE**Risks in the economic environment**

The chemical industry mostly reacts to economic developments at an early stage and immediately; it is therefore considered an early indicator of the general economic development. As a supplier of specialty chemicals, ALTANA Chemie with its four divisions Additives & Instruments, Effect Pigments, Electrical Insulation and Coatings & Sealants operates worldwide in niche markets. Weak demand or shifts in demand in market segments or sub-regions can thus be compensated for or at least be cushioned.

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 service and innovative strength are the key factors. ALTANA Chemie's

success as a specialty chemicals company depends in large part on two factors: technology leadership and proximity to customers. In all areas in which we are active, ALTANA Chemie is already the market and/or technology leader or on the way to occupy this position. We are represented by our own organizations on all important markets. The resulting proximity to customers enables us to offer customers solutions which are tailored to their needs.

The chemical industry is subject to a number of regulations, particularly regarding environmental protection. The new E.U. chemicals guideline REACH approved in November 2005 regulating the registration, evaluation and approval of chemicals will give rise to additional expenses.

Product / Portfolio risks

Specialty chemicals companies regard themselves more as providers of solutions than of products. A large part of our development projects are carried out either commissioned by or together with our customers to ensure the development of marketable products. Therefore we invest above-average amounts in R&D compared to the industry as a whole. If we do not manage to maintain close relations to our customers, or if we can no longer offer our customers innovative solutions in the future, this will have a negative impact on our business performance.

High standards of quality assurance ensure that the quality of our products remains at the same high level. Production processes organized according to DIN/ISO standards also serve this purpose.

Competitive risks

Procurement market risks can be assessed as low, as the raw materials needed are usually offered by a multitude of producers. Moreover, while our decentralized divisions maintain their high flexibility, centralized purchasing ensures optimal procurement conditions.

Investment risks

Acquisitions and investments involve complex risks. As a result, all acquisitions and investments are preceded by a multistage process of assessment and approval. In particular the integration of acquired companies or parts of companies poses a considerable challenge to our management. ALTANA Chemie carries out acquisition and integration projects according to standardized procedures, which ensure that material risks are recognized and monitored. The acquisition of the ECKART group in financial 2005 is the largest transaction ever made by the entire ALTANA Group. We established different project groups to ensure a successful and fast integration into ALTANA Chemie's organizational structure. In this endeavor, we could pick up on experiences we had gained in a number of preceding acquisitions.

RISK PROFILE OF THE STRATEGIC MANAGEMENT HOLDING COMPANY AND THE GROUP

The strategic management holding company ALTANA AG makes fundamental strategic decisions regarding the ALTANA Group. In order to guarantee the best possible development of the two corporate divisions ALTANA Pharma and ALTANA Chemie, the Management Board of ALTANA AG has decided upon an independent operation of ALTANA Chemie AG and to open ALTANA Pharma AG for a strategic partner. These transactions will have an impact on the risk profile of the ALTANA Group. The kind or scope of these effects cannot be determined at the present time.

Financial risks

The financial position, results of operations, and cash flows of ALTANA AG are directly determined by the development of the corporate divisions ALTANA Pharma and ALTANA Chemie.

The financing of the group is ensured by ALTANA AG. The ALTANA Group is equity-financed to a large extent; the equity ratio is 55%. Financial liabilities roughly total

€389 million, comprising almost 11 % of total assets. Cash and cash equivalents correspond to €604 million. Hence the ALTANA Group has considerable financial scope to shape the future corporate structure.

The ALTANA Group achieved 82 % of its sales outside of Germany. Currency fluctuations, especially with regard to the U.S. dollar, therefore have a big impact on our earnings. Exchange rate risks are limited by systematic use of derivative financial instruments. Foreign exchange contracts, foreign exchange and interest rate swaps, and currency options are implemented. These are carried out exclusively with banks with an excellent credit rating.

Personnel risks

The ALTANA Group – like every company – is dependent on the working capacity of highly qualified and motivated employees. International competition for skilled personnel and executives is fierce. To be attractive for new staff and to bind our employees to the company in the long term, ALTANA has developed performance-related compensation systems and employee incentive plans conforming to the market, and offers a multitude of further education and training programs. The majority of employees in the Group can participate in the stock option plans.

Other risks

We limit the risks of liability and damages that can occur in our corporate activities by means of insurances. In particular, cases of liability loss and damages resulting from business interruptions are covered by insurance policies. If our own rights such as patents, trademark rights, or licenses are threatened by a third party, we file an appeal to protect our rights. At present, there are no claims of third parties to ALTANA that we expect to have a material influence on the financial position, results of operations, or cash flows.

Altogether, no risks were found which could endanger the existence of the company.

FORECAST REPORT

ECONOMIC OUTLOOK

Official forecasts for 2006 are rather optimistic. The global economy is expected to grow by 4 % to 4.5 %. The economies of the industrialized countries are expected to develop by around 2.5 % in 2006 and 2007, in keeping with the trend of recent years. Monetary policy incentives are decreasing noticeably, and also the burdens from oil prices, which are assumed to have stabilized.

The monetary policy influence is slackening most in the U.S., and the economy is expected to slow down noticeably in the course of 2006. Still, the gross national product (GNP) of the U.S. is expected to rise by 3.4 %, after a 3.5 % increase in 2005. The positive forecasts are based on a continued increase of private consumption, which influences the GNP by more than 70 % in the U.S., despite interest rate increases, real wage losses, inflation, and higher energy prices. China, too, is expected to grow by at least 6 % to 7 %. Around 2 % growth is forecast for Japan. The economic growth in the euro region continues to lag behind growth of the other regions. Optimistic forecasts see a growth rate of 1.8 % to 2.1 %. Despite hopes that the German economy will finally pick up steam again in 2006, the German GNP is expected to grow by only 1.5 % to 1.9 %, not enough to fulfil its role as Europe's economic engine. As the VAT in Germany will increase from 16 % to 19 % as of January 1, 2007, economic growth is expected to slow down again in the following year. In 2006, positive impetus is anticipated from Latin America and the raw materials-exporting countries Canada and Australia, which will continue to benefit from China's and India's growth. In these regions, a growth rate of 3 % to 5 % seems to be realistic.

CORPORATE STRATEGY

ALTANA expects its dynamic business trend to continue in financial 2006. ALTANA will continue the high expenditures on the company's future, both in terms of investments and research expenses. The focus is the strategic

further development of the ALTANA Group. To this end, we have announced two elementary steps: opening ALTANA Pharma for a strategic partner (for which we are exploring all options) and preparing the independent operation of ALTANA Chemie as a company listed on the stock exchange.

BUSINESS DEVELOPMENT OF THE OPERATING CORPORATE DIVISIONS

ALTANA Pharma expects its growth trend to continue in 2006. We anticipate the dynamic growth of our main sales driver Pantoprazole to remain unbroken and expect sales growth from ALVESCO®, not least due to further market launches. Positive impetus will come from the economic development that has been forecast for Europe and the U.S. The costs for the planned market launches of ALVESCO®, however, will have a curtailing effect on ALTANA Pharma's earnings. Nevertheless, we expect higher earnings than in the prior year.

In spite of the positive development of the global economy in 2005, there is no clear picture of the economic situation of the specialty chemicals industry in 2006. Nevertheless, we expect a higher demand for our products in 2006 than there was in 2005, which should have a positive impact on ALTANA Chemie's sales and earnings. With ECKART's contribution to sales, and acquisitions made by the Coatings & Sealants and Electrical Insulation divisions, sales volume will climb to a new dimension with roughly € 1.2 billion. We expect the sales growth to have a positive influence on the earnings performance. We believe that operating earnings (EBITDA) will be considerably higher than in 2005 – also due to the acquisitions. Earnings before taxes (EBT) are also expected to increase in year-to-year terms. The EBT margin, however, should be down on the prior year due to higher depreciations and interest burdens resulting from acquisitions.

OPPORTUNITIES AND RISKS

According to current forecasts, the global pharmaceutical market will continue to grow significantly in 2006, which will have a positive impact on the sales performance of

ALTANA Pharma. A renewed weakness of the U.S. dollar would have a negative impact on our sales, especially those achieved by Wyeth, our sales partner for Pantoprazole in the U.S.

Health-care reforms, especially in Europe, are an uncertainty factor. If there is further intervention in price regulation in Germany and other European countries, this could have a negative influence on ALTANA Pharma's sales and earnings performance. A new stage of the Medicare reform law becomes effective in the U.S. The state-run health plan for senior citizens will provide reimbursements for drugs starting in 2006. Costs for drugs are to be reimbursed in the form of a voluntary, state-subsidized private supplementary insurance.

We do not think there is much of a risk of Pantoprazole losing significant shares in the worldwide market for proton pump inhibitors* (PPI), because sales of the drug have continued to grow despite strong competition in the PPI market, increasing generics competition from Omeprazole generics, and the introduction of OTC* products containing Omeprazole.

Some generics suppliers have already submitted generic Pantoprazole products for approval to the FDA in the U.S. back in 2004 in accordance with the so-called "ANDA* paragraph 4" regulation. Due to the patent violation suits that we filed, generic Pantoprazole products cannot be approved for the time being. At present, we do not know when our suits will be dealt with. We assume, however, that our U.S. patent for Pantoprazole will be regarded as legally valid and enforceable.

Like other research-driven pharmaceutical companies, ALTANA Pharma faces the prospect of a decline in sales after the patent on our blockbuster* Pantoprazole expires in Europe in 2009 and in the U.S. in 2010. We are working hard to come up with strategies enabling us to fill the expected sales gap. We are seeking in-licensings, product purchases and acquisitions. In addition, we are investigating possible options for a strategic partnership to safeguard the long-term future of our pharmaceuticals business.

Within the framework of Ciclesonide and DAXAS® (Roflumilast) development projects, further large phase III studies* will be conducted in the indication areas of asthma, COPD*, and allergic rhinitis in 2006. As far as the R&D of new preparations are concerned, we face the usual risks in the industry until the preparations are marketable and approved. Targeted investments in our research are an indispensable prerequisite for enhancing our innovative potential and our competitiveness in the future. Increasing investments in research devoted to new active substances, in the development of new drugs, and in further major studies on DAXAS® will have a negative influence on ALTANA Pharma's earnings. Investments in property, plant and equipment will continue in the planned scope and the projects to expand research and production will be completed. Money invested in production sites will heighten the quality of supply capacity and the flexibility of our worldwide production network, the basis for the introduction of new pharmaceuticals.

Further jobs are to be created, depending on our economic development in 2006. The need for more staff results from our internationalization, our product launches, and our increased R&D activities.

ALTANA Pharma will keep on consistently pursuing the strategic aims set to counteract potential risks.

With the purchase of the ECKART group in the prior business year, ALTANA Chemie made the largest acquisition in the history of the company.

As part of the strategic realignment of Coatings & Sealants, we took the first important steps in 2005 to expand our activities in the area of flexible packagings. By means of targeted divestments and acquisitions, ALTANA Chemie has focused in recent years even more consistently on the high-value specialty chemicals business and significantly broadened its base for future growth.

We expect considerable growth impetus for all four Chemicals divisions in the years to come, particularly from the dynamically growing markets in Asia and Latin America, in which we have an excellent competitive position. An uncertainty factor for ALTANA Chemie's sales

and earnings performance is the development of the global economy. If the world economy slows down (for which there are no signs at present), this would dampen development in growth regions and affect business of ALTANA Chemie on a broad front. Although the prices of crude oil and the most important basic raw materials have stabilized on a high level, further considerable increases in the prices of our primary products cannot be excluded. While we are confident that we can pass on the increase in raw materials prices, we reckon that in this case it would result in a decline in demand and thus also in sales volume.

Within the framework of current integration projects, we are working systematically on exploiting synergies, from which we expect faster growth and a clearly improved earnings quality in the coming years. However, we do not anticipate that this will result in a significant contribution to sales and earnings in the 2006 business year.

In order to boost our growth potential, we will continue to seek acquisitions in line with our corporate strategy and our business. Depending on the size, structure, and complexity of the transaction, acquisitions and integration of acquisitions can involve considerable financial and operating risks. We anticipate, on the basis of our extensive experience from numerous acquisitions in the past, that we will be able to counteract these risks in a targeted way in the future as well.

To ensure a sustained development of our company, and in particular the high dynamic growth and attractiveness of our product portfolio, we invest considerable means into R&D and into the expansion of our sites worldwide. With these investments, we intend to strengthen and extend our market positions in selected target markets. But investments into the future are always connected with the risk of misallocation of resources, which we limit by systematically selecting, examining, and controlling our projects.

The ALTANA Group anticipates its growth trend to continue in 2006 – on account of the positive business development expected from its two corporate divisions – both in terms of sales and earnings.

>>> CONSOLIDATED FINANCIAL STATEMENTS

103	CONSOLIDATED FINANCIAL STATEMENTS	147	Other operating income
104	Management Board Statement	147	Other operating expenses
105	Independent Auditors' Report	148	Financial income
106	ALTANA Group consolidated balance sheets	148	Financial expenses
107	ALTANA Group consolidated income statements	148	Income taxes
108	ALTANA Group consolidated cash flow statements	150	Other information on the income statement
110	Consolidated statement of recognized income and expenses (sorie)	151	Commitments and contingencies
		152	Related party transactions
111	NOTES	153	Compensation of the supervisory board and management board
111	Basis of presentation	154	Fees paid to the auditor
111	Significant accounting policies	154	Litigation
121	Business combinations and dispositions	155	Subsequent events
123	Segment reporting	155	Additional information
126	Intangible assets	155	Statement of compliance with the German Corporate Governance Code
129	Property, plant and equipment	156	Reconciliation to U.S. GAAP
130	Long-term investments	164	Additional U.S. GAAP disclosures
131	Inventories	168	Statements of changes in equity of the ALTANA Group
131	Trade accounts receivable	170	Supervisory Board of ALTANA AG
132	Marketable securities	171	Management Board of ALTANA AG
133	Other assets and prepaid expenses	172	Major consolidated companies
134	Shareholders' equity	173	LEGAL BASIS
135	Employee incentive plans	174	THE ALTANA GROUP WORLDWIDE
139	Employee benefit obligations	176	TEN-YEAR REVIEW
142	Other provisions	178	GLOSSARY
142	Debt	180	INDEX
144	Other liabilities		
144	Deferred income		
145	Financial instruments		

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.

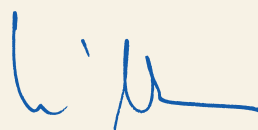
By resolution of the last Annual General Meeting, the Chairman of the Audit Committee of the Supervisory Board appointed Pricewaterhouse Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as independent auditor of the consolidated financial statements. The auditors' report 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 20–23 of this Annual Report.

Bad Homburg v. d. H., February 2006

The Management Board



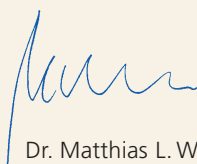
Dr. Nikolaus Schweickart



Dr. Hermann Küllmer



Dr. Hans-Joachim Lohrisch



Dr. Matthias L. Wolfgruber

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by the ALTANA Aktiengesellschaft, Bad Homburg v.d. Höhe, comprising the balance sheet, the income statement, statement of recognized income and expenses, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, Germany, March 3, 2006

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Armin Slotta
German Public Auditor

Klaus Höfer
German Public Auditor

ALTANA GROUP CONSOLIDATED BALANCE SHEETS

ASSETS	Notes	At Dec. 31, 2005	At Dec. 31, 2004
Intangible assets, net	5	691,203	237,126
Property, plant and equipment, net	6	1,047,581	762,974
Long-term investments	7	56,762	48,202
Deferred tax assets	24	103,840	53,223
Other non-current assets	11	31,995	37,016
Total non-current assets		1,931,381	1,138,541
Inventories	8	404,559	328,552
Trade accounts receivable, net	9	580,978	488,749
Marketable securities	10	134,360	263,465
Other assets and prepaid expenses	11	112,037	169,816
Cash and cash equivalents		469,473	316,662
Total current assets		1,701,407	1,567,244
Total assets		3,632,788	2,705,785
LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY			
Share capital ¹		140,400	140,400
Additional paid-in capital		165,204	152,760
Retained earnings		1,992,215	1,716,367
Revaluation reserve		12,139	30,008
Translation adjustments		-61,940	-132,397
Treasury stock, at cost		-236,593	-258,513
Total equity of the shareholders of ALTANA AG		2,011,425	1,648,625
Minority interests		2,134	1,681
Shareholders' equity	12	2,013,559	1,650,306
Non-current debt	16	66,913	13,778
Employee benefit obligations	14	358,342	281,838
Other non-current provisions	15	85,202	57,594
Non-current deferred income	18	16,819	29,490
Deferred tax liabilities		21,477	8,025
Other non-current liabilities	17	748	834
Total non-current liabilities		549,501	391,559
Current debt	16	321,988	43,979
Trade accounts payable		272,331	226,432
Current accrued income taxes	24	86,556	58,834
Other current provisions	15	203,901	186,559
Current deferred income	18	80,879	65,747
Other current liabilities	17	104,073	82,369
Total current liabilities		1,069,728	663,920
Total liabilities, provisions and shareholders' equity		3,632,788	2,705,785

¹ Share capital, no par value shares, 207,900,000 shares authorized, 140,400,000 issued and 135,760,592 (135,285,154 at December 31, 2004) outstanding at December 31, 2005

ALTANA GROUP CONSOLIDATED INCOME STATEMENTS

	Anhang	2005	2004
Net sales	4	3,271,740	2,962,851
Cost of sales		-1,087,827	-1,015,581
Gross profit		2,183,913	1,947,270
Operating expenses			
Selling and distribution expenses		-926,410	-779,022
Research and development expenses		-464,957	-447,560
General administrative expenses		-173,361	-151,258
Other operating income	20	88,090	69,131
Other operating expenses	21	-31,262	-34,446
Operating income		676,013	604,115
Financial income	22	36,435	27,628
Financial expenses	23	-28,310	-20,475
Financial income		8,125	7,153
Income before taxes		684,138	611,268
Income tax expense	24	-245,709	-232,561
Net income		438,429	378,707
thereof attributable to minority interests		299	573
thereof attributable to shareholders of ALTANA AG		438,130	378,134
Basic earnings per share (in €)		3.23	2.78
Diluted earnings per share (in €)		3.23	2.78

Amounts in € thousands, unless stated otherwise.

ALTANA GROUP CONSOLIDATED CASH FLOW STATEMENTS

	Notes	2005	2004
Net income		438,429	378,707
Depreciation and amortization, Impairment and appreciation	5, 6, 7	142,233	121,278
Net gain from disposals of fixed assets	20, 21	-5,238	-2,028
Net gain from sales of marketable securities	22, 23	-4,656	-441
Expense from stock option programs	13	12,617	11,902
Increase/decrease in other operating assets and liabilities, net of acquisitions and dispositions			
Inventories		3,814	-22,430
Trade accounts receivable, other assets and prepaid expenses		-6,255	-118,844
Income taxes		2,793	-20,697
Provisions		24,849	46,713
Accounts payable and other liabilities		30,433	48,428
Deferred income		2,068	-16,197
Other		3,671	333
Net cash flow provided from operating activities		644,758	426,724
Capital expenditures	5, 6	-245,800	-226,058
Purchases of financial assets		-693	-19,293
Proceeds from sale of product groups and subsidiaries		27,866	15,641
Proceeds from sale of fixed and financial assets		15,135	5,919
Acquisitions, net of cash acquired		-579,475	-956
Proceeds from sale of marketable securities		273,048	217,837
Purchase of marketable securities		-126,652	-185,292
Net cash flow used in investing activities		-636,571	-192,202

Amounts in € thousands, unless stated otherwise.

	Notes	2005	2004
Dividends paid		-128,735	-113,256
Purchase of treasury shares		0	-75,638
Proceeds from sale of treasury shares		21,747	18,409
Proceeds from long-term debt		41,983	0
Repayment of long-term debt		-3,022	-34,573
Net increase/decrease in short-term debt		198,401	3,575
Net cash flow used in financing activities		130,374	-201,483
Effect of exchange rate changes		14,250	-4,047
Change in cash and cash equivalents		152,811	28,992
Cash and cash equivalents as of January 1,		316,662	287,670
Cash and cash equivalents as of December 31,		469,473	316,662
Cash paid for			
Income taxes		-236,124	-245,362
Interest		-4,990	-3,895
Cash received for			
Income taxes		24,210	2,276
Interest		16,797	14,328
Dividends		1,609	1,054

Amounts in € thousands, unless stated otherwise.

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES (SORIE)

	2005	2004
Net Income	438,429	378,707
Derivative hedging instruments		
Change in fair value	-35,170	4,308
Realized gains/losses	-174	1,315
Available-for-sale securities		
Change in fair value	8,376	7,781
Realized gains/losses	-4,681	7
Actuarial gains and losses on defined benefit pension plans	-54,664	-18,906
Taxes directly reported in equity	34,897	4,149
Translation adjustments	70,654	-14,710
Net income recognized directly in equity	19,238	-16,056
Total recognized income and expenses for the period	457,667	362,651

Amounts in € thousands, unless stated otherwise.

> 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 § 315 of the German Commercial Code (deutsches HGB).

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 in 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. All amounts are reported in thousand Euros if not otherwise stated.

> 2

SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The consolidated financial statements of the Company include 30 (2004: 31) subsidiaries in Germany and 76 (2004: 55) 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, irrespective 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 consolidated companies is primarily the result of the acquisition of ECKART GmbH & Co. KG ("ECKART group") which is discussed in Note 3. All other changes in the scope of consolidation from 2004 to 2005 did not have a material effect on the Company's consolidated balance sheets, statements of income, changes in shareholders' equity or cash flow.

The Company holds a 49% interest in Bracco ALTANA Pharma GmbH, Constance, and a 39% interest in Aldoro Ltda., Sao Paulo, Brazil, and therefore accounts for these investments using the equity method. As these investments and the equity in earnings of these associated companies are immaterial, the amounts are not disclosed separately in the consolidated balance sheets and income statements but are included in long-term investments and financial income.

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

All intercompany balances and transactions have been eliminated in consolidation.

The main subsidiaries included in the consolidated financial statements are listed on page 174 of the annual report. A complete listing of all subsidiaries of the 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 the existing IAS 32 and supersede IAS 39, and should be applied for annual periods beginning on or after January 1, 2005. Several amending drafts were published during 2004 and adopted in 2005 in order to clarify specific issues of revised IAS 39. These amendments are effective for reporting periods beginning on or after January 1, 2006, however, early application for reporting periods beginning on or after January 1, 2005 is allowed. The Company has adopted the revised IAS 32 and IAS 39 and the corresponding amendments as of January 1, 2005 in accordance with the transitional provisions in those standards. Under the revisions of IAS 39, available-for-sale securities which have been impaired are no longer allowed to be subsequently appreciated, even if the indication that led to the initial impairment has subsequently reversed. In 2002, the Company recorded an impairment loss relating to its 8.3% long-term investment in GPC Biotech AG and in 2003, ALTANA reversed the impairment charge taken in 2002, as the impairment indicator subsequently reversed. Therefore, in accordance with the transitional provisions of the amendments to IAS 39, the Company has reclassified €7.7 million from opening retained earnings to the revaluation reserve, which represents the reversal of the appreciation recorded in 2003. The reversal of the impairment loss was a non-taxable gain, therefore the effect on net income before and after tax was equal. The revised standards IAS 32 and 39 did not have any other significant impacts on the Company's consolidated financial statements.

Since January 1, 2005, the Company has applied the revised versions of the following standards that were released by the IASB as part of the IASB's project to improve International Accounting Standards: IAS 1, "Presentation of Financial Statements"; IAS 2, "Inventory"; IAS 8, "Accounting Policies, 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". Apart from the new presentation of assets and liabilities as current and non-current in accordance with IAS 1 and the adjusted presentation of financial income in the income statement, the application of the revised standards did not 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. 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. In accordance with IFRS 2, share-based payments are measured at fair market value based on option pricing models and recognized as compensation expense over the relevant service period (see Note 13). Equity-settled share-based transactions are recorded as an increase in equity. Cash-settled share-based payment transactions are recorded as provisions.

In accordance with the transitional provisions of IFRS 2, the Company restated its prior year financial statements to reflect the cost of grants awarded after November 7, 2002 and not yet vested by January 1, 2005. Employee incentive plans initiated since 2003 fall within the scope of this standard.

In March 2004, IFRS 4, "Insurance contracts" was issued. IFRS 4 specifies the accounting for insurance contracts by an entity that issues such contracts including reinsurance contracts. The application of IFRS 4 did not have a significant impact on the Company's consolidated financial statements.

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 has adopted IFRS 5 as of January 1, 2005. The application of IFRS 5 did not have a significant impact on the Company's consolidated financial statements.

In December 2004, an amendment to IAS 19, "Employee Benefits", ("Actuarial Gains and Losses, Group Plans and Disclosures" to IAS 19, "Employee Benefits") was issued. This amendment will be effective January 1, 2006, and provides the alternative to recognize actuarial gains and losses resulting from the calculation of employee pension benefits directly in shareholders' equity. ALTANA has elected to early adopt this amendment and now presents the fair value of employee pension benefits in the balance sheet. Previously, ALTANA's policy was the "10% corridor approach". According to this method, actuarial gains and losses were recognized in net income and amortized over the remaining service period of the employees if they exceeded or fell below a corridor of 10%.

In accordance with the transitional provisions of the amendment, the Company restated its prior year financial statements, except for the income statement where no material effects on net income were recorded. If ALTANA had continued to apply the 10% corridor approach, the amount accounted for employee benefit obligations in the balance sheet as of December 31, 2005, would have been decreased by €75 million.

In August 2005, IFRS 7, "Financial Instruments: Disclosures" was issued and is effective for annual periods beginning on or after January 1, 2007. The standard supersedes IAS 32 "Financial Instruments, Disclosure and Presentation" and IAS 30, "Disclosure in the Financial Statements of Banks and Similar Financial Statements Institutions". The Company is currently evaluating the impact of the standard on its consolidated financial statement disclosures.

During 2005, IFRIC 4 "Determining whether an Arrangement contains a Lease"; IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"; IFRS 6 "Liabilities arising from Participation in a specific market – waste electrical and electronic equipment" and IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflation Economies", were issued and are effective for annual periods beginning on or after January 1, 2006 (IAS 8.30). The Company is currently evaluating the impact of the standards on its consolidated financial statements.

The results of the retroactive adoption of IFRS 2 as well as IAS 19 were as follows:

	2004 as reported	Adjustment IFRS 2	Adjustment IAS 19	adjusted 2004
Cost of sales	-1,013,577	-2,004	0	-1,015,581
Gross profit	1,949,274	-2,004	0	1,947,270
Selling and distribution expenses	-777,316	-1,706	0	-779,022
Research and development expenses	-445,048	-2,512	0	-447,560
General administrative expenses	-144,915	-6,343	0	-151,258
Operating income	616,680	-12,565	0	604,115
Income before taxes	623,833	-12,565	0	611,268
Income tax expense	-232,577	16	0	-232,561
Net income	391,256	-12,549	0	378,707
Basic earnings per share	2.88	-0.10	0	2.78
Diluted earnings per share	2.87	-0.09	0	2.78
Shareholders' equity	1,662,481	-857	-11,318	1,650,306
Other non-current provisions	56,737	857	0	57,594
Deferred tax assets	46,471	0	6,752	53,223
Employee benefit obligations	263,768	0	18,070	281,838

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 generally included in other operating income or other operating expenses or in financial income or expense if they relate to the translation of financial assets or liabilities.

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

	Middle rate at December 31, 2005	2004	Average rate years ended December 31, 2005	2004
1 Euro				
U. S. Dollar	1.18	1.36	1.24	1.24
Pound Sterling	0.69	0.71	0.68	0.68
Japanese Yen	138.91	139.65	136.86	134.35
Brazilian Real	2.75	3.62	3.00	3.61
Mexican Peso	12.60	15.23	13.53	14.02

INTANGIBLE ASSETS

Intangible assets, including software, are accounted for in accordance with IAS 38 "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 definite 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. Intangible assets with an indefinite life are not amortized but are tested for impairment annually or when there is an indication of impairment.

Goodwill is not 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. Resulting impairment charges are reported in other operating expenses.

The following amortization periods are applied:

	Years
Patents, licenses and similar rights	2 – 20
Other intangibles	1 – 15

Amortization and impairment charges of all intangible assets are recorded based on their function as cost of sales, general administration, research & 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:

	Years
Buildings	3 – 75
Plant and machinery	2 – 30
Assets under capital lease	2 – 25
Equipment	2 – 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.

Amortization and impairment charges of property plant and equipment are recorded based on their function as cost of sales, general administration, research & development or selling and distribution expenses.

IMPAIRMENT OF INTANGIBLE AND TANGIBLE FIXED ASSETS

Since January 1, 2004, irrespective of whether there is any indication of impairment, the Company tests goodwill acquired in a business combination for impairment annually. For the purpose of impairment test, goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the business combination. In accordance with IAS 36, "Impairment of Assets", an impairment loss is recognized when the carrying amount of goodwill exceeds the higher of its net selling price or its value in use.

In the event facts and circumstances indicate that the Company's tangible or intangible long-lived assets with finite useful lives, regardless of whether they are to be held and used or to be disposed of, may be impaired, an evaluation of recoverability is performed. An impairment loss is recognized when a tangible or intangible long-lived asset's carrying amount exceeds the higher of its fair value less costs to sell and its value in use. Value in use is based on the discounted cash flows expected to arise from the continued use of the asset and from its eventual disposal.

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.

MARKETABLE SECURITIES AND OTHER LONG-TERM INVESTMENTS

In accordance with IAS 39, the Company classified all marketable securities and certain long-term investments (see Note 7) 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.

Marketable securities and certain long-term investments are recognized on the settlement date. The Company derecognizes the assets when the contractual right to the cash flows expires or the assets are transferred and the Company retains no contractual rights to receive and assumes no obligations to pay cash flows from the assets.

Impairments on marketable securities are recognized in the income statement if the decrease in value is material and permanent in nature. The Company evaluates impairments based on individual marketable securities at each financial reporting date. Impairments on marketable securities are reported as other financial expense.

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. Trade accounts receivable denominated in foreign currencies are translated to the local currency using the exchange rate on the transaction date.

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 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. accounts receivable and financial liabilities), at fair value. 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 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 in financial income (expense) immediately. This is also applicable for excluded components from hedging instruments qualifying as cash flow hedges.

GOVERNMENT GRANTS

The Company received €0.4 million and €4.4 million for the years ended December 31, 2005 and 2004, 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 €0.3 million and €0.2 million for the years ended December 31, 2005 and 2004, 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. Actuarial gains and losses are recognized in shareholders' equity net of tax in the period in which they occur. The provisions therefore equal the fair value of the obligations at the balance sheet date.

ACCRUED LIABILITIES AND ACCRUED INCOME TAXES

In accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", and IAS 12, "Income taxes", an accrual for taxes and other contingent obligations 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.

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

Revenues are mainly resulting from the sale of products and are recognized 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 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 & 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 €306.8 million and €249.8 million for the years ended December 31, 2005 and 2004, respectively. These costs are recorded as selling and distribution expenses in the consolidated income statements. Shipping and handling costs totaling €47.4 million and €49.8 million for the years ended December 31, 2005 and 2004, 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 and are capitalized if certain criteria are met. Regulatory and other uncertainties inherent in the development of the Company's new key products relating to the technical feasibility of completing the intangible asset and to generating probable future benefits preclude the capitalization of development costs under IAS 38. Therefore, these costs are expensed as incurred.

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

EMPLOYEE INCENTIVE PLANS

Options granted under employee incentive plans settled in equity instruments (Stock Option Plans) are measured at their fair market value based on a Binomial option pricing model at the date of grant while cash-settled plans (ALTANA Investment Plans) are initially measured at their grant date fair value and are re-measured at fair value at the end of each reporting period. Compensation expense of the Stock Option Plans is recognized ratably over the relevant service period.

Compensation expense for the ALTANA Investment Plans is ratably recognized over the relevant service period, while the discounts granted in connection with the plans are expensed as incurred.

DEFERRED INCOME TAXES

Under IAS 12, "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 is computed by dividing net income attributable to shareholders of ALTANA AG by the weighted average number of shares outstanding for the year.

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

	2005	2004
Basic earnings per share		
Net income attributable to shareholders of ALTANA AG	438,130	378,134
Weighted average shares outstanding	135,605,388	135,857,561
Basic earnings per share in €	3.23	2.78
Diluted earnings per share		
Net income attributable to shareholders of ALTANA AG	438,130	378,134
Weighted average shares outstanding	135,605,388	135,857,561
Dilution from stock options	38,555	89,614
Diluted weighted average shares outstanding	135,643,943	135,947,175
Diluted earnings per share in €	3.23	2.78

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 2005 and 2004, respectively, Pantoprazole accounted for 58 % and 58 % of net sales of the pharmaceuticals segment and for 42 % and 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 the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and 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.

Management has made judgements in the process of applying the Company's accounting policies. The Company elected to recognize actuarial gains and losses in shareholders' equity in the period in which they incur. If the Company elected another method of recognizing actuarial gains and losses, this could have a material impact on defined benefit obligations and personnel expense.

At the balance sheet date management mainly has made the following key assumptions concerning the future and has identified other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Revenue recognition: ALTANA makes provisions for discounts, allowances, rebates, charge backs and product returns when recognizing the revenue from the sale of products or services. These deductions represent estimates of the related obligations requiring the use of judgements when estimating the impact of these sales deductions on gross sales for a reporting period.

Pension plans: The valuation of the various pension plans is based on the methodology used applying some parameter, including the expected discount rate, rate of compensation and pension increase and return on plan assets. If the relevant parameter developed materially differently than expected this could have a material impact on our defined benefit obligation.

Impairments: The impairment analysis for goodwill, other intangible assets and tangible assets is principally based upon discounted estimated future cash flows from the use and eventual disposal of the assets. Factors like lower than anticipated sales and resulting decreases of net cash flows and changes in the discount rates used could lead to impairments. Regarding the carrying value of goodwill, other intangible assets and tangible assets see Note 5 and Note 6.

Employee incentive plans: The ALTANA Investment Plan is measured based on the fair value of the options on the grant date and every subsequent reporting date. The estimated fair value of these options is based on parameters such as volatility, interest rate, share price, duration of the option and expected dividend. Compensation expense and liabilities could materially differ from the estimated amount on the balances sheet date if the parameters used changed. The liability recorded for the ALTANA Investment Plan as of December 31, 2005 amounted to € 2.1 million.

> 3

BUSINESS COMBINATIONS AND DISPOSITIONS

In accordance with IFRS 3, the Company accounts for all acquisitions 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 but is tested for impairment annually. 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.

In 2005, the Company sold some minor activities which generated revenues of € 12 million (2004: € 42 million). In 2004, the Company sold some minor activities in the chemical segment. The sold activities generated sales of € 28 million in 2004. The sale of these activities did not have a significant impact on the Company's balance sheets, income statements, statements of changes in shareholders' equity or statements of cash flows.

On October 1, 2005 the Company acquired a 100% interest of the ECKART group for a total purchase price of € 633 million. Of this purchase price € 557 million were paid in cash and € 76 million related to net debt assumed. The ECKART group is an international producer of enamel varnishes and effect pigments which are used for enamel varnishes, inks, plastics, cosmetics and technical application. The ECKART group is now included in the Effect Pigments division of the Company's chemicals segment.

The following table summarizes the initial purchase price allocation to the assets acquired and liabilities assumed at the date of acquisition of the ECKART group by ALTANA. The purchase price allocation will be finalized once all necessary information has been gathered to verify the estimates made during the purchase price allocation:

in € millions	
Goodwill	105.6
Intangible assets	253.9
Property, plant and equipment	213.0
Long-term investments	9.1
Inventories	65.4
Trade accounts receivable	55.9
Other assets	4.3
Deferred tax assets	1.8
Marketable securities	13.0
Cash and cash equivalents	15.4
Provisions for pensions	-10.0
Provisions	-25.9
Accounts payable to banks	-91.5
Trade accounts payable	-20.2
Deferred tax liabilities	-15.9
Other liabilities	-11.2
Total acquisition costs	562.7
thereof cash purchase price	557.0
thereof costs directly attributable to acquisitions	5.7

Of the goodwill recognized € 28.6 million is tax deductible. The intangible assets acquired mainly related to technology (€ 166.5 million) and customer related assets (€ 67.3 million) and have average estimated useful lives of 17 years. The trademark recognized in the amount of € 18.9 million is an intangible asset which, based on an analysis of product life cycles, contractual and legal control and other pertinent factors, is expected to contribute to the Company's cash flow indefinitely.

The factors contributing to goodwill are assets acquired which are not separately recognized as an assembled and trained work force, market share and access to customers and markets.

The ECKART group did not prepare its financial statements in accordance with IFRS but in accordance with the German Commercial Code. As of the acquisition date an opening balance sheet in accordance with IFRS was prepared for the first time. Assets and liabilities or revenues and expenses for periods before the acquisition are not available under IFRS and are therefore not reported as it would be impractical to do so.

Since the acquisition, the ECKART group has generated sales of €75.4 million and contributed €0.5 million to net income of the ALTANA Group. If the ECKART group had been acquired by ALTANA as of January 1, 2005, the Company's consolidated revenue and net income would have totaled €3,497.3 million and €438.2 million. Earnings per share would have amounted to €3.23.

Additionally, in 2005, the Company made another acquisition in the chemicals segment for a total purchase price of €41.5 million. The entity acquired by ALTANA generated revenues of approximately €47 million in the whole year 2005.

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

> 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 include 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, electrical insulation and since the acquisition of the ECKART group effect pigments. 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	Elimination and reconciliation	Group
Net sales	2005	2,365	907	0	0	3,272
	2004	2,109	854	0	0	2,963
Operating income/-loss	2005	604	113	-41	0	676
	2004	523	118	-37	0	604
Segment assets	2005	1,780	1,527	632	-501	3,438
	2004	1,411	747	765	-362	2,561
Long-lived assets	2005	534	478	36	0	1,048
	2004	466	260	37	0	763
Segment liabilities	2005	574	153	46	846	1,619
	2004	513	104	38	382	1,037
Capital expenditures	2005	201	44	1	0	246
	2004	165	60	1	0	226
Additions from business combinations	2005	0	604	0	0	604
	2004	0	0	0	0	0
Depreciation and amortization	2005	87	50	3	0	140
	2004	82	38	1	0	121
Other non-cash expenses/-income	2005	27	42	21	0	90
	2004	43	6	-36	0	13

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 2005 and 2004, approximately 82 % and 83 %, respectively, of net sales were generated outside of Germany.

Segment assets consist of total assets, excluding interest-bearing financial assets and current and deferred income taxes. 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, and current and deferred income taxes. Capital expenditures, as well as depreciation and amortization, relate to property, plant and equipment and intangible assets with a definite life. Additions from business combinations mainly relate to the acquisition of the ECKART group (see Note 3) and include intangible assets with an indefinite useful life. Amortization includes an impairment charge of €4 million on intangible assets which relates to the chemicals segment. Other non-cash expenses (income) mainly consist of pension expense, compensation expense of share-based payments and impairment charges for other than temporary declines in fair value of marketable securities and other long-term investments. The column elimination and reconciliation contains the reconciling amounts between amounts reported in the segments and consolidated financial information.

Operating income reconciles to net income as follows:

	2005	2004
Operating income	676	604
Financial income and income taxes	-238	-226
Net income	438	378

The following table presents selected financial information by geographic region:

in € millions	Net sales		Segment assets		Long-lived assets		Capital expenditures	
	2005	2004	2005	2004	2005	2004	2005	2004
Europe	1,674	1,504	2,735	2,104	832	615	136	182
thereof Germany	581	491	2,196	1,762	656	494	99	134
North America	927	880	649	371	121	77	94	29
thereof USA	796	769	547	333	118	74	94	27
Latin America	327	278	200	159	63	48	8	8
Far East	285	250	104	53	12	10	2	4
Other regions	59	51	66	52	20	13	6	3
Consolidation	0	0	-316	-178	0	0	0	0
Group	3,272	2,963	3,438	2,561	1,048	763	246	226

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	2005	2004
Pharmaceuticals		
Therapeutics	2,071	1,839
Imaging	108	109
Self medication (OTC)	131	115
Other	55	46
Total	2,365	2,109
Chemicals		
Additives & Instruments	364	348
Electrical Insulation	293	291
Coatings & Sealants	175	215
Effect Pigments	75	0
Total	907	854
Group	3,272	2,963

> 5

INTANGIBLE ASSETS

	Patents, licenses and similar rights	Goodwill	Software and other	Total
Cost				
Balance at January 1, 2004	188,997	93,315	20,262	302,574
Additions	37,085	119	5,740	42,944
Disposals	-1,237	0	-536	-1,773
Transfers	864	0	47	911
Translation adjustments	-2,915	-1,472	-46	-4,433
Changes in reporting entities	-2,422	0	-93	-2,515
Balance at January 1, 2005	220,372	91,962	25,374	337,708
Additions	87,325	206	6,684	94,215
Disposals	-506	-81	-129	-716
Transfers	57	0	415	472
Translation adjustments	14,556	3,823	176	18,555
Changes in reporting entities	272,368	113,357	618	386,343
Balance at December 31, 2005	594,172	209,267	33,138	836,577
Accumulated amortization				
Balance at January 1, 2004	65,911	0	6,625	72,536
Additions	27,495	0	4,444	31,939
Disposals	-979	0	-530	-1,509
Transfers	587	0	4	591
Translation adjustments	-1,115	0	-53	-1,168
Changes in reporting entities	-1,730	0	-77	-1,807
Balance at January 1, 2005	90,169	0	10,413	100,582
Additions	33,062	0	5,206	38,268
Impairments	4,006	0	0	4,006
Disposals	-603	0	-122	-725
Transfers	-131	0	123	-8
Translation adjustments	4,981	0	102	5,083
Changes in reporting entities	-1,357	0	-475	-1,832
Balance at December 31, 2005	130,127	0	15,247	145,374
Carrying amount at				
December 31, 2005	464,045	209,267	17,891	691,203
December 31, 2004	130,203	91,962	14,961	237,126

In accordance with the early adoption provisions of IFRS 3, the Company offset the historical cost basis of goodwill and accumulated amortization as of January 1, 2004 which created a new cost basis of goodwill of €93.3 million.

In 2005, the pharmaceuticals segment acquired product rights of €76.3 million in the United States of America. The changes in reporting entities mainly related to the acquisition of the ECKART group (see Note 3). The intangible assets acquired during 2005 have weighted average useful lives of 11 years.

In 2004, additions of €9.5 million related to the acquisition of customer related assets in the chemicals segment. In the pharmaceuticals segment, additions of €17.4 million related to the acquisition of trademarks.

The following table presents expected amortization expense related to patents, licenses, similar rights and software for each of the following periods:

2006	49,269
2007	43,155
2008	36,669
2009	31,905
2010	30,742
Thereafter	270,490

The actual amortization may differ from the expected amortization.

As of December 2005 and 2004, respectively, the carrying amount of goodwill by segment was as follows:

	2005	2004
Pharmaceuticals	3,796	3,796
Chemicals	205,471	88,166
	209,267	91,962

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

	2005	2004
Electrical Insulation	70,940	67,752
Coatings & Sealants	28,337	20,414
Effect Pigments	106,194	0
	205,471	88,166

In accordance with the revised IAS 36, the Company performed impairment tests on goodwill. The impairment tests are performed in the fourth quarter of each year and the recently performed tests are based on the financial budgets for the years 2006 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 can be derived from corresponding 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 before taxes 7.5%; growth rates: Additives & Instruments 2.0%, 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 the period since the performance of the impairment test and December 31, 2005, no impairment indicators have arisen.

In 2005 and 2004, no impairment of goodwill was recorded.

In 2005, an impairment of € 4.0 million relating to customer related assets and technology was recorded because the value in use had materially decreased due to the decreasing demand, decline in the sales price, the increased competition and increase in commodity prices in the Coatings & Sealants business area.

> 6

**PROPERTY, PLANT
AND EQUIPMENT**

	Land, leasehold & buildings	Plant & machinery	Equipment	Advances/ construction 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 January 1, 2005	531,787	406,814	381,369	69,286	1,389,256
Additions	18,212	21,674	43,643	68,032	151,561
Disposals	-9,470	-2,896	-27,475	-1,631	-41,472
Transfers	16,659	10,714	10,498	-37,062	809
Translation adjustments	19,563	17,294	11,963	914	49,734
Changes in reporting entities	80,481	103,853	-4,164	7,324	187,494
Balance at December 31, 2005	657,232	557,453	415,834	106,863	1,737,382
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 January 1, 2005	151,881	240,739	233,662	0	626,282
Additions	19,408	33,068	44,543	0	97,019
Disposals	-7,046	-3,026	-24,534	0	-34,606
Transfers	856	-1,596	2,030	0	1,290
Reversals	-604	0	0	0	-604
Translation adjustments	4,218	8,385	6,210	0	18,813
Changes in reporting entities	-5,820	-6,293	-6,280	0	-18,393
Balance at December 31, 2005	162,893	271,277	255,631	0	689,801
Carrying amount at					
December 31, 2005	494,339	286,176	160,203	106,863	1,047,581
December 31, 2004	379,906	166,075	147,707	69,286	762,974

In 2005, the majority of the additions in the pharmaceuticals segment related to the construction of a new production plant in Ireland and the expansion of research facilities in Germany and India. The changes in reporting entities mainly related to the acquisition of the ECKART group (see Note 3).

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 United States of America. 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, 2005 and 2004, respectively, €6.1 million and €6.5 million of the net book value related to property, plant and equipment under capital lease.

In 2005 and 2004 no impairment losses were recorded. In 2005 and 2004, the Company reversed previously recorded impairment losses of €0.6 million and €0.1 million, respectively.

> 7

LONG-TERM INVESTMENTS

	Other investments	Other long-term financial assets	Total
Cost			
Balance at January 1, 2004	27,142	4,048	31,190
Additions	17,709	1,584	19,293
Disposals	-5	-309	-314
Translation adjustments	-4	9	5
Balance at January 1, 2005	44,842	5,332	50,174
Additions	894	435	1,329
Disposals	-663	-607	-1,270
Translation adjustments	-161	348	187
Changes in reporting entities	9,001	32	9,033
Balance at December 31, 2005	53,913	5,540	59,453
Accumulated write-downs			
Balance at January 1, 2004	4,412	966	5,378
Additions	4	40	44
Changes in fair value recorded in revaluation reserve	-3,459	0	-3,459
Translation adjustments	0	9	9
Balance at January 1, 2005	957	1,015	1,972
Additions	316	0	316
Changes in fair value recorded in revaluation reserve	65	0	65
Translation adjustments	-1	339	338
Balance at December 31, 2005	1,337	1,354	2,691
Carrying amount at			
December 31, 2005	52,576	4,186	56,762
December 31, 2004	43,885	4,317	48,202

The changes in reporting entities mainly related to the acquisition of the ECKART group (see Note 3).

In 2004, the additions to long-term investments were 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 AG by €8.3 million.

As of December 31, 2005 and 2004, the carrying amount of the investment in GPC Biotech AG was €24.9 million and €24.4 million, respectively, and of the investment in NTC, it was €6.1 million and €8.3 million.

Ownership interests below 20 % in 13 (2004: 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 €2.9 million and €3.2 million in 2005 and 2004, respectively, and was shown under other investments.

Amounts totaling €0.5 million and €0.8 million of other long-term financial assets as of December 31, 2005 and 2004, respectively, related to long-term employee loans bearing a weighted average 1.8% interest rate.

> 8

INVENTORIES

Inventories consisted of:

	At December 31, 2005	At December 31, 2004
Raw materials and supplies	110,689	105,532
Work in process	83,213	54,559
Finished products and goods	203,340	163,062
Advance payments	7,317	5,399
	404,559	328,552

In the periods ended December 31, 2005 and 2004, €772.8 million and €730.8 million, respectively, of inventories was recognized as an expense in cost of sales and €27.9 million were recognized as inventory write-downs deducted from inventory categories.

> 9

**TRADE ACCOUNTS
RECEIVABLE**

Trade accounts receivable were as follows:

	At December 31, 2005	At December 31, 2004
Trade accounts receivable	596,813	502,405
Allowance for doubtful accounts	-8,298	-6,691
Long-term receivables	-7,537	-6,965
	580,978	488,749

At December 31, 2005 and 2004, respectively, one customer accounted for 2.5 % and 7.8 % of trade accounts receivable. In 2005 and 2004, respectively, this same customer accounted for 11.4 % and 14.2 % of sales.

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

	2005	2004
Allowance at the beginning of the year	6,691	7,825
Translation adjustments	400	-126
Additions	2,917	1,322
Releases	-576	-465
Utilization	-1,300	-832
Changes in reporting entities	166	-1,033
Allowance at the end of the year	8,298	6,691

> 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, 2005 and 2004 were as follows:

At December 31, 2005	Amortized cost	Fair value	Unrealized gains	Unrealized losses
Debt securities	67,393	67,326	651	718
Equity securities	63,018	67,034	4,016	0
Other	0	0	0	0
Total	130,411	134,360	4,667	718

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

In 2005 and 2004, an impairment loss for marketable securities totaling €3.8 million and €0.5 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, 2005	At December 31, 2004
Due within one year	7,918	33,544
Due after one year through five years	43,642	146,850
Due after five years through ten years	7,105	18,797
Due after ten years	8,661	1,626
	67,326	200,817

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, 2005		At December 31, 2004	
	Other current assets	Other non- current assets	Other current assets	Other non- current assets
Balances due from employees	5,093	158	4,324	45
Cash surrender value of life insurance	3,136	4,373	192	6,001
Balances due from fiscal authorities	31,470	812	41,429	743
Prepayments	10,788	10	5,012	1,053
Loans	7,049	7,311	5,224	13,581
Licenses	6,456	0	13,923	0
Balances due from related parties	1,692	0	826	0
Prepaid expenses	21,695	105	14,178	250
Derivative instruments (see Note 19)	750	304	45,520	5,146
Receivables from reimbursements	4,507	0	4,936	0
Balances due from sale of product groups	0	0	9,513	0
Asset held for disposal	1,844	0	0	0
Non-current trade accounts receivable	0	7,357	0	6,965
Other	17,557	11,565	24,739	3,232
	112,037	31,995	169,816	37,016

Of the total loans, €3.8 million and €7.6 million as of December 31, 2005 and 2004, respectively, related to the sale of the Sangtec companies in 2002.

> 12

**SHAREHOLDERS'
EQUITY**

The development of shareholders' equity is presented in detail at the end of the notes to the consolidated financial statements.

ISSUED CAPITAL

Share capital amounted to € 140.4 million, represented by 140.4 million no par value shares representing € 1 per share. The share capital is fully paid in.

AUTHORIZED CAPITAL

As of December 31, 2005, 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 4, 2005 to repurchase up to 14,040,000 shares (10 % of the authorized capital) until October 31, 2006. 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 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.

In 2005, the Company did not purchase any treasury shares.

During 2005, 73,802 shares (0.05 % of share capital) were sold in connection with the exercise of the options and 272,400 shares were issued to employees. In January 2005, 3,009 shares were transferred to members of the supervisory board as part of their compensation. In January 2005, 3,182 shares were sold to employees under the ALTANA Investment Plan 2004.

In December 2005, 123,045 shares were sold to employees under the ALTANA Investment Plan 2005 (see Note 13). These shares related to treasury shares acquired in prior years.

Together with the 5,114,846 treasury shares purchased in prior years, the Company held a total of 4,639,408 treasury shares at December 31, 2005, representing € 4.6 million (or 3.3 %) of its share capital. Of the treasury shares, 4,543,432 are intended to be used to meet obligations from the employee incentive plans and 95,976 for issuance to former DAT shareholders (see Note 17).

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 financial statements determined in accordance with the German Commercial Code.

According to Stock Corporation Act, Article 58, paragraph 1 the supervisory board and the management board decided to transfer out of ALTANA AG 2005 net income of €217.1 million an amount of €62.7 million to retained earnings, resulting in unappropriated profits of €154.4 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 €154.4 million resulting in an amount of €1.10 (2004: €0.95) per no par value share. Dividends attributable to treasury shares are not distributed but included in retained earnings.

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 (EQUITY-SETTLED)

Since 1999, the Company has granted stock options to key members of management on July 1 of each year. The exercise price for the Company's Stock Option Plans discussed below is 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 grant date. For the Stock Option Plans 2001, 2002 and 2003 the exercisability of the options was dependent on the increase of earnings per share. For the Stock Option Plans 2004 and 2005 the exercisability of the options depends on development of the ALTANA share price compared to the development of a benchmark market-based index. All options become exercisable two years after the grant date if the exercisability condition is met.

The Stock Option Plan 2001 which was open to members of the Company's management board, its senior executives and certain other key employees became exercisable on July 1, 2003 and remained exercisable over a period of three years as earnings per share in 2002 exceeded basic earnings per share in 2000 by 20%.

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 earnings per share performance condition for the 2002 plan was met.

On July 1, 2003, the Company initiated a plan for executive and management members ("Stock Option Plan 2003"). The duration, performance conditions and determination of the exercise price were identical to the Stock Option Plan 2001. 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 earnings per share performance condition for the 2003 plan was met.

On July 1, 2004, the Company initiated a plan for management members (“Stock Option Plan 2004”). The exercisability of the options depends on the growth of the ALTANA share price compared to the growth of a market-based index (70 % Dow Jones Stoxx Healthcare and 30 % Dow Jones Stoxx Chemicals). If, after two years, the growth of the ALTANA share price exceeds the growth of the index, the options will be exercisable. However, if the market condition is not met, the options only become exercisable if the ALTANA share price exceeds the growth of the index in the third or fourth year after the grant date. The options forfeit, if the market condition is not met within the four years after the grant date. The options can be exercised for five years.

On July 1, 2005, the Company initiated a plan for management members (“Stock Option Plan 2005”) which is nearly identical to the Stock Option Plan 2004. However, the profit per option is limited to 100 % of the exercise price.

	2005		2004	
	Number of options	Exercise price (€)	Number of options	Exercise price (€)
Outstanding options at January 1	3,338,250	50.48 ¹	2,251,350	49.83 ¹
Granted	1,177,100	47.49	1,226,050	51.01
Exercised	-264,300	42.41	-98,950	42.41
Forfeited	-36,700	52.83 ¹	-40,200	52.90 ¹
Outstanding options at December 31	4,214,350	50.12	3,338,250	50.48¹

¹ Weighted average

Of the outstanding shares as of December 31, 2005 1,847,700 were exercisable.

The weighted average share price at the date of exercise of the options was €48.78. The weighted average of the remaining exercise period of the options outstanding at December 31, 2005 was 3.4 years. The intrinsic value of the options exercised in 2005 was €1.7 million.

On July 1, 2002, the Company initiated a stock option plan open to Key Managers. For this plan the exercise price was increased by 10 % compared to the other Stock Option Plans as no performance condition exists. The options can be exercised from July 1, 2004 until June 30, 2012.

	2005		2004	
	Number of options	Exercise price (€)	Number of options	Exercise price (€)
Outstanding options at January 1	937,250	56.74	961,750	56.74
Granted	0	0	0	0
Forfeited	-18,200	56.74	-24,500	56.74
Outstanding options at December 31	919,050	56.74	937,250	56.74

Compensation expense for Stock Option Plans 2001 and 2002 has been calculated as the difference between the average acquisition cost of the treasury shares and the exercise price. The Stock Option Plans 2003, 2004 and 2005 are measured at the fair market value as of the grant date in accordance with IFRS 2. Compensation expense is recognized ratably over the relevant service period. Compensation expense of € 12.6 million and € 11.9 million was recognized in 2005 and 2004, respectively.

The fair value of the stock options was estimated at the date of grant using a Binominal option pricing model based on the following assumptions (assumptions for the Stock Option Plans 2002 and 2001 are presented for informational purposes only):

	Stock option plan 2005	Stock option plan 2004	Stock option plan 2003	Executive option plan 2002	Key Management option plan 2002	Stock option plan 2001
Expected dividend yield	2.40%	1.70 %	1.50 %	1.30 %	1.30 %	1.68 %
Expected volatility	30%	35 %	35 %	42 %	42 %	38 %
Risk-free interest rate	2.5%	3.5 %	3.5 %	4.5 %	4.5 %	4.5 %
Expected term (in years)	4	4	3.5	10	10	5
Correlation ALTANA share and benchmark index	35%	35 %	–	–	–	–
Share price at date of valuation (in €)	39.90	48.87	44.60	52.60	52.60	44.60
Fair value per option at grant date (in €)	5.63	11.53	14.84	27.00	25.84	16.72
Exercise price (in €)	47.49	51.01	54.65	51.58	56.74	42.41

Expected volatility is determined based on the corresponding historical amounts for the expected term of these options, which are verified, and if necessary adjusted, by the implicit volatilities regarding the extrapolation to the future. As the durations of traded options are materially less than the options granted under the stock options plans, the implicit volatilities are not a sufficient valuation basis. The market conditions of the Stock Option Plans 2004 and 2005 were considered in determining the exercise patterns of the option holders which results in an assumption that 50 % of the option holders will exercise each year when the profit per option is 25 % or more of the exercise price.

ALTANA INVESTMENT PLANS (CASH-SETTLED)

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, which is the lowest quoted price of the Company's shares on the day the management board approves the plans. A discount is granted for a specified number of shares purchased by each participant. The Company sells the shares in December of each 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 the exercise price and the market price of the Company's shares on the date on which the options are exercised.

The ALTANA Investment Plans 2000 and 2001 were either exercised or forfeited in 2004 and 2005, respectively.

	Plan 2005	Plan 2004	Plan 2003	Plan 2002	Plan 2001
Share purchase component					
Shares sold to employees	127,544	123,054	132,889	104,615	126,572
Exercise price (€)	42.60	44.50	46.11	46.00	47.00
Discount granted	13.8%	20.1%	27.4%	30.0%	30.0%
Discount granted for maximum shares for each employee	76 shares	50 shares	35 shares	32 shares	37 shares
Options component					
Options granted	127,544	134,214	176,149	115,428	165,797
Options forfeited	0	-3,097	-11,044	-10,923	-93,862
Options exercised	0	0	-7,744	-23,635	-71,935
Exercise price (€)	42.60	44.50	46.11	46.00	47.00
Date of grant	Oct 1, 2005	Oct 1, 2004	Oct 1, 2003	Oct 1, 2002	Oct 1, 2001
Exercise of the options beginning	Oct 1, 2007	Oct 1, 2006	Oct 1, 2005	Oct 1, 2004	Oct 1, 2003
Expiration of the options	Oct 1, 2009	Oct 1, 2008	Oct 1, 2007	Oct 1, 2006	Oct 1, 2005

The weighted average of the remaining exercise period of the options outstanding at December 31, 2005 was 2.4 years. The intrinsic value of the outstanding options at December 31, 2005 was €0.6 million. The intrinsic value of the options exercised was €0.2 million.

The ALTANA Investment Plans are classified as provisions and are initially measured at the grant date fair value and remeasured at fair value at the end of each reporting period. For the periods ended December 31, 2005 and 2004, compensation expense related to these plans was €0.9 million and €1.0 million, respectively. The provisions at December 31, 2005 and 2004 were €2.1 million and €2.4 million. The discount, on the first component, totaling €0.6 million and €0.9 million in 2005 and 2004, respectively, was expensed as incurred.

The fair value of the ALTANA Investment Plans at the balance sheet date was estimated using the Black Scholes model based on the following assumptions:

	Plan 2005	Plan 2004	Plan 2003	Plan 2002
Expected dividend yield	1.7 %	1.7 %	1.7 %	1.7 %
Expected volatility	27.0 %	27.0 %	27.0 %	27.0 %
Risk-free interest rate	2.9 %	2.9 %	2.9 %	2.9 %
Expected term (in years)	2.8	1.8	0.8	0.5
Fair value per option (in €)	10.78	8.02	4.56	3.50

The approach in determining the volatility is identical to the one described above. Based on the simple structure of the ALTANA Investment Plan, the Black Scholes model was used to determine the fair value. Duration of the options was estimated and not implicitly considered in the calculation.

> 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 based on the parameters, salaries and number of employees as of 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 mainly entitled German employees to invest part of their earnings for retirement. The contribution determined by the employee is invested in funds set up by the Company, who guarantees the employees a minimum return.

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, 2005	At December 31, 2004
Provision for pensions	350,477	277,383
Provision for other post-retirement benefits	7,865	4,455
	358,342	281,838

The provision for pensions was as follows:

	2005		2004	
	German plans	Non-German plans	German plans	Non-German plans
Defined benefit obligation				
Balance at January 1	252,144	71,093	224,124	57,157
Changes in reporting entities	7,391	2,703	-2,629	0
Translation adjustments	0	7,680	0	-3,575
Service cost	8,017	4,793	6,582	3,591
Interest cost	12,659	5,258	12,196	3,758
Actuarial losses	47,045	4,947	18,611	4,328
Plan amendments	-28	-21	-9	0
Other changes	476	1,816	2,720	7,784
Benefits paid	-9,989	-1,531	-9,451	-1,950
Balance at December 31	317,715	96,738	252,144	71,093
Plan assets				
Balance at January 1	0	45,854	0	29,508
Changes in reporting entities	300	1,566	0	0
Translation adjustments	0	4,999	0	-2,381
Actual gain on plan assets	0	4,469	0	4,596
Employer contribution	0	11,347	0	7,175
Benefits paid	0	-2,850	0	-1,416
Other changes	17	-1,726	0	8,372
Balance at December 31	317	63,659	0	45,854
Funded status at December 31	317,398	33,079	252,144	25,239
Provision recognized at December 31	317,398	33,079	252,144	25,239

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

Asset category	At December 31, 2005		At December 31, 2004	
Equity securities	31,890	50 %	21,933	48 %
Bonds	26,713	42 %	20,645	45 %
Others	5,373	8 %	3,276	7 %
	63,976	100 %	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 legal restrictions exist and only fixed interest-bearing marketable securities are allowed as plan assets. This results over all to a balanced asset allocation between equity securities and bonds.

The expected return on plan assets is determined based on market expectations and historical experience.

At December 31, 2005, the employee benefit obligations expected to be paid in the future were as follows:

Due in 2006	12,370
Due in 2007	13,116
Due in 2008	14,207
Due in 2009	14,843
Due in 2010	16,447
Due between 2011 and 2015	93,409

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

	At December 31, 2005		At December 31, 2004	
	German plans	Non-German plans	German plans	Non-German plans
Weighted average assumptions				
Discount rate	4.0%	4.5%	5.0%	4.8%
Expected return on plan assets	0	7.2%	0	6.4%
Rate of compensation increase	3.5%	3.4%	3.5%	3.8%
Rate of pension increase	1.5%	3.4%	1.5%	2.4%

The components of net periodic pension costs were as follows:

	At December 31, 2005		At December 31, 2004	
	German plans	Non-German plans	German plans	Non-German plans
Service cost	8,017	4,793	6,582	3,591
Interest cost	12,659	5,258	12,196	3,758
Plan amendments	-28	-21	-9	0
Expected return on plan assets	0	-1,380	0	-1,409
Other	0	0	-15	-243
Net periodic pension costs	20,648	8,650	18,754	5,697

Of the total net periodic pension costs of €29.3 million an amount of €6.8 million was recognized in cost of sales, €8.6 million in research & development, €8.7 million in selling and distributions and €5.2 million in general administrative expense.

An amount of €1.2 million of the change in actuarial gains and losses is related to experienced adjustments of the German subsidiaries.

> 15

OTHER PROVISIONS

	Employees	Sales and marketing	Warranty	Other	Total
Balance at January 1, 2005	117,969	74,795	8,517	42,872	244,153
Additions	90,233	65,468	687	22,511	178,899
Utilization	-71,763	-58,521	-729	-19,990	-151,003
Release	-2,087	-6,715	-320	-3,290	-12,412
Translation adjustments	4,326	5,793	357	2,035	12,511
Changes in reporting entities	10,437	2,124	301	4,093	16,955
Balance at December 31, 2005	149,115	82,944	8,813	48,231	289,103
Thereof long-term					
at December 31, 2005	51,330	10,672	5,379	17,821	85,202
at December 31, 2004	40,338	3,787	4,733	8,736	57,594

The employee-related provisions encompass accruals for special bonuses, as well as anniversary, paid vacation and provisions for employee incentive plans. Provisions for sales and marketing pertain primarily to sales bonuses and commissions. Provisions for warranty cover commitments in connection with goods delivered and services rendered. For further information in regards to the obligations from employee incentive plans see Note 13. The claims regarding employee incentive plans are significantly depending on the stock price of the ALTANA share. The Company expects that the balance of other current provisions will be utilized during 2006.

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, 2005 and 2004, respectively, an accrual for environmental cost totaling €6.2 million and €7.1 million was included and for a part of the provisions for environmental risks. A corresponding asset of €4.5 million and €4.9 million was recorded which represents amounts due from the previous land owners.

> 16

DEBT

	At December 31, 2005		At December 31, 2004	
	Non-current liabilities	Current liabilities	Non-current liabilities	Current liabilities
Borrowings from banks	55,767	286,986	3,640	8,624
Profit-sharing certificates	0	7,966	0	8,062
Herbert Quandt Foundation	0	26,423	0	26,382
Lease obligations	4,844	546	5,337	501
Other	6,302	67	4,801	410
	66,913	321,988	13,778	43,979

For the years ended December 31, 2005 and 2004, weighted average interest rates for borrowings from banks were 2.7 % and 2.0 %, respectively.

As of December 31, 2005 and 2004, respectively, bank borrowings included € 23.4 million and € 6.8 million denominated in foreign currencies other than Euro. Of these borrowings, amounts of € 20.5 million and € 6.3 million were denominated in U. S. Dollars as of December 31, 2005 and 2004, respectively.

Bank borrowings of € 61.1 million and € 1.1 million were secured by mortgages (land and other assets) as of December 31, 2005 and 2004, respectively.

On September 27, 2005, the Company received lines of credit of a total amount of € 500 million from a banking syndicate bearing variable interest to finance the acquisition of the ECKART group (see Note 3) and some other minor acquisitions. The lines of credit are granted until September 2007. As of December 31, 2005, the Company has drawn € 250 million. The maturities are negotiated separately for each drawing.

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 years ended December 31, 2005 and 2004, respectively, the effective interest rate was 154.7 % and 133.6 % on these certificates. Amounts in excess of 7 % totaling € 11.8 million and € 10.2 million for the years 2005 and 2004 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 is based on an interest rate equaling the discount rate ("Basiszinssatz der Deutschen Bundesbank") plus 2.5 %, but on a minimum rate of 5.5 %. It is considered short-term since it may be called at any time by the Foundation.

At December 31, 2005, the aggregate amounts of indebtedness maturing during the next five years and thereafter were as follows:

Due in 2006	321,442
Due in 2007	22,355
Due in 2008	6,152
Due in 2009	5,507
Due in 2010	5,461
Due thereafter	22,594
Total	383,511
Lease obligations (see Note 26)	5,390
Total debt	388,901

> 17

**OTHER
LIABILITIES**

Other liabilities consisted of the following:

	At December 31, 2005		At December 31, 2004	
	Other non-current liabilities	Other current liabilities	Other non-current liabilities	Other current liabilities
Payroll taxes	0	30,993	0	23,316
Employees and social security contributions	413	24,051	460	18,758
Commissions	0	4,183	0	4,352
Debit notes to customers	0	4,229	8	5,725
Balances due to related parties	0	10,141	0	9,539
DAT lawsuit	0	8,185	0	8,195
Derivative financial instruments	0	12,125	0	596
Other	335	10,166	366	11,888
	748	104,073	834	82,369

The item DAT lawsuit refers to the obligations of ALTANA AG towards the former shareholders of Deutsche Atlantische Telegraphengesellschaft (DAT). Through a court ruling made on July 4, 2003, the former shareholders were granted a higher exchange ratio for their DAT shares. ALTANA's obligation has to be settled in cash and in the Company's shares. The obligation was measured at the stock price on the day of the final court ruling.

> 18

**DEFERRED
INCOME**

The major amounts in deferred income relate to the following contracts:

Under the terms of the Company's licensing agreement with Wyeth Inc., U.S.A., 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 semfinished 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 was to collaborate in the development and commercialization of the Company's product candidate, Roflumilast, for the expected treatment of respiratory diseases and conditions, including asthma and chronic obstructive pulmonary disease (COPD). On June 30, 2005 the collaboration agreement was terminated and Pfizer returned all rights and licenses relating to Roflumilast. The Company has no remaining obligations or contingencies under the terms of the termination agreement. Accordingly, the up-front and milestone payments previously deferred over the collaboration period were recognized at the date of the termination in other operating income.

Similar agreements with another partner exist for the joint development and marketing of Roflumilast and Ciclesonide in Japan. These agreements were not affected by the termination of the agreement with Pfizer. Up-front payments received are 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 exchange rates. Furthermore, the Company is exposed to risk interest rate fluctuations from their financing activities. Derivative financial instruments are used to reduce various types of market 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, 2005, the existing derivative financial instruments were mainly used to hedge forecasted foreign currency transaction fluctuations.

By their nature, all such instruments involve risks, 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, 2005 and 2004, 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.

Borrowings from banks include loans that are based on variable interest rates and therefore fluctuate according to interest rate changes in the market. Future interest rate changes will therefore lead to changes in future cash flows.

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, 2005 and 2004 amounted to €387.4 million and €359.1 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, 2005 and 2004, the notional amounts of options totaled €82.5 million and €206.0 million, respectively.

INTEREST RATE SWAPS

ALTANA uses interest rate swaps to hedge risks from fluctuations of interest rates on bank borrowings. As of December 31, 2005, the Company had interest rate swap agreements for debt of €37.1 million and U.S. Dollar 13.6 million. In 2004 the Company did not have such interest rate swaps.

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, 2005		At December 31, 2004	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL INSTRUMENTS				
Assets				
Long-term investments	53,831	53,831	44,956	44,956
Trade accounts receivable	586,823	586,823	495,714	495,714
Marketable securities	134,360	134,360	263,465	263,465
Cash and cash equivalents	469,473	469,473	316,662	316,662
Liabilities				
Borrowings from banks	342,753	342,753	12,264	12,264
Trade accounts payable	272,331	272,331	226,432	226,432
Other	42,933	42,933	41,131	41,131
Derivative financial instruments				
Assets – currency contracts	1,054	1,054	50,666	50,666
thereof cash flow hedge	988	988	32,437	32,437
thereof fair value hedge	66	66	15,089	15,089
thereof other	0	0	3,140	3,140
Liabilities – currency contracts	9,387	9,387	596	596
thereof cash flow hedge	7,179	7,179	1	1
thereof fair value hedge	1,997	1,997	277	277
thereof other	211	211	318	318
Interest swaps	2,738	2,738	0	0
thereof cash flow hedge	215	215	0	0
thereof other	2,523	2,523	0	0

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

The profit sharing certificates are not included in the table since their fair market value is not readily determinable. Additionally investments in 13 (2004: 13) entities where the interest of ALTANA is below 20 % are measured at cost less impairment as the fair values of such investments cannot be determined as the securities are not publicly traded. The carrying value was €2.9 million and €3.2 million as of December 31, 2005 and 2004, 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 deposits.

> 20

OTHER OPERATING INCOME

	2005	2004
Up-front and milestone payments – license agreements	36,313	15,589
Gain on sale of product groups	5,085	4,058
Reimbursements	7,716	19,816
Release of accruals	1,600	306
Gains on disposal of fixed assets	9,427	2,638
Foreign exchange gains, net	0	4,796
Other	27,949	21,928
	88,090	69,131

In 2005 and 2004, the gain from sale of product groups, recorded in other operating income, related to minor activities in the chemicals segment.

Foreign exchange gains and losses are shown net as follows:

	2005	2004
Foreign exchange gains	3,602	15,042
Foreign exchange losses	-9,223	-10,246
Net gain (loss)	-5,621	4,796

> 21

OTHER OPERATING EXPENSES

	2005	2004
Write-off of receivables	2,379	1,322
Losses on disposal of fixed assets	2,420	1,257
Foreign exchange losses, net (see Note 20)	5,621	0
Charitable contributions	4,934	3,535
Fees and other charges	2,020	4,456
Other	13,888	23,876
	31,262	34,446

> 22

FINANCIAL INCOME

	2005	2004
Interest income	19,239	16,063
Gain on disposal of marketable securities	7,484	2,120
Gain on derivative financial instruments	7,260	7,153
Other financial income	86	568
Dividends received	1,609	1,054
Income from associated companies	757	670
Financial income	36,435	27,628

> 23

FINANCIAL EXPENSES

	2005	2004
Interest expense	8,388	6,918
Impairment charges	4,155	457
Losses on disposal of marketable securities	2,828	1,680
Losses on derivative financial instruments	12,051	10,675
Other financial expenses	888	745
Financial expense	28,310	20,475

In 2005, of the impairment charges €3.8 million related to marketable securities due to fluctuations in quoted market prices and €0.3 million related to investments which were valued at cost less impairment. In 2004, impairment charges related to marketable securities only.

> 24

INCOME TAXES

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

	2005	2004
Germany	384,118	327,548
Foreign	300,020	283,720
	684,138	611,268

Income tax expense for these geographic regions was as follows:

	2005	2004
Germany	159,097	133,524
Foreign	102,200	94,164
Total current taxes	261,297	227,688
Germany	-5,866	2,525
Foreign	-9,722	2,348
Total deferred taxes	-15,588	4,873
Total income tax expense	245,709	232,561

Since January 1, 2001, a uniform tax rate of 25 % plus a 5.5 % solidarity surcharge on corporate tax is applicable in Germany. Additionally, the Company is subject to trade tax. The combined income tax rate was 38.2 % for the year 2004 and 38.1 % for the year 2005, of which approximately 12 % related to trade tax.

For the years ended December 31, 2005 and 2004, expenses differed from the amounts computed by applying the effective combined income tax rate of approximately 38 % and 38 %, respectively, as follows:

	2005	2004
Income before taxes	684,138	611,268
Computed income tax expense at the effective combined income tax rate	261,160	233,260
Non-deductible expenses	21,083	27,027
Foreign tax rate differential	-20,591	-24,203
Tax free income	-13,391	-5,850
Tax for prior years	-826	1,355
Other	-1,726	972
Total	245,709	232,561
Effective income tax rate	35.9 %	38.0 %

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

	At December 31, 2005	At December 31, 2004
Assets		
Intangibles	8,844	7,652
Property, plant and equipment	8,870	8,282
Inventories	13,115	17,805
Receivables and other assets	12,945	9,497
Pension and other post-retirement benefits	52,320	31,245
Other provisions	31,377	19,740
Liabilities	10,914	6,705
Deferred income	36,965	32,087
Tax loss carry-forwards	6,460	3,849
Other	1,341	1,042
Deferred tax assets	183,151	137,904
Liabilities		
Intangibles	-15,116	-1,823
Property, plant and equipment	-38,524	-30,982
Financial assets	-5,118	-5,800
Marketable securities	-965	-1,419
Inventories	-9,079	-7,174
Receivables and other assets	-7,054	-18,349
Other provisions	-22,472	-18,018
Liabilities	-1,560	-4,637
Other	-900	-4,504
Deferred tax liabilities	-100,788	-92,706
Deferred tax assets, net	82,363	45,198

Net deferred income tax assets and liabilities were as follows:

	At December 31, 2005	At December 31, 2004
Deferred tax assets	103,840	53,223
Deferred tax liabilities	-21,477	-8,025
Deferred tax assets, net	82,363	45,198

At December 31, 2005 the Company had tax loss carry-forwards of €56.4 million (2004: €33.3 million) of which €17.1 million (2004: €11.3 million) have unlimited carry-forward periods, €31.5 million expire before 2010 (2004: €17.4 million, expire before 2009) and €7.8 million expire after 2010 (2004: €4.6 million after 2009). Deferred tax assets on tax loss carry-forwards of €29.0 million and €16.0 million were not recognized as of December 31, 2005 and 2004, respectively, due to the fact that the future realization against taxable income is not probable.

At December 31, 2005 and 2004, respectively, a deferred tax liability was not provided for the excess amount of €482 million and €756 million which represents the temporary differences for financial reporting under IFRS over the tax basis of certain investments in subsidiaries as the timing of their reversal can be controlled and it is probable that the difference will not reverse in the foreseeable future.

> 25

**OTHER INFORMATION
ON THE INCOME
STATEMENT**

Personnel expenses consisted of the following items:

	2005	2004
Wages and salaries	553,968	484,058
Social security contributions	97,805	90,040
Expenses for pensions and other post-retirement benefits	39,008	31,606
Total personnel expenses	690,781	605,704

In 2005 and 2004, the compensation expenses from employee incentive plans in accordance with IFRS 2 included in personnel expenses were €14.1 million and €13.8 million, respectively.

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

Number of employees by segment	2005	2004
Pharmaceuticals	8,612	7,979
Chemicals	4,555	2,648
Holding company	62	64
Total	13,229	10,691

In 2005 and 2004, the pro rata consolidated companies had on average 216 and 210 employees for the years ended, which were included proportionately. The above figures include 293 and 308 interns for 2005 and 2004. As of December 31, 2005, the average number of employees includes 1,905 from the ECKART group.

Amortization, depreciation and impairment charges are as follows:

	2005	2004
Amortization of intangible assets	38,268	31,883
Depreciation of property, plant and equipment	97,019	88,986
Impairment of intangible assets	4,006	56
Impairment of long-term investments	316	44
Total	139,609	120,969

> 26

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 & 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, 2005, the estimated payments to these parties, assuming the milestones or other conditions are met, were as follows:

2006	29,150
2007	2,877
Total	32,027

GUARANTEES AND OTHER COMMITMENTS

	At December 31, 2005	At December 31, 2004
Commitments for capital expenditures and other purchase obligations	51,353	46,844
Guarantee for pension obligations of disposed business line	14,210	15,085
Other	399	4,067
Total	65,962	65,996

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 ever 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, 2005 were:

	Capital leases	Operating leases
2006	784	21,961
2007	451	17,791
2008	419	13,310
2009	393	10,956
2010	365	9,006
After 2010	4,107	31,010
Total minimum lease payments	6,519	104,034
Less amount representing interest	1,129	
Present value of lease payments	5,390	
Less current portion	546	
Non-current lease obligations	4,844	

Total rent expense was €48.9 million and €40.4 million for the years ended December 31, 2005 and 2004, respectively.

> 27

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, 2005	At December 31, 2005
Balances due from related parties	1,692	826
Balances due to related parties	10,141	9,539
Deposit from Herbert Quandt Foundation	26,423	26,382

	2005	2004
Related party transactions		
Sales	778	1,096
Services and goods acquired	37,263	52,001
Interest income	272	17
Interest expense	3,831	2,034

The amount for services and goods acquired and balances due to and due from related parties mainly related to the toll manufacturing of Bracco ALTANA Pharma GmbH. The terms and conditions of the agreements are at arm's length.

Regarding the terms and conditions relating to the Herbert Quandt Foundation see Note 16.

> 28

COMPENSATION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

If the proposal regarding the distributed dividend for 2005 is approved at the annual shareholders' meeting, the compensation of the supervisory board will amount to € 1.5 million (2004: € 1.4 million). Of the compensation for 2005 and 2004 € 0.3 million were fixed in both years. The variable portion was € 1.0 million and € 0.9 million for 2005 and 2004, respectively. Additionally, € 0.2 million were paid to delegates in 2005 and 2004, respectively, 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 paid in cash to the management board including remuneration in kind amounted to €5.1 million and €4.7 million for the years 2005 and 2004, respectively. Thereof €1.5 million for the years 2005 and 2004, respectively, was fixed compensation and €3.6 million and €3.2 million was variable compensation.

The compensation expense for employee incentive plans for the members of the management board totaled €1.4 million and €1.3 million for the years ended December 31, 2005 and 2004, respectively.

For the members of the management board, a pension accrual in the amount of €5.5 million and €4.4 million was recorded as of December 31, 2005 and 2004, respectively. Service cost totaled €0.3 million for each of the years ended 2005 and 2004, respectively. For prior members of the management board and their surviving dependents, a pension accrual in the amount of €6.8 million and €6.9 million was recorded as of December 31, 2005 and 2004, respectively. The compensation expense totaled €0.6 million for both of the years ended December 31, 2005 and 2004.

The compensation expense for the management board for the years ended December 31, 2005 and 2004 totaled €6.8 million and €6.3 million, respectively, including compensation paid in cash, remuneration in kind, stock options and service cost for pensions.

A more detailed presentation referring to the compensation of the supervisory board and management board is given in the Compensation Report.

> 29

FEES PAID TO THE AUDITOR

	2005
Audit of financial statements	1,787
Other confirmation or valuation services	1,536
Tax related services	157
	3,480

> 30

LITIGATION

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 analyses 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 impact the Company's consolidated balance sheets, income statements, statement of cash flows or statements of changes in equity.

> 31

SUBSEQUENT EVENTS

The management board approved the financial statements on February 21, 2006. The supervisory board of ALTANA AG authorized the issuance of the financial statements on March 15, 2006.

> 32

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
 Unipharma GmbH, Konstanz
 ALTANA Chemie AG, Wesel
 ALTANA Coatings & Sealants GmbH, Wesel
 ALTANA Electrical Insulation GmbH, Wesel
 ALTANA Chemie Beteiligungs GmbH, Fürth
 BYK-Chemie GmbH, Wesel
 BYK-Gardner GmbH, Geretsried
 DS-Chemie GmbH, Bremen
 Rhenania Coatings GmbH, Grevenbroich
 Terra Lacke GmbH, Lehrte
 Beck Electrical Insulation GmbH, Hamburg

> 33

STATEMENT OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

On November 24, 2005, the management and supervisory boards of the Company reconfirmed the corporate governance statement of compliance in accordance with Sec 161 German Stock Corporation Act (AktG). This statement is available on the website of the Company (see chapter Corporate Governance on page 24 of the annual report).

> 34

**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, 2005 and 2004 are set out in the reconciliation below:

	Note	2005	2004
Net income under IFRS		438,429	378,707
Adjustments			
Goodwill	a	-3,146	-1,377
Intangible assets other than goodwill	b	-6,867	-7,517
Capitalization of interest on property, plant & equipment	c	36	-131
Employee incentive plans	d	-2,619	11,586
Provisions for pensions and similar obligations	e	-274	-998
Voluntary termination benefits	f	464	-555
Revenue recognition	g	1,765	1,803
Other	h	-1,099	-813
Tax effect of U.S. GAAP adjustments	i	1,445	-1,155
Differences in accounting for income taxes standards	j	248	5,655
Minority interests	k	-299	-573
Net income under U.S. GAAP		428,083	384,632
Basic earnings per share under U.S. GAAP		3.16	2.83
Diluted earnings per share under U.S. GAAP		3.16	2.83
	Note	At December 31, 2005	At December 31, 2004
Shareholders' equity under IFRS		2,013,559	1,650,306
Adjustments			
Goodwill	a	-17,184	-14,086
Intangible assets other than goodwill	b	34,979	40,893
Capitalization of interest on property, plant & equipment	c	4,741	4,693
Employee incentive plans	d	952	3,297
Provisions for pensions and similar obligations	e	29,865	16,957
Voluntary termination benefits	f	19,022	15,035
Revenue recognition	g	-11,026	-12,791
Other	h	2,092	3,061
Tax effect of U.S. GAAP adjustments	i	-13,899	-9,470
Differences in accounting for income taxes standards	j	-12,736	-13,046
Minority interests	k	-2,137	-1,681
Shareholders' equity under U.S. GAAP		2,048,228	1,683,168

Certain reconciliation items were adjusted as a result of the retroactive application of IFRS 2 and IAS 19. Additionally, certain line items have been reclassified from prior years due to materiality.

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 of pre 1995 goodwill and accumulated amortization 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.

U.S. GAAP goodwill will subsequently be adjusted when the entity that goodwill was allocated to is disposed of or the related goodwill is impaired. Depending on the result of the disposal, a reversal of the gain or loss recognized for IFRS purposes will be recognized in the U.S. GAAP income statements.

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 period not being adjusted. IFRS 3 requires goodwill acquired in a business combination to be measured after initial recognition at cost less any accumulated impairment losses. Goodwill is no longer amortized but instead is tested for impairment annually or more frequently, if events and circumstances indicate that impairment may exist.

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets". 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.

Upon adoption of SFAS No.142 the Company assessed 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. 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 goodwill impairment test in the fourth quarter of 2005 and 2004, and found no indications of impairment.

In August 2003, the Company acquired various assets in a business combination 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 this standard even if the provisions for capitalizing an intangible asset would have been met under the revised IAS 38. Therefore the goodwill recognized from acquisitions in 2003 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, 2005	At December 31, 2004
Carrying value under IFRS (see Note 5)	209,267	91,962
Goodwill acquired before the year 1995	769	1,116
Differences from foreign currency translation	-2,355	-4,646
Accumulated amortization under IFRS	33,360	33,360
Cost of customer related intangibles	-43,103	-43,103
Goodwill disposed of	-3,615	-813
Goodwill acquired	-2,240	0
Carrying value under U.S. GAAP	192,083	77,876

The changes in the carrying value of goodwill for the years ended December 31, 2005 and 2004, were as follows:

	Pharmaceuticals	Chemicals	Total
Balance as of January 1, 2004	7,078	74,243	81,321
Goodwill acquired during the year	0	119	119
Goodwill disposed during the year	0	-1,377	-1,377
Translation adjustments	111	-2,298	-2,187
Balance as of December 31, 2004	7,189	70,687	77,876
Goodwill acquired during the year	0	115,065	115,065
Goodwill disposed during the year	0	-3,149	-3,149
Translation adjustments	1,636	654	2,291
Balance as of December 31, 2005	8,825	183,257	192,083

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.

Upon adoption of SFAS 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) from the goodwill acquired in August 2003 under IFRS € 43.1 million was reclassified to customer related intangibles under U.S.GAAP.

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

	At December 31, 2005	At December 31, 2004
Carrying value under IFRS (see Note 5)	481,936	145,164
Gross-up for deferred taxes of acquired temporary differences		
(according to EITF 98-11)	2,691	5,382
Customer related intangibles at acquisition cost	43,103	43,103
Amortization on customer related intangibles	-10,144	-5,968
Translation adjustments	-671	-1,624
Carrying value under U.S.GAAP	516,915	186,057

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, 2005	At December 31, 2004
Carrying value under IFRS (see Note 6)	1,047,581	762,974
Interest costs capitalized in prior years	5,743	5,743
Interest capitalization current year	290	0
Accumulated depreciation of interest costs capitalized	-1,241	-988
Translation adjustments	-51	-62
Carrying value under U.S.GAAP	1,052,322	767,667

D) EMPLOYEE INCENTIVE PLANS

As described in Note 2, the Company retrospectively adopted IFRS 2 and restated its prior year financial statements to reflect the cost of grants awarded after November 7, 2002 and not yet vested by January 1, 2005. The Company early adopted SFAS 123 R "Share-Based Payments" using the modified prospective application method as of January 1, 2005. Prior to the adoption of SFAS 123 R, the Company accounted for employee incentive plans under the intrinsic value model, in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Pursuant to the modified prospective method of adopting SFAS 123 R, share-based employee incentives granted after January 1, 2005 and grants not yet vested at that date are measured at fair value.

As of January 1, 2005, the accounting for share-based payments is the same under IFRS and U.S. GAAP, however a reconciling item will remain in respect to the 2002 Stock Option Plan for Key Managers and the Stock Option Plan 2001 as these plans were not restated under IFRS 2. For the period ended December 31, 2005, the income statement under U.S. GAAP includes a cumulative effect of a change in accounting principle of €2.3 million to measure the Company's outstanding liability awards at fair value in accordance with SFAS 123 R.

Due to the adoption of the new IFRS 2, a new difference results in the reconciliation between IFRS and U.S. GAAP which is summarized under L).

If compensation expense for stock-based compensation under the Management Stock Option Plans 2001 to 2004 and the Stock Option Plan for executives 2002 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 in 2004 by €18.1 million to €366.5 million. Earnings per share would have been €2.70.

E) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

As described in Note 2, the Company retroactively adopted the amendments to IAS 19. Actuarial gains and losses that are the result of calculating employee benefit obligations are recognized directly in shareholders' equity in the period in which they occur. Due to the adoption of the new IAS 19, a new difference results in the reconciliation between IFRS and U.S. GAAP which is summarized under L). In accordance with SFAS No. 87, "Employers' Accounting for Pensions", the corridor approach is applied which results in actuarial gains and losses being recognized in net income if the gains and losses exceed a corridor of 10% (the "corridor approach") over the average remaining service period of active employees.

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. IAS 19 does not require the recognition of an 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 was as follows:

	At December 31, 2005	At December 31, 2004
Provision under IFRS (see Note 14)	358,342	281,838
Different effective dates for application of corridor approach	-77,899	-21,528
Additional minimum liability	48,014	4,601
Translation adjustments	19	-29
Carrying value under U.S. GAAP	328,476	264,882

F) VOLUNTARY TERMINATION BENEFITS

Under IAS 19, 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 ranges from zero to 60 months.

G) 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 exists. 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.

H) OTHER

There are also differences between IFRS und U.S. GAAP in relation to (a) hyperinflation accounting, (b) accounting for contingencies, (c) reversals of previously impaired fixed assets (asset impairment), (d) marketable securities and other minor items. None of the differences are individually significant and they are therefore shown accumulated in this line item.

I) TAX EFFECT OF U.S. GAAP ADJUSTMENTS

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

J) DIFFERENCES IN ACCOUNTING FOR INCOME TAXES STANDARDS

As a result of a tax law change enacted in Germany on December 22, 2003 (KORB II), the method of calculating deferred taxes on temporary differences related to domestic and foreign shareholdings changed. For U.S. GAAP, a reconciling item was recorded as required by SFAS 109 to recognize deferred tax liabilities for the undistributed earnings of foreign subsidiaries which are not essentially permanent in duration.

Similarly a deferred tax liability was 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, deferred taxes are not recognized for temporary differences resulting 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 described in adjustment b), EITF No. 98-11 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.

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.

Under IFRS 2, a deferred tax asset is recognized only when share options have a current intrinsic value that is deductible for tax purposes to the extent that it is probable that taxable profit will be available against which these deductible temporary differences will be utilized. Adjustments are made each reporting period to reflect the expected tax deduction based on the market value of the Company's stock as of the reporting date. SFAS 123 R's general principle is that a deferred tax asset is established as the Company recognizes compensation cost for book purposes for awards that are expected to result in a tax deduction under existing tax law. The deferred tax asset is recognized based on the grant date fair value of the equity award, not on the current intrinsic value of the award each reporting period. Under SFAS 123 R, the deferred tax asset is not adjusted for subsequent changes in the market price of the Company's stock. If the ultimate tax deduction exceeds the cumulative book compensation cost that the Company recognized, the tax benefit associated with any excess deduction will be considered and will be recognized as additional paid-in capital. If the tax deduction is less than the cumulative book compensation cost, the resulting difference should first be charged to APIC (to the extent of accumulated prior recognized windfalls) with any remainder reported as part of income tax expense. The majority of the Company's Stock Option Plans are awarded in Germany, where such expenses are not tax deductible. Expenses recognized on the ALTANA Investment Plan are tax deductible.

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

	Shareholders' equity At December 31,		Income statement	
	2005	2004	2005	2004
Outside basis differences	-6,533	-4,893	-1,640	1,968
Deferred taxes related to revaluation surplus	-960	-1,022	0	149
Deferred taxes related to stock options	-1,019	0	-1,019	0
Deferred taxes arising upon initial recognition of an asset or liability	-2,691	-5,382	2,691	3,206
Income taxes paid on intercompany profits	-1,533	-1,749	216	332
	-12,736	-13,046	248	5,655

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, 2005 and 2004, deferred tax assets and liabilities for U.S. GAAP were as follows:

	At December 31, 2005	At December 31, 2004
Deferred tax assets – current	63,631	33,781
Deferred tax assets – non-current	54,515	14,626
Deferred tax liabilities – current	-40,778	-7,615
Deferred tax liabilities – non-current	-21,640	-18,110

K) MINORITY INTERESTS

Contrary to IFRS, minority interests are deducted in the determination of U.S. GAAP net income and excluded from total equity.

L) ADJUSTMENT OF PRIOR YEARS FINANCIAL STATEMENTS

As described under d) and e), the retrospective application of IFRS 2 and IAS 19 results in new differences in reconciliations between IFRS and U.S. GAAP reported in prior years. The differences are summarized as follows:

	U.S. GAAP Adjustment as reported	IFRS Adjustment IAS 19	IFRS 2 Adjustment for share-based payment with cash settlement	IFRS 2 Adjustment for share-based payment with equity settlement	U.S. GAAP Adjustment restated
Employee incentive plans					
Income statement 2004	-980	0	664	11,902	11,586
Shareholders' equity 2004	2,440	0	857	0	3,297
Provisions for pensions and similar obligations					
Shareholders' equity 2004	-1,113	18,070	0	0	16,957

> 35

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, 2005	At December 31, 2004
Balance sheet information		
Fixed assets	3,283	2,695
Other assets	16,300	12,031
Total assets	19,583	14,726
Shareholders' equity	15,382	12,695
Provisions	3,058	1,506
Liabilities	1,143	525
Total liabilities and shareholders' equity	19,583	14,726
	2005	2004
Income statement information		
Net sales	22,056	21,135
Operating income	11,711	12,454
Net income	9,913	10,438
Cash flow statement information		
Net cash flow used in operating activities	14,901	10,088
Net cash flow used in investing activities	-814	-239
Net cash flow used in financing activities	-8,369	-11,049

CONSOLIDATED CASH FLOW STATEMENT

The consolidated statements of cash flows were 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 prepared.

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:

	2005	2004
Net income under U.S. GAAP	428,083	384,632
Net unrealized gains/losses on available-for-sale securities and impact of derivatives net of tax of €2,448 and €3,051 in 2005 and 2004, respectively	-17,869	2,797
Excess of additional minimum liability over prior service cost, net of tax of €17,344 and €1,794 in 2005 and 2004, respectively	-26,067	-1,545
Foreign currency translation adjustments	75,174	-11,298
Other comprehensive expense, net of tax	31,238	-10,046
Comprehensive income, net of tax	459,321	374,586

Accumulated balances of other comprehensive income were as follows:

	Marketable securities	Additional minimum liability in excess of prior service cost	Derivatives	Foreign currency translation	Other comprehensive income (loss)
Balance at January 1, 2004	13,056	-1,262	14,101	-132,693	-106,798
Reclassification to net income, net of tax	-33	0	2,628	0	2,595
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
Reclassification to net income, net of tax	-4,652	0	-106	0	-4,758
Net unrealized losses, net of tax	8,360	-26,067	-21,471	75,174	35,996
Balance at December 31, 2005	16,131	-28,874	-4,046	-68,817	-85,606
Tax effect	-97	2,545	17,344	0	19,792

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

Issued in 2005, effective for current period:

FIN No. 47, "Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143", issued in March 2005, clarified that the term conditional asset retirement obligation as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations", refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. This interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of this interpretation did not have an impact on the Company's financial positions or results of operations.

In June 2005, the EITF reached consensus on Issue 05-6, "Determining the Amortization Period for Leasehold Improvements". This Issue clarifies that the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception should be based on the lesser of the useful life of the leasehold improvements or the period of the lease including all renewal periods that are reasonably assured of exercise at the time of the acquisition. The Issue is effective for leasehold improvements that are purchased or acquired in reporting periods beginning after June 29, 2005. The adoption of this interpretation did not have an impact on the Company's financial positions or results of operations.

Issued in 2005, effective in future periods:

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections a Replacement of APB Opinion No. 20 and FASB Statement No. 3", which changes the requirements for the accounting for and reporting of a change in accounting principle.

This Statement provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. This Statement also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by this Statement.

This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this standard will not have an impact on the Company's financial positions or results of operations, as the Statement is in accordance with our IFRS accounting policy.

In June 2005, the EITF reached consensus on Issue 05-5, "Accounting for Early Retirement or Post-employment Programs with Specific Features (Such as Terms Specified in Altersteilzeit Early Retirement Arrangements)". This Issue determines that early retirement plans should be accounted for under FAS 112, "Employers' Accounting for Post-employment Benefits" and that the accrual for the cost of benefits should commence when an employee signs an early retirement agreement. The Issue is effective for fiscal years beginning after December 15, 2005. The adoption of this Issue will not have an impact on the Company's financial positions or results of operations, as the Issue is in accordance with our U.S. GAAP accounting policy.

STATEMENTS OF CHANGES IN EQUITY OF THE ALTANA GROUP

	Issued		Additional paid-in capital		Retained earnings
	Number of shares	Share capital	due to employee incentive plans	by the shareholders of ALTANA AG	
Balance January 1, 2004	140,400,000	140,400	0	137,871	1,477,358
Adjustment due to accounting change as of January 1, 2004			4,140		-12,093
Adjusted balance January 1, 2004	140,400,000	140,400	4,140	137,871	1,465,265
Realized gains and losses from marketable securities, net of tax of €453					
Realized gains and losses from derivative financial instruments, net of tax of €513					
Change in fair value of marketable securities, net of tax of €396					
Change in fair value of derivative financial instruments, net of tax of €1,680					
Change in actuarial gains and losses, net of tax of €7,191					
Change in translation adjustments					
Net income directly recognized in equity					
Net income					378,134
Total recognized income and expense for the period					378,134
Changes in reporting entities					
Employee incentive plans			11,902		
Dividends paid					-113,256
Sale of treasury shares					
Loss on the sale of treasury shares				-1,153	
Purchase of treasury shares					
Settlement of DAT litigation					-114
Balance December 31, 2004	140,400,000	140,400	16,042	136,718	1,730,029
Realized gains and losses from marketable securities, net of tax of €29					
Realized gains and losses from derivative financial instruments, net of tax of €68					
Change in fair value of marketable securities, net of tax of €2					
Change in fair value of derivative financial instruments, net of tax of €13,654					
Change in actuarial gains and losses, net of tax of €21,118					
Change in translation adjustments					
Net income directly recognized in equity					
Net income					438,130
Total recognized income and expense for the period					438,130
Employee incentive plans			12,617		
Dividends paid					-128,735
Sale of treasury shares					
Loss on the sale of treasury shares				-173	
Balance December 31, 2005	140,400,000	140,400	28,659	136,545	2,039,424

Revaluation reserve	Actuarial gains and losses	Translation adjustments	Treasury stock		Total equity of the shareholders of ALTANA AG	Minority interests		Shareholders' equity
			Shares	Amount		Shareholders' equity	Translation adjustments	
11,968	0	-119,735	-4,133,195	-202,437	1,445,425	6,507	-89	1,451,843
7,671	-1,947	1,909			-320			-320
19,639	-1,947	-117,826	-4,133,195	-202,437	1,445,105	6,507	-89	1,451,523
-446					-446			-446
802					802			802
7,385					7,385			7,385
2,628					2,628			2,628
	-11,715				-11,715			-11,715
		-14,568			-14,568		-142	-14,710
10,369	-11,715	-14,568			-15,914		-142	-16,056
					378,134	573		378,707
10,369	-11,715	-14,568			362,220	573	-142	362,651
					0	-5,171		-5,171
					11,902			11,902
					-113,256			-113,256
			544,399	19,562	19,562			19,562
					-1,153			-1,153
			-1,526,050	-75,638	-75,638			-75,638
					-114			-114
30,008	-13,662	-132,394	-5,114,846	-258,513	1,648,628	1,909	-231	1,650,306
-4,652					-4,652			-4,652
-106					-106			-106
8,360					8,360			8,360
-21,471					-21,471			-21,471
	-33,547				-33,547			-33,547
		70,454			70,454		200	70,654
-17,869	-33,547	70,454			19,038		200	19,238
					438,130	299		438,429
-17,869	-33,547				457,168	299		457,667
					12,617			12,617
					-128,735	-43		-128,778
			475,438	21,920	21,920			21,920
					-173			-173
12,139	-47,209	-61,940	-4,639,408	-236,593	2,011,425	2,165	-31	2,013,559

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 AG¹ (Chair)
 Software AG¹

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 München
 Membership in other supervisory boards:
 Bayerische Motoren Werke AG¹
 ALTANA Pharma AG¹
 UnternehmerTUM GmbH²
 Technische Universität München²

Dr. Uwe-Ernst Bufe

Degree in Chemistry
 Membership in other supervisory boards:
 Air Liquide Deutschland GmbH¹
 Cognis Verwaltungs-GmbH¹
 Frankfurter Versicherungs AG¹
 UBS Deutschland AG¹
 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 AG¹

Dr. Rango Dietrich*

Pharmacist, MBA

Ulrich Gajewiak*

Chemical Technician

Ralf Giesen*

Degree in Economics
 Mining, Chemical and Energy Industrial Union
 Secretary of the board
 Membership in other supervisory boards:
 Bayer Material Science AG¹
 Vattenfall Europe Mining AG¹
 RAG Aktiengesellschaft¹

Prof. Dr. Dr. h.c. mult.

Wolfgang A. Herrmann

President of the Technische Universität
 München
 Membership in other supervisory boards:
 Degussa AG¹
 TUM-Tech GmbH¹

Dr. Thomas Martin*

Degree in Chemistry
 Chairman of the VAA works group of
 ALTANA Pharma AG

Prof. Dr. Heinz Riesenhuber

Former Federal Minister
 Membership in other supervisory boards:
 Evotec AG¹ (Chair)
 Frankfurter Allgemeine Zeitung GmbH¹
 HBM BioVentures AG²
 Henkel KGaA¹
 Vodafone Deutschland GmbH¹
 VfW AG¹
 Kabel Deutschland GmbH¹ (Chair)

Dr. Klaus-Jürgen Schmieder

Management board member of L'Air Liquide S. A.
 Membership in other supervisory boards:
 Air Liquide Deutschland GmbH¹
 Air Liquide Italia S. r. l.²
 AL Air Liquide España S. A.²

* 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 established 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:

ALTANA Pharma AG¹ (Chair)

ALTANA Chemie AG¹ (Chair)

BYK-Chemie USA Inc.² (Chair)

DAT Deutsch-Atlantische

Telegraphen AG¹ (Chair)

MIVERA Vermögensanlagen AG¹ (Chair)

Dr. Hermann Küllmer

Chief Financial Officer

Membership in other boards:

ALTANA Pharma AG¹

ALTANA Chemie AG¹

Dr. Hans-Joachim Lohrisch

Head of the Pharmaceuticals division

Membership in other boards:

ALTANA Pharma US Inc.² (Chair)

ALTANA Inc. USA² (Chair)

ALTANA Pharma Inc. Canada² (Chair)

Sangtec Molecular Diagnostics AB²

ALTANA Pharma Pty. Ltd. Australia²

ALTANA Pharma Re Insurance AG¹ (Chair)

ALTANA Pharma Asset Management GmbH

Dr. Matthias L. Wolfgruber

Head of the Chemicals division

Membership in other boards:

BYK-Chemie USA Inc.²

The P.D. George Company² (Chair)

La Artística Productos Químicos S.A.² (Chair)

Shunde Rhenacoat Coating

Company Ltd.² (Chair)

Tongling SIVA Insulating Materials

Company Ltd.² (Chair)

BYK-Chemie Japan KK²

BYK-Chemie Asia Pacific Pte. Ltd.²

Sterling Technology Limited²

BYK-Chemie Tongling² (Chair)

ALTANA Electrical Insulation

(Zhuhai) Co. Ltd.² (Chair)

Beck India Ltd.² (Chair)

Deatech s.r.l.²

BYK-Chemie Solutions

(Shanghai) Co., Ltd.² (Chair)

Kelstar International Enterprises, Inc.² (Chair)

¹ Membership in other statutory supervisory boards

² Membership in comparable domestic and foreign supervisory bodies

MAJOR CONSOLIDATED COMPANIES

Dec. 31, 2005	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.		2,013	–	212	60
ALTANA Pharma					
ALTANA Pharma AG, Constance	100	55	1,145	194 ²	2,888
ALTANA Pharma Deutschland GmbH, Constance	100	-4	430	62 ²	512
ALTANA Pharma Oranienburg GmbH, Oranienburg	100	33	44	4 ²	370
ALTANA Pharma AG, Kreuzlingen (CH)	100	8	34	7	42
ALTANA Pharma Ltd., Marlow (GB)	100	6	33	-7	220
ALTANA Pharma B.V., Hoofddorp (NL)	100	10	88	20	118
ALTANA Pharma NV/SA, Diegem (B)	100	11	36	4	91
ALTANA Pharma S.A.S., Le Mée-sur-Seine (F)	100	18	157	11	268
ALTANA Pharma GmbH, Vienna (A)	100	11	57	8	74
ALTANA Pharma S.p.A., Milan (I)	100	31	123	0	324
ALTANA Pharma S.A., Madrid (E)	100	21	87	8	179
ALTANA Pharma SP. z.o.o., Warsaw (PL)	100	11	41	3	124
ALTANA Pharma Inc., Oakville Ontario (CAN)	100	42	119	20	236
ALTANA Pharma S.A. de C.V., Mexico City (MEX)	100	76	142	42	616
ALTANA Pharma Ltda., São Paulo (BR)	100	77	123	18	716
ALTANA Madaus (Pty.), Midrand (ZA)	50	17	21	5	39
Zydus ALTANA Healthcare Private Ltd., Vashi (IND)	50	13	23	15	68
ALTANA Inc., Melville (U.S.)	100	68	190	29	538
ALTANA Pharma US Inc., Florham Park (U.S.)	100	19	65	1	607
ALTANA Chemie					
ALTANA Chemie AG, Wesel	100	1,411	–	45 ²	23
BYK-Chemie GmbH, Wesel	100	100	261	44 ²	578
ECKART GmbH & Co. KG ³ , Fürth	100	559	54	3	1,277
Rhenania Coatings GmbH, Grevenbroich	100	8	48	3 ²	151
DS-Chemie GmbH, Bremen	100	7	51	0 ²	128
Terra Lacke GmbH, Lehrte	100	6	38	4 ²	94
Beck Electrical Insulation GmbH, Hamburg	100	31	48	2 ²	148
BYK-Cera B.V., Deventer (NL)	100	26	40	4	76
Deatech s.r.l., Ascoli Piceno (I)	100	34	76	5	114
The P.D. George Company, St. Louis (U.S.)	100	21	88	1	197
BYK-Chemie USA, Wallingford (U.S.)	100	61	62	4	93
Kelstar International Inc. ³ , Cinnaminson, NJ (U.S.)	100	21	8	0	105
BYK-Chemie Japan KK, Osaka (J)	100	6	28	1	32
Tongling SIVA Insulating Materials Co. Ltd., Tongling City (PRC)	100	28	36	6	65
Other Subsidiaries					
ALTANA Technology Projects GmbH, Bad Homburg v.d.H.	100	61	–	-5 ²	–

¹ Figures in accordance with International Financial Reporting Standards (IFRS)

² Before profit and loss transfer

³ Addition in Q4/2005, proportionate sales and earnings

LEGAL BASIS

The ALTANA Annual Report 2005 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 statements regarding the planned further strategic development of the ALTANA Group, especially regarding an independent operation of ALTANA Chemie AG and an opening of ALTANA Pharma AG to a strategic partner, revenue and earnings projections for the ALTANA Group and its affiliates, sales projections for Pantoprazole and ALVESCO®, sales potential statements for the Ciclesonide product family and Roflumilast, estimates for the achievement of certain milestones for R&D activities including the resubmission of DAXAS® for marketing approval, product launches, plans for R&D activities and investments as well as further 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 the development of the markets in the pharmaceutical and the chemical industry, a successful partnering of ALTANA Pharma, 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.

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 % ■ ■

ECKART America L.P.
Painesville, Ohio (U.S.)
100 % ■ ■

Kelstar International Inc.
Cinnaminson, NJ (U.S.)
100 % ■ ■

■ Marketing company
■ Manufacturing company

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 % ■ ■

ECKART GmbH & Co. KG
Fürth
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 % ■ ■

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.
 Sedan (F)
 100 % ■ ■

Camattini S.P.A.
 Collecchio (I)
 100 % ■ ■

La Artística Productos Químicos S.A.
 Vigo (E)
 100 % ■ ■

Deatech s.r.l.
 Ascoli Piceno (I)
 100 % ■ ■

ECKART Italia Srl.
 Rivanazzano (I)
 100 % ■ ■

ECKART UK Limited
 Ampthill, Bedfordshire (GB)
 100 % ■

ECKART France SAS
 Saint-Ouen Cedex (F)
 100 % ■

ECKART Pigments Ky
 Pori (FI)
 100 % ■

ECKART Benelux B.V.
 AE Uden (NL)
 100 % ■

Doral S.A.
 Vétroz (CH)
 100 % ■

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 % ■ ■

ECKART Asia Ltd.
 Hong Kong (PRC)
 100 % ■

Australia

Pharmaceuticals
 ALTANA Pharma Pty Ltd.
 North Ride (AUS)
 100 % ■

TEN-YEAR REVIEW

ALTANA GROUP

in € million	2005	2004	2003	2002
Sales	3,272	2,963	2,735	2,609
Pharmaceuticals	2,365	2,109	1,980	1,861
Chemicals	907	854	755	748
Earnings before taxes	684	611	580	526
Return on sales (in %)	20.9	20.6	21.2	20.2
Income before minority interests	438	378	345	324
Allocation to reserves	284	245	228	219
Distributions	154	133	117	105
Cash flow from operating activities	645	427	425	442
Fixed assets	1,796	1,048	943	790
Intangible assets	691	237	230	165
Property, plant and equipment	1,048	763	687	610
Financial assets	57	48	26	15
Current assets	1,837	1,658	1,589	1,479
Inventories	404	329	319	303
Receivables	829	749	690	593
Cash and cash equivalents (incl. securities)	604	580	580	583
Equity	2,013	1,650	1,445	1,250
Issued share capital	140	140	140	140
Reserves	1,435	1,132	960	786
Net income	438	378	345	324
Equity ratio (in %)	55.4	61.0	57.1	55.1
Return on equity after taxes (in %)	23.9	24.4	25.6	26.8
Debt	1,620	1,056	1,087	1,019
Provisions and accruals	734	585	553	563
Liabilities	886	471	534	456
Total assets	3,633	2,706	2,532	2,269
Capital expenditure on property, plant and equipment and intangible assets ²	246	226	237	225
Depreciation and amortization of property, plant and equipment and intangible assets ²	139	121	106	102
Research expenses	465	448	412	369
Pharmaceuticals	418	410	376	335
Chemicals	47	38	36	34
Number of employees (Dec. 31)	13,276	10,783	10,402	9,853
Pharmaceuticals	8,832	8,200	7,702	7,504
Chemicals	4,384	2,521	2,634	2,299
Personnel costs	691	606	557	535
Figures per ALTANA share (in €)³				
Dividend	1.10 ⁵	0.95	0.83	0.75
Net income	3.23	2.78	2.53	2.37

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

2001	2000	1999	1998	1997	1996
2,308	1,928	1,586	1,476	1,345	1,163
1,591	1,262	1,034	975	900	819
717	666	552	501	445	344
448¹	329	234	188	164	116
19.4	17.1	14.8	12.8	12.2	10.0
256¹	179	127	106	90	70
158	91	75	61	52	34
98	86	49	40	33	30
348¹	282	164	188	118	152
783	627	481	410	370	313
179	144	83	65	53	25
579	478	394	336	310	283
25	5	4	9	7	5
1,344	1,185	1,149	1,072	1,011	912
277	252	227	192	180	173
515	445	374	316	303	236
552	488	548	564	528	503
1,170	984	903	818	757	614
140	100	100	100	100	100
702	703	660	601	558	436
328	181	124	101	85	64
55.0	54.3	55.4	55.2	54.8	50.1
23.8	19.1	14.8	13.4	12.2	11.6
957	828	727	664	624	611
522	436	431	405	392	377
435	392	296	259	232	234
2,127	1,812	1,630	1,482	1,381	1,225
225	163	109	88	76	77
83	70	61	58	52	57
285	219	172	153	134	118
252	190	144	129	112	97
33	29	28	24	22	21
9,122	8,556	8,218	7,780	7,373	7,436
6,867	6,489	6,308	5,906	5,789	5,866
2,217	2,036	1,883	1,848	1,562	1,548
495	453	391	365	355	321
0.60 ⁴	0.44 ⁴	0.35	0.28	0.23	0.21
1.86 ¹	1.30	0.88	0.72	0.61	0.46

GLOSSARY

Additives

Added in very small quantities, additives optimize the properties, manufacture, and processing of coatings and plastics.

ADRs

Short for 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

Short 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.

Biologics

A class of substances which are normally produced by means of genetic engineering and which are almost identical with the body's molecules to control biochemical reactions.

Blockbuster

A drug which generates annual market sales of more than U.S. \$ 1 billion.

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.

Compliance

The willingness of patients to follow the doctor's instructions regarding therapies and thus contribute to the healing process.

COPD

Short for Chronic Obstructive Pulmonary Disease. COPD essentially comprises chronic bronchitis and emphysema. According to estimates, 3 to 5 million people suffer from the disease in Germany and 600 million people worldwide. Symptoms include coughing, sputum, and 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.

DBO

Short for Defined Benefit Obligation. Cash value of all benefits for service periods that have already been rendered taking into account future salary increases, to the extent the benefits are contingent on future salary.

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

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.

Exacerbation

An acute worsening of the symptoms. Acute exacerbation, normally caused by viruses and/or bacteria, can for instance occur quickly and is more pronounced with → COPD patients than with people with healthy lungs.

Fair value

Market value of securities, property, plant and equipment etc., which can be calculated according to various models.

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

Products that imitate a so-called original preparation whose patent has expired.

Genomics

The systematic analysis of genes and their effect on cells and complete organisms.

GERD

Short for 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

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 of ALTANA's Good Corporate Citizenship: Herbert-Quandt-Stiftung, ALTANA Cultural Forum, and ALTANA Forum for Education and Science.

GPCR

Short for G-Protein-Coupled Receptor. Transmembrane receptor playing a decisive role during inflammatory processes.

Guidelines

Systematically developed, scientifically based and practice-oriented recommendations for specific symptoms resulting from a consensus between people in different fields of specialization and work groups.

HFA

Short for hydrofluoro-alkane, a chlorine-free greenhouse gas used as an alternative to chlorofluorocarbons (CFCs) with the help of which the substance is administered via an inhalation system (metered-dose inhaler).

Histone-Deacetylase inhibitor

HDAC inhibitor for short.

Inhibitors of the enzyme histone-deacetylase, which influences the way the DNA, the carrier of genetic information is "packed" in the cell nucleus. HDAC inhibitors are new potential substances for the prevention and treatment of cancer.

Income before minority interests

Earnings after taxes, including profit attributable to minority interests.

iNOS

Inducible nitric oxide synthase. The enzyme iNOS gives rise to an overproduction of nitric oxide (NO), which is shown to be present in larger quantities in human lungs when inflammatory processes are at work (e.g. with bronchial asthma).

Isomer

One of several chemical compounds which have the same empirical formula but different chemical structures and to some extent also different chemical, physical or biological properties.

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 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.

Net income

Earnings after taxes, excluding profit attributable to minority interests.

Nominal capital

The capital fixed in the articles of incorporation (bylaws) of an AG (stock corporation). The company issues shares to this amount. The bylaws also determine how many shares the nominal capital is divided into.

OTC

Synonym for self-medication. Non-prescription, over the counter drugs and health products from pharmacies, drugstores and consumer markets.

P-CAB

Short for Potassium-Competitive Acid Blocker. New substances for treating → GERD.

Phase I study

The main aim of this phase is to test the tolerability of a new substance. In addition, the first data on dosing and on the pharmacokinetic properties of the drug (how it distributes in the body, how it is transformed by the metabolism, etc.) are obtained. The tests are normally carried out on healthy patients – with the exception of substances used to treat particularly severe diseases such as cancer.

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 and tolerability.

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.

Phosphodiesterase inhibitors

Short PDE. A group of substances that block the phosphodiesterase enzyme and thus have an anti-inflammatory effect. PDE4 inhibitors such as Roflumilast are used in the treatment of asthma and → COPD.

Pigments

Tiny metallic and glittering particles which are insoluble in binding and thinning agents. They are used to give coatings, printing inks, and cosmetics products special visual effects. Our product range includes aluminum, pearlescent and PVD, gold bronze, and zinc pigments, as well as finished

metallic printing inks for different printing techniques such as offset printing, gravure and flexo printing, screen printing, and bronzing.

Pipeline

Product/research pipeline. Contains all those products from the pre-clinic through phase III that are undergoing Research & Development (R&D).

Pre-clinical development

Phase of drug development comprising all necessary tests in which the “profile” (the principle effects and side effects, toxicology, safety pharmacology etc.) of a drug are determined 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

Short PPI. Group of substances which selectively inhibit the secretion of stomach acid. Example: Pantoprazole.

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

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

Pre-tax return on sales: earnings before taxes divided by sales. After-tax return on sales: → income before minority interests divided by sales.

Surfactant

A surface active mixture which lines the lungs. Disruptions of the surfactant system play an important role in numerous pulmonary diseases, especially acute lung failure.

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.

VOC

Short for Volatile Organic Compound. An organic compound which volatilizes by itself in the respective surrounding conditions (temperature and pressure).

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.

CHRONICLE 2005 > At the starting base for future growth

- First European market launch of ALVESCO® in the U.K., the largest market for asthma medications in Europe.



ALVESCO®

- 2004 business year: ALTANA is again reporting record figures achieving sales of €3.0 billion (+8%) and double-digit growth in earnings.
- The Herbert-Quandt-Stiftung initiates the competition "Schools in Dialogue – European Identity and Cultural Pluralism."
- The corporate office Berlin invites guests to an evening conversation with Sigmar Gabriel. The subject: "Political Leadership in Democracy."

- The corporate office New York invites young experts to a roundtable discussion in Washington, D.C., entitled "Latin America, Europe and the United States – a Strategic Partnership within the Framework of the Atlantic Triangle."
- At the 61st annual meeting of the American Academy of Allergy, Asthma and Immunology (AAAAI), new ALVESCO® data are presented.
- Press conference: For the ninth year in succession ALTANA increases all important key figures; €445 million were invested in R&D (+8%).
- Dr. Frank Douglas, former head of research at Aventis, is elected as a new member of ALTANA Pharma AG's supervisory board.

- Annual General Meeting 2005: With the ninth successful business year in succession the dividend increases again – by 14% to €0.95 per share.



Annual General Meeting 2005

- Dr. Ulrich Thibaut is appointed Chairman of Research & Development (R&D) of ALTANA Pharma AG, succeeding Prof. Dr. Heinz W. Radtke, as of July 1, 2005.
- BYK-Chemie (Additives & Instruments) presents a multitude of new products at the European Coatings Show in Nuremberg.
- The exhibition entitled "Jürgen Partenheimer. Artists Books" opens at Sinclair House.

CHRONICLE > 2005

January	February	March	April	May	June
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- Analyst meeting in London on the occasion of the market launch of ALVESCO® in Europe.



Analyst meeting in London

- ALVESCO® is launched on the German market.
- Sale of Rembrandtin within the framework of the strategic realignment of ALTANA Coatings & Sealants.
- The ALTANA Cultural Forum opens the exhibition "Ernst Ludwig Kirchner: First Vision. From the Collection of the Kupferstichkabinett Berlin" at Sinclair House.
- The corporate office Berlin invites guests to an evening conversation with Dr. Friedbert Pflüger. The subject: "Europe and Latin America – Toward a Strategic Partnership?"

- ALTANA opens the corporate office in Brussels.
- ALTANA gets off to a good start: Sales and net income grow by 4% thanks to the strong pharmaceuticals business in the first quarter.
- ALTANA Pharma celebrates the topping-out ceremony for its new tablet production facility in Ireland.
- The Herbert-Quandt-Stiftung stages the 24th Sinclair House Debate, which is devoted to the subject of "Europe and Latin America – Toward a Strategic Partnership?"



24th Sinclair House Debate

- ALTANA sponsors the exhibition "Max Ernst: A Retrospective" at the Metropolitan Museum of Art in New York.

- ALTANA Pharma presents the ALTANA Pharma Award to Dr. David Schleheck (biology), Dr. Marc Jung (chemistry) and Dr. Bernd Eiermann (physics).
- The Herbert-Quandt-Stiftung celebrates its 25th anniversary with a small ceremony.
- The new pharmaceutical production facility in Oranienburg is inaugurated in the presence of German Chancellor Gerhard Schröder and the Minister President of the state of Brandenburg, Matthias Platzeck.
- The corporate office Berlin stages its 2nd Parliamentary Evening with Professor Michael C. Burda. The subject: "The Path to Elite Universities."

- ALTANA Coatings & Sealants acquires Kelstar International, a leading U.S. manufacturer of overprint varnishes for the paper and cardboard packaging industry.
- The 10th Triologue conference addresses the issue of "Mediterranean Sea – Gap or Bridge? Perspectives on Cooperation in Education and Science between Germany and the Arab World."
- The ALTANA Cultural Forum opens its third exhibition, "Daphne – Metamorphosis of a Figure."



- Dr. N. Schweickart and Dr. T. Gauly are honored with the German Image Award 2005.

- ALTANA Pharma withdraws its application for E.U. approval of DAXAS®.
- At the end of the third quarter net sales amount to nearly €2.4 billion (+6%); earnings rise by 12%. Due to its excellent pharmaceuticals business, ALTANA again increases its EBT forecast for 2005.
- Martin Babilas is appointed member of the Management Board of ALTANA Chemie AG as of January 1, 2006. On April 1, 2006, he will succeed Gerd Büscher as Chief Financial Officer.
- The participants in the 25th Sinclair House Debate focus on "Corporate Patriotism in the Age of Global Markets."
- "Joan Miró. Print graphics from the Fundació Miró in Barcelona."

- ALTANA Pharma and Pfizer terminate their DAXAS® cooperation as of June 30, 2005.
- The most important findings of the first one-year study on DAXAS® are published: patients with severe and very severe COPD* who are treated with DAXAS show significantly improved lung function (FEV1*) compared to patients treated with a placebo.

July	August	September	October	November	December
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- ALTANA Chemie purchases the ECKART group, one of the world's leading manufacturers of metal effect pigments, thus adding a fourth division.
- Following the acquisition of ECKART by ALTANA Chemie, ALTANA announces a change of the Group structure.
- After achieving a sales growth of 5% and an increase in earnings (EBT) of 12% in the first half of the year, ALTANA increases its earnings forecast for 2005 as a whole.
- Within the framework of "Kunst-privat!" ALTANA, together with other companies headquartered in Hesse, opens its art collection to the general public.

- ALTANA Coatings & Sealants completes its withdrawal from the industrial coatings business by selling the coil coating business of Rhenania Coatings to BASF Coatings, Münster.
- As of October 1, Dr. Wolfgang Schütt becomes Chairman of the Management Board of ALTANA Electrical Insulation, succeeding Dr. Christoph Schlünken, the new Chairman of the Management Board of the ECKART group (Effect Pigments).
- At the London R&D Day, ALTANA Pharma provides an overview of its most important projects in research and clinical development. In addition to DAXAS® and ALVESCO®, two medications for treating respiratory diseases, it presented projects in earlier stages of R&D in the fields of gastroenterology (gastrointestinal) and oncology (cancer).



ALTANA Pharma R&D Day 2005

- Participants in the symposium called "Can Our University System Create a German Berkeley?," mounted by the ALTANA Forum for Education, discuss the formation of elites at state-run universities.



Opening of the laboratory in Pune

- BYK-Chemie (Additives & Instruments) opens a new application technology laboratory in Pune, India.
- On the "market of possibilities," participants in the "Triologue of Schools" competition staged by the Herbert-Quandt-Stiftung present their projects for the first time.

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> Financial Calendar 2006	
Report on sales 2005	January 25, 2006
Report on business year 2005	March 16, 2006
Press conference	March 16, 2006
Analyst meeting	March 16, 2006
Report on Q1 2006	April 27, 2006
Conference call	April 27, 2006
Annual General Meeting, Frankfurt	May 2, 2006
Report on Q2 2006	August 2, 2006
Conference call	August 2, 2006
Report on Q3 2006	November 2, 2006
Press conference	November 2, 2006
Analyst meeting	November 2, 2006

Please note that the above mentioned dates might be subject to changes.