SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934 ☑

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended . ☐

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to . ☐

Commission file number:

ALTANA Aktiengesellschaft

(Exact name of Registrant as specified in its charter)

Federal Republic of Germany
(Jurisdiction of incorporation or organization)

Seedammweg 55
D-61352 Bad Homburg v. d. Höhe
Federal Republic of Germany
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 1 Common Share, no par value	New York Stock Exchange
Common Shares, no par value*	New York Stock Exchange

* Listed, not for trading or quotation purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of issued and outstanding shares of each of the issuer's classes of capital or common stock as of May 8, 2002 was 137,292,089, no par value.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ☐ Not applicable ☑

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☑

TABLE OF CONTENTS:

INTRODUCTION

Forward-Looking Statements

This registration statement contains certain forward-looking statements and information relating to us that are based on beliefs of our management as well as assumptions made by and information currently available to us. When used in this document, the words "anticipate", "believe", "estimate", "expect", "intend", "plan" and "project" and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause our actual results, performance or achievements to be materially different from those which may be expressed or implied by such forward-looking statements. The accompanying information contained in this registration statement, including the information under "Item 3: Key Information-Risk Factors", "Item 4: Information on the Company" and "Item 5: Operating and Financial Review and Prospects" identifies important factors that could cause such differences. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We do not intend, and do not assume any obligation, to update these forward-looking statements.

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PART I

Item 1: ***Identity of Directors, Senior Management and Advisers***

See "Item 6: Directors, Senior Management and Employees" and "Item 10: Additional Information — Statements by Experts".

Item 2: ***Offer Statistics and Expected Timetable***

Not applicable.

Item 3: ***Key Information***

Selected Consolidated Financial Data

The selected consolidated financial data as of and for the years ended December 31, 1997, 1998, 1999, 2000 and 2001 set forth below are derived from our consolidated financial statements, which have been audited by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Germany.

We prepare our consolidated financial statements in accordance with IAS, which differ in certain significant respects from U.S. GAAP. For a description of the significant differences between IAS and U.S. GAAP and a reconciliation of net income and shareholders' equity to U.S. GAAP, you should read note 32 to our consolidated financial statements.

All share data in this registration statement relating to prior periods has been restated to reflect the changes to our share capital that occurred in 2001. See "Item 5: Operating and Financial Review and Prospects — Shareholders' Equity" for more information on these changes.

You should read the information below in conjunction with our consolidated financial statements and the other financial information that we have included elsewhere in this registration statement. For our consolidated financial statements as of and for the each of three years ended December 31, 2001, see the discussion beginning on page F-1. For our interim condensed consolidated financial information as of and for the three months ended March 31, 2002 and the corresponding period of the prior year, see the discussion beginning on page A-1.

Selected Interim Consolidated Financial Data As Of And For The Three Months Ended March 31, 2001 And 2002

The following tables present selected consolidated financial information as of and for the three months ended March 31, 2001 and 2002:

	As of and for the three months ended March 31,(1)	
	2001	2002
	(€ in millions, except per share amounts, unaudited)	
Selected income statement data		
Amounts in accordance with IAS		
Net sales	554	614
Gross profit	335	392
Research and development expenses	(64)	(79)
Operating income	214(2)	129
Financial income	7	1
Income before taxes and minority interests	221	129
Net income	139	81
Weighted average number of shares outstanding during period (in millions)	138.1	137.2
Basic earnings per share/ADS(3)	1.00	0.59
Diluted earnings per share/ADS(4)	1.00	0.59

	As of and for the three months ended March 31,(1)	
	2001	2002
	(€ in millions, except per share amounts, unaudited)	
Selected balance sheet data		
Amounts in accordance with IAS		
Property, plant & equipment		600
Cash & cash equivalents and marketable securities		556
Total assets		2,218
Debt		138
Total liabilities		397
Total provisions		561
Total shareholders' equity		1,250
Selected cash flow statement data		
Amounts in accordance with IAS		
Net cash flow provided by operating activities	48	34
Net cash flow provided by/used in investing activities	45(5)	(39)
Net cash flow used in financing activities	1	13

(1) Columns may not add up due to rounding.

(2) Includes a one-time gain in the amount of € 110 million resulting from the sale of our interest in a joint venture.

(3) Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the relevant period.

(4) Diluted earnings per share is computed by dividing net income by the sum total of the weighted average number of shares outstanding during the relevant period, adjusted for shares issuable upon the exercise of options under stock option plans and in connection with the legal proceedings surrounding Deutsch-Atlantische Telegraphen AG ("DAT").

(5) Includes cash in the amount of € 102 million received in the first quarter of 2001 in connection with the sale of our interest in a joint venture.

Selected Consolidated Financial Data As Of And For Each Of The Five Years Ended December 31, 2001

The following table presents selected consolidated financial information as of and for the five years ended December 31, 2001:

	As of and for the year ended December 31,(1)				
	1997(2)	1998(2)	1999	2000	2001
	(€ in millions, except per share and per ADS amounts)				
Selected income statement data					
Amounts in accordance with IAS					
Net sales	1,345	1,476	1,577	1,928	2,308
Gross profit	741	837	927	1,144	1,414
Research and development expenses	(134)	(153)	(171)	(219)	(285)
Operating income	146	155	205	309	520(3)
Financial income	18	19	18	21	24
Income before taxes and minority interests	164	174	223	329	544
Net income	85	91	118	181	328
Weighted average number of shares outstanding during period (in millions)	140.4	140.4	140.2	138.8	137.5
Basic earnings per share/ADS(4)	0.61	0.65	0.84	1.30	2.38
Diluted earnings per share/ADS(5)	0.61	0.65	0.84	1.30	2.37
Dividends per share/ADS(7)	0.23	0.28	0.35	0.44(8)	0.60(9)
Amounts in accordance with U.S. GAAP					
Net income			130	166	314
Basic earnings per share/ADS(4)			0.93	1.20	2.28
Diluted earnings per share/ADS(5)			0.92	1.19	2.26
Selected balance sheet data					
Amounts in accordance with IAS					
Property, plant & equipment	310	336	394	478	579
Cash & cash equivalents and marketable securities	527	564	547	487	552
Total assets	1,391	1,487	1,638	1,812	2,127
Debt	120	125	126	100	127
Total liabilities	244	274	336	384	426
Total provisions	381	392	402	436	522
Total shareholders' equity	752	805	881	984	1,170
Number of shares outstanding at period end (in millions)	140.4	140.4	139.5	138.1	137.2
Amounts in accordance with U.S. GAAP					
Total shareholders' equity			886	973	1,159

	As of and for the year ended December 31,(1)				
	1997(2)	1998(2)	1999	2000	2001
	(€ in millions, except per share and per ADS amounts)				
Selected cash flow statement data					
Amounts in accordance with IAS					
Net cash flow provided by operating activities . . .	117	187	164	282	309
Net cash flow used in investing activities	(128)	(128)	(111)	(156)	(113)
Net cash flow used in financing activities	(36)	(36)	(65)	(118)	(116)

(1) Columns may not add up due to rounding.

(2) Amounts have been restated from Deutsche Marks into euros using the official fixed conversion rate of € 1.00 = DM 1.95583. The restated euro financial information depict the same trends as would have been presented if we had continued to present our financial information in Deutsche Marks. The financial information will not, however, be comparable to the euro financial information of other companies that previously reported their financial information in a currency other than Deutsche Marks. See note 3 to our consolidated financial statements.

(3) Includes a one-time gain in the amount of € 110 million resulting from the sale of our interest in a joint venture and a special donation of € 15 million to a charitable endowment.

(4) Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the relevant period.

(5) Diluted earnings per share is computed by dividing net income by the sum total of the weighted average number of shares outstanding during the relevant period, adjusted for shares issuable upon the exercise of options under stock option plans and in connection with the legal proceedings surrounding Deutsch-Atlantische Telegraphen AG ("DAT").

(7) Dividends are presented in the column of the year in respect of which they are declared. Dividends are paid in the year following the year in respect of which they are declared.

(8) Does not include a one-time bonus dividend in the amount of € 0.17 per share.

(9) Does not include a one-time bonus dividend in the amount of € 0.10 per share.

Dividends

The following table sets forth the dividends per share paid in respect of each of the five years in the period ended December 31, 2001 in euros and in U.S. dollars. For all periods prior to January 1, 1999, we declared dividends in Deutsche Marks. In the table set forth below, we have converted these amounts into euros using the official fixed conversion rate of € 1.00 = DM 1.95583 and into U.S. dollars using the noon buying rate for Deutsche Marks per U.S. dollar on the date of the shareholders' meeting at which the relevant dividend was approved. Conversely, for all periods after January 1, 1999, we declared dividends in euros and thus have converted them into U.S. dollars using the noon buying rate on the date of the shareholders' meeting at which the relevant dividend was approved.

The table does not reflect the related tax credits available to German taxpayers who receive dividend payments. Owners of our shares who are U.S. residents should be aware that they will be subject to German withholding tax on any dividends that they receive. See "Item 10: Additional Information-Taxation".

Year ended December 31,	Dividend per share (€)	Dividend per share ($)
1997	0.23	0.26
1998	0.28	0.31
1999	0.35	0.37
2000(1)	0.44	0.39
2001(2)	0.60	0.54

(1) Does not include a one-time bonus dividend in the amount of € 0.17 per share.

(2) Does not include a one-time bonus dividend in the amount of € 0.10 per share.

Both net income distributable as dividends and net income subject to German tax are determined by our company's unconsolidated financial statements prepared in accordance with German GAAP. German GAAP differs in a number of important respects from both IAS and U.S. GAAP.

Exchange Rate Information

We publish our consolidated financial statements in euros. As used in this registration statement, "euro" or "€" means the new single unified currency that was introduced in the Federal Republic of Germany and the other participating member states of the European Union on January 1, 1999. "Deutsche Mark", "DEM" or "DM" means the sub-unit of the euro designated as such within the European Union, or, with respect to any time or period before January 1, 1999, means the lawful currency of the Federal Republic of Germany. "U.S. dollar", "USD", "U.S.$" or "$" means the lawful currency of the United States of America. As used in this registration statement, the term "noon buying rate" refers to the exchange rate for either Deutsche Mark or euro expressed in Deutsche Marks per U.S. dollar or U.S. dollars per euro, as the case maybe, as announced by the Federal Reserve Bank of New York for customs purposes as the rate in The City of New York for cable transfers in foreign currencies.

To enable you to ascertain how the trends in our financial results would have appeared had they been expressed in U.S. dollars, the table below shows the average noon buying rates for U.S. dollars per euro for the five years ended December 31, 2001. Since the euro did not exist prior to January 1, 1999, the exchange rates set forth in the table for periods prior to January 1, 1999 do not represent actual exchange rates between the euro and the U.S. dollar, but rather represent exchange rates calculated by multiplying the official fixed conversion rate of € 1.00 = DM 1.95583 with the applicable noon buying rates for Deutsche Marks per U.S. dollar. You should note that the exchange rate trends between the U.S. dollar and the Deutsche Mark reflected in the table below may be different from the exchange rate trends that would have existed between the U.S. dollar and the euro had the euro been in existence during all relevant periods and had actual exchange rates been available for these periods. The averages set forth in the table below have been computed using the noon buying rate on the last business day of each month during the periods indicated.

Year ended December 31,	Average
1997	1.1256
1998	1.1136
1999	1.0588
2000	0.9209
2001	0.8909

The following table shows the noon buying rates for U.S. dollars per euro for the six months ended March 31, 2002:

Month	High	Low
November 2001	0.9044	0.8770
December 2001	0.9044	0.8856
January 2002	0.9031	0.8605
February 2002	0.8778	0.8613
March 2002	0.8845	0.8657
April 2002	0.9028	0.8750

On May 8, 2002, the noon buying rate was $ 0.9040 per € 1.00.

Since the beginning of 1999, our shares have been traded on the Frankfurt Stock Exchange in euros. We expect that fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of our shares on the Frankfurt Stock Exchange and as a result are likely to affect the market price of our American Depositary Shares ("ADSs") on the New York Stock Exchange. In addition, you should note that any cash dividends that we may declare in the future will be denominated in euros. Therefore, exchange rate fluctuations between the euro and the U.S. dollar will affect the U.S. dollar amounts that the holders of our ADSs will receive upon the conversion of any cash dividends that we may pay out on the shares represented by these ADSs.

A substantial proportion of our assets, liabilities, revenues and expenses are denominated in currencies other than the euro. Accordingly, fluctuations in the value of the euro relative to other currencies can have a significant effect on the translation into euro of our non-euro assets, liabilities, revenues and expenses. For further information on the impact of fluctuations in exchange rates on our operations, see "Item 11: Quantitative and Qualitative Disclosures About Market Risk".

Capitalization and Indebtedness

The following table sets forth our actual consolidated capitalization and indebtedness as of March 31, 2002:

	At March 31, 2002(1) (€ in millions)
Long-term debt (excluding current portion)	63
Shareholders' equity	1,250
Of which:	
Share capital	140
Additional paid-in capital	139
Retained earnings	1,084
Translation adjustment	4
Revaluation reserve	(8)
Treasury shares	(109)
Total capitalization	1,313

(1) Columns may not add up due to rounding.

At March 31, 2002, € 1 million of our long-term debt was secured by collateral.

Risk Factors

Our business, financial condition and results of operations may suffer material adverse effects due to any of the following risks. Additional risks not known to us or that we now consider immaterial also may adversely affect our business.

Risks Related To Each Of Our Businesses

Because the industries in which we operate are characterized by constant innovation and technological change, our success depends upon our continued ability to develop and market innovative products on a cost-effective basis. If we fail to do so, we may be unable to capture additional market share or may lose market share.

We operate in the pharmaceuticals and the specialty chemicals industries, both of which are highly competitive and are characterized by intensive research efforts and rapid technological change. Our success is highly dependent on our ability to discover, develop and manufacture new and innovative products on a cost-effective basis and to market them successfully. In doing so, we face and will continue to face intense competition from a variety of competitors, ranging from small niche companies to large national and international conglomerates. Based on total assets and annual revenues, we are significantly smaller than many of our competitors, which often have substantially greater financial, R&D and sales and marketing resources than we do. In addition, we may be less experienced than many of the larger companies competing with us. As a result, our competitors may succeed in developing and manufacturing products that are superior to our own products or that the market perceives to be more attractive. If this happens, our products may become uncompetitive and we may be unable to capture additional market share or may lose market share. In light of the ongoing consolidation of the industries in which we operate, we expect that the competitive pressures to which we are subject will increase in the future.

Because we depend on key management, scientific and technical personnel, our ability to compete would suffer if we were unable to hire and retain qualified employees.

Our success depends upon the continued contributions of our key management, scientific and technical personnel, many of whom have substantial experience with our company and would be difficult to replace. Competition for qualified personnel is intense in the industries in which we operate, and particularly so in the pharmaceuticals industry, and we may be unable to attract the highly qualified employees that our business requires. If we lose the services of our key management or scientific and technical personnel or do not succeed in attracting highly qualified personnel in the future, our business may be hurt from a reduced ability to compete in the rapidly evolving markets in which we operate.

We operate in many different countries around the world. As a result, fluctuations in the exchange rates between these countries could adversely affect our results of operations and reduce our ability to price our products competitively.

Due to the international scope of our operations, our net sales and earnings may be affected by fluctuations in exchange rates, particularly between the euro and the U.S. dollar. An increasing proportion of our sales is made in markets outside the European Union by our local subsidiaries or through distribution arrangements. As a result, fluctuations between the euro and the currencies in these markets may cause our reported revenues to vary significantly from period to period. For example, any depreciation of the U.S. dollar against the euro would have a negative impact on our reported sales of Pantoprazole, which is currently our most important product, in the United States. At the same time, a substantial proportion of our operating costs continues to be linked to the euro. Accordingly, exchange rate fluctuations may also affect our profitability from period to period.

You should note that we do not hedge our exchange rate exposure centrally. Instead, each of our subsidiaries is responsible for managing its own exposure. Therefore, any impact that fluctuations in the exchange rates between the euro and other currencies may have on our revenues and our profitability substantially depends on the success of the hedging activities of our local operating subsidiaries.

In addition to influencing our reported net sales and earnings, exchange rate fluctuations may also impact our competitive position in countries whose currencies fluctuate against the euro. In the recent past, the euro has been weak relative to the U.S. dollar and certain currencies linked to the U.S. dollar. The weakness of the euro vis-à-vis the U.S. dollar has afforded us greater pricing flexibility in the United States and other countries, which in turn has improved our competitive position and our profitability vis-à-vis our U.S. competitors. If the euro were to strengthen relative to the U.S. dollar, the situation would be reversed, and our U.S. competitors would benefit, whereas our own pricing flexibility would be reduced. If that were to occur, we may be forced to reduce our prices to remain competitive, which would hurt our profit margins.

Our business will suffer if we are unable to obtain and defend intellectual property rights or if we do not gain access to, or are accused of infringing on, the intellectual property rights of others.

Our ability to remain competitive and to capture additional market share depends in part on our ability to obtain and defend patents, trademarks and other forms of intellectual property protection for our products, our development and manufacturing processes and our know-how. While we intend to prosecute patents aggressively, the process of obtaining patents is lengthy and expensive. There can be no assurance that patents will be granted in connection with any of our currently pending or future applications or that they will be valid and of sufficient scope and strength to provide us with meaningful legal protection or any commercial advantage. In addition, intellectual property protection may be unavailable or limited in some of the countries in which we do business. Furthermore, a substantial portion of our know-how is not eligible for patent or comparable forms of intellectual property protection. To protect this type of information against access by competitors, we rely on trade secret law and frequently enter into confidentiality agreements with our employees, customers and partners. These agreements may be unenforceable, however, and the remedies available to us for breaches may be inadequate. Likewise, our competitors may gain access to our know-how by lawful means, for example, by reverse engineering or by independently developing the same know-how, which would destroy any advantage that our know-how may afford us.

Our competitive position may also suffer if competitors come up with products, development or manufacturing processes or know-how that is protected by patents, trademarks, licenses or other forms of intellectual property protection. Technologies over which our competitors hold intellectual property rights may either be unavailable to us or be available to us only on unfavorable terms. To gain access to such technologies, we sometimes enter into licensing arrangements with third parties. If our licensing partners were to terminate the licenses that we have obtained from them or if we are unable to obtain licenses on commercially favorable terms in the future, our ability to develop, manufacture and market our present and future products may be impaired.

While we seek to protect our trademarks, which include the names of many of our key products, by filing for trademark protection in most of the countries where we sell these products, you should note that trademark protection consists primarily of a right to sue against infringing uses of a mark and, in order to be effective, requires extensive policing. If we fail to detect instances of infringement or if we do not succeed in defending our trademarks in court, our reputation with our customers and our ability to protect our trademarks in the future may be harmed.

It may become necessary for us to enforce our patents, trademarks, licenses and other forms of intellectual property protection and to protect our trade secrets by taking legal action or to engage in litigation in order to defend ourselves against claims of alleged infringement of someone else's intellectual property brought against us by third parties. For example, in 1995, AstraZeneca PLC. sued us alleging that our gastrointestinal therapeutic Pantoprazole infringes their omeprazole patents. While we successfully settled this claim in a manner favorable to us, there can be no assurance that we will also be able to settle other claims brought against us by third parties in the future. If we are unable to successfully settle future claims on terms acceptable to us, we may be required to engage in costly and time-consuming litigation and may be prevented from, or experience substantial delays in, marketing our existing pharmaceuticals and launching new ones. Any of these events could require us to divert substantial financial and management resources that we would otherwise be able to devote to our business.

Because our operations are subject to numerous environmental laws and regulations, we could become exposed to liability and be required to spend substantial amounts in connection with environmental compliance or remediation proceedings.

Our operations are subject to numerous environmental laws and regulations in all of the jurisdictions in which we operate governing, among other things, air emissions, wastewater discharges, the use and handling of hazardous substances, waste disposal and the investigation and remediation of soil and groundwater contamination. As with other companies engaged in similar activities as we are, we face a risk of environmental liability inherent in our current and historical manufacturing activities. While we do not believe that any currently anticipated environmental compliance and remediation requirements are likely to have a material adverse effect on our business, financial condition or results of operations, we may be forced to incur substantial expenses in connection with future environmental compliance or remediation proceedings, in which case our results of operations and financial condition may be materially adversely affected.

We may be faced with product liability claims, which could impair our reputation in the marketplace and hurt our profitability.

Although we maintain a comprehensive quality assurance program, there remains a risk that defects may occur in any of our products. The occurrence of such defects could give rise to liability for damages, including consequential and punitive damages, and could, by impairing our reputation, reduce the market's acceptance of our products.

To reduce our exposure to the aforementioned risks, we maintain an insurance policy covering product liability claims. There can be no assurance, however, that our insurance policy will be adequate and sufficient to cover all product liability claims that may be brought against us or that we will be able to obtain adequate insurance coverage on commercially reasonable terms in the future. A successful product liability claim in excess of our coverage could require us to pay substantial amounts in damages. In addition, our insurance policy does not protect us against reputational harm that we may suffer if the market perceives our products as unsafe or ineffective.

Our business may suffer as a result of volatility in different parts of the world.

We operate on a global basis. Our business is therefore subject to a variety of risks inherent in conducting international operations, each of which could adversely affect our business and results of operations. These risks include:

- Instability of foreign governments;
- Changes in domestic or foreign laws or policies affecting international trade and foreign investment; and
- Varying practices of the regulatory, tax, judicial and administrative bodies in the jurisdictions in which we operate.

Risks Related To Our Pharmaceuticals Business

Because we depend on the sale of a limited number of key products to generate a substantial proportion of our revenues, factors adversely affecting the sale of these products could materially harm our revenues and results of operations.

As with other companies in the pharmaceuticals industry, our pharmaceuticals division depends on sales of certain key products that account for a substantial portion of its revenues. For example, in 2001, our net sales of Pantoprazole, a therapeutic that we offer for the treatment of ulcers and reflux disease, accounted for 43% of the net sales of our pharmaceuticals division, or 29% of our overall revenues. Since we launched Pantoprazole in the United States only in May 2000, we expect the percentage of our net sales attributable to Pantoprazole to increase in future periods. While we plan to launch additional products over the next several years, we expect to continue to depend on a limited number of key products for the foreseeable future.

As a result of our dependence on key products, factors adversely affecting the sale of any of these products could materially adversely affect our revenues and results of operations. These factors include:

- Competition from generic versions of branded pharmaceuticals once the term of patent protection for the original branded pharmaceuticals has expired;
- Competition from other branded pharmaceuticals that may be equivalent or superior to our own products or that the market perceives to be more attractive;
- Technological advances;
- The marketing strategies of our competitors;
- Supply chain interruptions;
- Work stoppages;
- Changes in prescription practices;
- Changes in the reimbursement policies of third-party payors; and
- Product liability claims.

Pantoprazole, in particular, faces competition from, among others, AstraZeneca PLC's market-leading therapeutic for the treatment of ulcers and reflux disease, which is based on a substance called omeprazole. Patent protection of omeprazole has expired in Germany. In the United States, the substance patent for omeprazole expired in April 2001. Currently, patent protection issues with regard to omeprazole are the subject of ongoing U.S. court proceedings, the outcome of which is uncertain. While it is thus difficult to predict when generic forms of omeprazole will be launched in the United States, their launch would likely result in increased competition in the U.S. PPI market and could lead to downward price pressure. In addition, AstraZeneca has recently launched Nexium, which it is marketing as a next-generation therapeutic for the treatment of ulcers and reflux disease. If this marketing campaign is successful, the ability of Pantoprazole to capture market share could be adversely affected.

We depend on Wyeth, Inc.("Wyeth") for the marketing and distribution of Pantoprazole in the United States. If Wyeth were to devote insufficient resources to the marketing of Pantoprazole or if we were to lose Wyeth as a partner, our sales of Pantoprazole would be adversely affected.

We market Pantoprazole in the United States exclusively through Wyeth Pharmaceuticals, the pharmaceuticals division of Wyeth, Inc. ("Wyeth"). Accordingly, the revenues that we derive from Pantoprazole in the U.S. market materially depend on the resources that Wyeth devotes to the marketing of this therapeutic. While our distribution arrangement with Wyeth requires Wyeth to use commercially reasonable efforts to sell Pantoprazole, there can be no assurance that Wyeth's marketing efforts will be successful. In addition, Wyeth is entitled to terminate its distribution agreement with us in certain circumstances, including when a third party commences legal action against Wyeth alleging patent infringement and, following the fifth anniversary of the date of approval by the U.S. Food and Drug Administration ("FDA") of the first Pantoprazole-based product, without cause upon one year's prior written notice. If Wyeth terminates the contract for reasons other than because we become insolvent or commit a material breach of the agreement, it is required to transfer all of its rights pertaining to Pantoprazole and to products based on this substance, including any regulatory approvals that it has obtained, to us. See "Item 10: Additional Information-Material Contracts" for a summary of the terms of our agreement with Wyeth. If we were to lose Wyeth as a distribution partner, it may be difficult for us to find a suitable replacement. If we cannot replace Wyeth by a third party or a sales and marketing organization of our own or if we experience delays in finding a new partner, our results of operations would be adversely affected.

Due to the inherent unpredictability of the process underlying the development of new pharmaceuticals, there can be no assurance that we will be able to successfully and timely launch new drugs and other pharmaceutical products.

A critical element of our future success is the successful and timely commercial launch of new products. To this end, we devote substantial resources to research and development and have a number of promising candidates for new therapeutics in our pipeline, including a potential next-generation drug for indications similar to those of Pantoprazole and several candidates for the treatment of asthma and other respiratory tract diseases. Because of the complexities and uncertainties associated with pharmaceutical research, however, we cannot be certain that any of these drug candidates will survive the development process and ultimately obtain the regulatory approvals needed in order to be launched commercially. While some of them are in advanced stages of clinical testing and appear to have desirable therapeutic profiles, adverse clinical and toxicological results remain possible at any time. For example, we were recently forced to suspend our plans to market Venticute, a respiratory tract therapeutic that we developed for the treatment of a rare lung disease, after Phase III clinical studies showed unsatisfactory results. If we are unable to successfully launch new products, our business, financial condition and results of operations could suffer.

We may be unable to expand into the U.S. market, or our expansion may be delayed, each of which would limit our growth opportunities.

A key element of the growth strategy of our pharmaceuticals division is our plan to expand into the United States. The United States is the biggest pharmaceuticals market in the world and offers the greatest growth opportunities for our business. We plan to accomplish our expansion into the U.S. market with the assistance of experienced co-marketing partners and by exploiting the launch of certain of our pipeline drugs, including Ciclesonide and Roflumilast, two therapeutics that we are developing for the treatment of respiratory tract indications, to gradually build up our own sales and marketing organization for innovative therapeutics in the United States. This new sales and marketing organization will supplement our existing U.S. operations for branded generics and certain other types of pharmaceuticals. If, however, either of Ciclesonide or Roflumilast does not make it to market or does not generate sufficient demand or if we are unable to find a suitable co-marketing partner, we may be unable to enlarge our operations in the U.S. market or may experience delays in doing so. If we do not succeed in securing a strategic position in this or other international markets, the growth of our business may be adversely affected. In addition, we may be unable to recover investments that we have already made in these markets.

As part of our plans to expand our pharmaceuticals business, we expect to make substantial investments in therapeutic areas in which we have limited experience, such as oncology. If we are unable to develop new drugs in these areas, we may be unable to recoup our investments.

Our medium- to long-term goal is to expand our pharmaceuticals business by entering markets in which we are currently not active. One such market that we may decide to enter is the oncology market, which we expect will grow substantially in the future. We have recently commenced basic oncological research and entered into R&D collaborations with third parties, and we intend to make further investments related to oncology over the next several years. In addition, we may decide to enter other therapeutics markets, which may require us to make similar investments. Investments of this sort frequently involve significant cash expenditures, for example in connection with hiring qualified scientists, conducting R&D projects and making desirable acquisitions. In addition, you should note that we have limited experience with respect to therapeutics that we do not currently offer. As a result, there can be no assurance that we will be successful in developing, manufacturing and marketing therapeutics for new markets or integrating them with our existing portfolio at all or within a timeframe that will enable us to recoup our initial investments. Any of these risks may ultimately have an adverse impact on our business, financial condition and results of operations.

Our R&D strategy involves creating and maintaining alliances and other collaborative arrangements with third parties, and any inability to find suitable collaborators may adversely affect our ability to develop new pharmaceuticals.

Our continued success will in part depend on our ability to establish new and to maintain existing collaborations, alliances and licensing arrangements with third parties, especially with biotech companies. Collaborations with companies and other entities that have expertise in biotechnology and genetic research are of particular importance to our plans to supplement the existing franchises of our pharmaceuticals business with therapeutics for oncological indications. We may not be able, however, to establish such collaborations on terms that are acceptable to us or at all. Moreover, in view of the ongoing consolidation of the biotech industry, we may experience greater difficulty finding suitable partners in the future, as a number of smaller companies, which would be candidates for collaborations, become part of larger conglomerates that compete with us and that may be unwilling to grant us access to attractive technologies on commercially favorable terms or at all. In addition, we have no control over the amount and timing of resources that our partners devote to our programs. If we are unable to form or maintain alliances or our partners fail to assist us with our R&D efforts, our business may be harmed and our results of operations may be adversely affected.

Because our business is subject to extensive governmental regulation, including price controls, our ability to market our products is subject to administrative constraints over which we have only limited influence.

The development, manufacture and marketing of pharmaceuticals is subject to extensive governmental regulation. Regulatory approval is required in each jurisdiction in which we operate before any dosage form of any new pharmaceutical, including an off-patent equivalent of a previously approved pharmaceutical, may be marketed in that jurisdiction. The process for obtaining governmental approval to market pharmaceuticals is rigorous, time-consuming and costly, and it is impossible to predict the extent to which this process may be affected by legislative and regulatory developments. We currently have several drug candidates in various stages of the approval process in the United States, the European Union and Japan. If we fail to obtain, or experience delays in obtaining, regulatory clearance to market new pharmaceuticals or existing pharmaceuticals for new indications or if we experience any other regulatory impediments, our results of operations may be adversely affected. Even after a pharmaceutical has been approved, it may be subject to regulatory action based on newly discovered facts concerning its safety or efficacy. Any such regulatory action may adversely affect the marketing of our pharmaceutical products, require changes to their labeling and even force us to withdraw them from the market altogether.

In addition to the need for obtaining regulatory approval to market new products, we are subject to price controls imposed by local governments and health care providers and in some markets need to obtain special approval before patients are entitled to be reimbursed for purchasing our products. The existence of price controls can limit the revenues that we earn from our products and thus could also have an adverse effect on results of operations. The way in which price controls operate varies by country and can cause substantial disparities in the price levels prevailing in different markets. Many governments and private medical care providers, such as Health Maintenance Organizations ("HMOs") and social security organizations, have recently introduced or are currently in the process of introducing reimbursement schemes that favor the replacement of branded pharmaceuticals by cheaper generic pharmaceuticals. In Germany, the government recently refrained from introducing price regulations for ethical therapeutics only after the German association of pharmaceuticals manufacturers agreed to make a solidarity payment, to which we contributed € 4 million, to the government health insurance system. In the United States, generic substitution statutes, which permit or require dispensing pharmacists to hand out less expensive generic drugs instead of the original ethical drug, have been enacted by virtually all states. In addition, the current debate over Medicare reform could increase pricing pressures in the U.S. market in the future. If Medicare reform were to result in the provision of outpatient pharmaceutical coverage for beneficiaries, the U.S. government could use its purchasing power to demand discounts from pharmaceutical companies, thereby creating de facto price controls on prescription drugs. As a result, we expect that pressures on pricing and our operating results will continue.

Risks Related To Our Chemicals Business

Demand for our products could suffer as result of periodic downturns.

Because the specialty chemicals that we offer are used in a wide variety of downstream industries served directly or indirectly by us, including the automotive, construction, electrical appliances and packaging industries, our results are affected by the business cycles experienced by these industries. While we seek to reduce our exposure to these cycles by focusing on complementary markets, there is no assurance that we will be successful in insulating our chemicals business from downturns experienced by the industries that it serves. In addition, we are not immune to negative economic developments affecting more than one of these industries, such as the global economic slowdown that originated in the United States in the second half of 2000. Economic downturns can lead to overcapacity, oversupply, price pressure, reduced growth and lower margins, each of which could adversely affect our business and results of operations.

Our results may suffer if we are unable to pass increases in raw material prices on to our customers.

Raw material costs account for a significant portion of our cost of sales. The prices and availability of the raw materials that we use in our chemicals business vary with market conditions and can be highly volatile. As a result, if we are unable to pass on increases in raw materials prices to our customers or if the prices for our products decrease faster than raw material prices, our profitability may be hurt. In the past, there have been periods during which we were unable to pass on raw material price increases to our customers in whole or in part, and we expect that similar situations may arise in the future. Therefore, you should be aware that any movements in the level of the raw material prices that we use in our chemicals business may have a material impact on our business, results of operations and financial condition.

Our growth depends in part on our ability to acquire and successfully integrate companies into our existing organization.

A key element of the growth strategy of our chemicals division is to supplement our internal growth with strategic acquisitions of businesses and technologies that we consider capable of complementing or enhancing our existing products or of providing us with access to new markets. As a result, if we are unable to identify suitable acquisition targets, our growth prospects may suffer. In addition, in pursuing acquisitions, we may face competition from other companies operating in the specialty chemicals and related industries. Our ability to make acquisitions may be limited also by applicable antitrust, anti-takeover and other regulations in the United States, the European Union and any of the other jurisdictions in which we do business. If any of these risks materializes, we may be unable to make desirable acquisitions or to complete them on terms attractive to us. If that occurs, our ability to grow in certain of our business areas may be adversely affected.

To the extent that we are successful in making acquisitions, we may have to expend substantial amounts of cash, incur debt, assume loss-making business units and incur other types of expenses. We may also face difficulties in successfully integrating targets into our existing organization. Each of these risks may have an adverse effect on our business, financial condition and results of operations.

Risks Related to Investments in our Company

Because we, our directors and officers, and the expert named in this registration statement are located in Germany, it may be difficult for you to sue these persons in the United States or to enforce judgments by U.S. courts against them.

We are a corporation organized under the laws of the Federal Republic of Germany, and certain of our directors and executive officers and the expert named in this registration statement are residents of Germany. In addition, a substantial portion of the assets owned by us and the aforesaid individuals is located outside the United States. As a result, it may be difficult or impossible for you to effect service of process upon us or any of the aforesaid persons within the United States with respect to matters arising under the U.S. federal securities laws or to enforce against us or any of such persons judgments of U.S. courts predicated upon the civil liability provisions of the U.S. federal securities laws. We have been advised by counsel that it is doubtful

as to whether original actions of liabilities predicated on the U.S. federal securities laws may be enforced in Germany and that in Germany both recognition and enforcement of court judgments with respect to the civil liability provisions of the U.S. federal securities laws are solely governed by the provisions of the German Civil Procedure Code (*Zivilprozessordnung* or *ZPO*). In some cases, especially when the relevant statutory provisions of German law do not recognize the international jurisdiction of a U.S. court or the judgment conflicts with certain basic principles of German law (e.g., the prohibition of punitive damages and limited pre-trial discovery), a U.S. judgment might not be recognized by a German court. Service of process in U.S. proceedings on persons in Germany, however, is regulated by a multilateral treaty guaranteeing service of writs and other legal documents in civil cases if the current address of the defendant is known.

Item 4: *Information on the Company*

Introduction

We are a globally operating, fast-growing company that develops, manufactures and markets innovative pharmaceutical and chemical products for a range of targeted, highly specialized applications. In 2001, we reported net sales of € 2,308 million, 79% of which were generated outside of our home market Germany, and operating income of € 424 million after adjustment for the one-time effects discussed below.

Over the last five years, our business has on average experienced double-digit annual revenue growth. During the same period, our operating income has grown substantially faster than our net sales, leading to consistently improved profit margins. We believe that this development is a direct consequence of our reorganization in 1995. Until 1995, we were a conglomerate consisting of four divisions: pharmaceuticals, dietetics, chemicals and computer software. In 1995, our management made the strategic decision to restructure our business by divesting our dietetics and computer software businesses in order to focus on our core competencies: pharmaceuticals and specialty chemicals. Accordingly, our business is now organized in only two divisions, one for pharmaceuticals and one for specialty chemicals.

The following table provides a breakdown of our net sales and shows our operating income for the three years ended December 31, 2001:

Results of Operations

	1999	2000	2001	CAGR(1)
	(€ in millions, except %)			(%)
Net sales				
Pharmaceuticals	1,025	1,262	1,591	17.7
Chemicals	552	666	717	12.7
Total	1,577	1,928	2,308	16.1
Operating income	205	309	424(2)	40.0
As % of net sales	13.0	16.0	18.4	

(1) The Compound Annual Growth Rate ("CAGR") measures the average annual growth of a line item over the period indicated.

(2) Excludes a one-time gain in the amount of € 110 million resulting from the sale of our interest in a joint venture and a special donation of € 15 million to a charitable endowment.

For a description of our principal capital expenditures over the last three years, see "Item 5: Operating and Financial Review and Prospects — Liquidity and Capital Resources".

Our pharmaceuticals division is committed to developing innovative therapeutics for the global pharmaceuticals markets with a strategic focus on unmet medical needs in the gastrointestinal and respiratory tract areas. Our pharmaceuticals business is currently mainly driven by Pantoprazole, an innovative therapeutic that we offer for the treatment reflux disease as well as gastric and duodenal ulcers. We market Pantoprazole successfully in virtually all regions of the world, primarily the United States and Europe. Pantoprazole has been chiefly responsible for the growth of our pharmaceuticals division in recent periods, and we expect that it will continue to be a key revenue driver for at least the next several years. In addition, our R&D pipeline currently contains several promising candidates for the treatment of asthma and other respiratory tract diseases, which are in advanced stages of clinical development. We also offer medical devices and reagents for diagnostic purposes, imaging reagents and an assortment of over-the-counter ("OTC") therapeutics, which are drugs that are available to patients without prescription.

Our chemicals division offers a portfolio of innovative high quality specialty chemicals, including additives and measuring instruments, coatings and sealants, wire enamels and varnish and compounds for use in a wide range of downstream applications. In light of the highly application-specific nature of the specialty

chemicals that we offer, we maintain close contact with our customers and constantly aim to develop, manufacture and market products that respond to their specific requirements. We believe that our customer-oriented approach has enabled us to achieve leading positions in the niche markets that we serve as well as revenue growth and margins above the average of our peers.

At December 31, 2001, we operated in over 30 countries worldwide and employed 9,122 people, of whom 16.3% worked in research and development. We believe that our commitment to the international expansion of our business and to R&D will enable us to capture future growth opportunities in the pharmaceuticals and specialty chemicals industries in our various targeted markets.

We are incorporated as a stock corporation under the laws of the Federal Republic of Germany and began operations as a separate legal entity in 1977 following our spin-off by VARTA AG. The commercial name of our company is ALTANA AG. Our principal executive offices are located at Seedammweg 55, D-61352 Bad Homburg v. d. Höhe, Germany, and our telephone number is ++49 (0) 6172-404-0.

Strategy

Our group mission, which serves as a guiding principle for both our divisions, is to increase shareholder value through sustained profitable growth by developing, manufacturing and marketing innovative products in selected high-margin areas and expanding our operations internationally. We are committed to fully exploiting the opportunities of emerging technologies by investing a substantial amount of our annual earnings in R&D and to enlarging our presence in all important international markets, particularly the United States.

We measure our success in creating shareholder value by reference to sustained levels of growth in earnings, annual dividends and market capitalization. To focus our efforts on these criteria of success, we have sought to align the interests of our management and employees with those of our shareholders by implementing stock-based compensation programs. Starting in 1999, we have launched annual stock option plans that are open to our management board, senior executives and certain other key employees. To receive options under these plans, participants were required to make a substantial initial investment in the shares of our company. In 2000, we expanded the opportunities for our employees to share in the success of our company by launching the ALTANA Investment program, an annual share ownership plan that enables those of our employees who are not eligible to participate in our other stock option plans to purchase shares of our company on preferred terms. In 2001, we took a further step in this direction by enlarging the scope of eligibility for our stock option plan for key executives to include other high-potential employees.

In connection with our company's 25th anniversary in 2002, we intend to launch an extensive campaign to increase the profile of ALTANA both in the markets in which we operate and among our investors and the financial community. An integral part of our efforts to establish ALTANA as a brand is our decision to rename our two divisions ALTANA Pharma and ALTANA Chemie, respectively. In addition, we will use the ALTANA brand to market the products of our pharmaceuticals division on a worldwide basis and take measures to raise the awareness of our brand among our chemicals customers as well.

Our planned listing on the New York Stock Exchange in May 2002 is one of the high points of this campaign. We believe that this listing will help to increase our profile in the United States, which is the world's biggest pharmaceuticals and specialty chemicals market and at the same time the market that is most important to our business. It will also help us broaden our U.S. shareholder base and further enhance the quality and frequency of our dialog with the international investment community. Finally, our listing on the New York Stock Exchange will permit us to enhance the attractiveness of our stock-based compensation programs for employees based in the United States, enabling us to attract and retain high caliber talent, and provide us with a currency for possible acquisitions in the future.

In addition to our overall group strategy, we have also formulated more detailed strategies for each of our two divisions.

In our pharmaceuticals division, our strategy is to:

- *Develop innovative therapeutics in high-growth areas.* To capitalize on opportunities in the worldwide pharmaceuticals markets, we concentrate our efforts on the discovery and development of innovative therapeutics in selected high-growth areas. Our current focus is on expanding our successful gastrointestinal franchise by exploiting the expertise that we have gained through the development of Pantoprazole, while strengthening our respiratory tract franchise. To this end, we are actively developing next-generation therapeutics for the treatment of ulcers and acid reflux disease and are in the process of finalizing the development of several innovative drugs for the treatment of asthma and other diseases of the respiratory tract. Two of our most promising candidates in this area, Ciclesonide and Roflumilast, are currently undergoing Phase III clinical trials, while another one of our drugs under development, Pumafentrine, has recently entered Phase II clinical trials. Our medium- to long-term goal is to supplement our existing franchises by entering the oncology market, which we expect will grow substantially in the future.
- *Expand our business internationally, particularly in the United States, to capture growth opportunities in the global pharmaceuticals markets.* International markets already account for more than 75% of the net sales of our pharmaceuticals division. We consider the further internationalization of our business a key element of our growth strategy. As a result of the successful launch in May 2000 of our gastrointestinal drug Pantoprazole in the United States, we were able to more than double our sales in this important market in 2000 and achieve further substantial increases in 2001. In 2001, our U.S. pharmaceutical sales amounted to € 352 million, representing approximately 22% of the total net sales of our pharmaceutical division in this period. To solidify and expand our position in this and other important international markets, we aim to increase our visibility by entering into co-marketing arrangements with established distribution partners and by exploiting the launch of our pipeline drugs to gradually build our own sales and marketing organizations for innovative pharmaceuticals in the U.S. and other overseas markets. In addition, we plan to create and expand our own research, clinical development and regulatory affairs facilities in overseas locations, especially in the United States.
- *Focus on R&D.* We believe that the foundation of our long-term growth strategy is our continued emphasis on R&D with a special focus on therapeutics, the strategic core of our pharmaceuticals business. In addition, we intend to expand the depth and scope of our R&D activities by entering into strategic collaborations with third parties active in biotechnology and molecular science with a view to enhancing our R&D efforts in the areas of genomics and proteomics. To fully exploit the fruits of our research, we complement our own efforts by entering into co-development arrangements with third parties. We also develop drugs on the basis of technologies licensed from third parties. See "— Pharmaceuticals — Research and Development — R&D strategy" for more information on our R&D strategy.

In our chemicals division, we seek to:

- *Market comprehensive customer-oriented solutions.* In our chemicals business, we provide our customers with comprehensive solutions that combine specialized chemical products with technical advice and assistance regarding their adaptation and integration into our customers' manufacturing processes. To this end, we typically market our products on a decentralized basis and maintain customer service facilities in proximity to our customers' premises. We believe that this strategy enables us to add substantial value to our customers' products and their manufacturing efforts. Our customer-driven philosophy has enabled us to achieve leading positions in terms of innovation, quality and service in a number of selected markets. In addition, because our customers pay us primarily for the performance of our products, rather than the chemical substances of which they consist, our ability to offer comprehensive solutions has allowed us to attain higher profit margins than many of our peers.
- *Maintain an innovative portfolio of technologically superior products.* We believe that our focus on developing innovative products has earned us an industry-wide reputation as a supplier of technologically advanced specialty chemicals. We intend to build upon this reputation by continuing to spend substantial resources on R&D. To ensure that our R&D efforts are at all times geared towards

improving the performance of our products, all our R&D projects are carried out in close cooperation with our sales and service organization. This approach, which we believe distinguishes us from our competitors, enables us to collaborate with our customers and to constantly adapt the focus of our efforts in response to their needs.

- *Focus on selected niche markets.* We seek to achieve a leading position in each of our targeted markets through innovation, quality and service. A key element of our strategy is to focus on markets that are too small as to form a core business of our larger competitors and yet too complex to be serviced by smaller companies, which typically have insufficient resources to meet the market's expectations in terms of R&D and international scope. In selecting markets to enter, we aim to maintain a strategic portfolio of downstream markets that allows us to supply a wide array of complementary industries. We believe that this approach enables us to diversify our risk by reducing our exposure to the business cycles of individual markets.

- *Supplement organic growth with acquisitions of selected targets.* In furtherance of our strategic goal to maintain and expand our leading position in selected markets of the specialty chemicals industry, we have historically relied on a combination of organic growth and selective acquisitions, and we intend to continue to pursue this strategy in the future. In selecting acquisition targets, we focus on the potential for synergies, the availability of experienced and competent management and the willingness and ability of the target to accept our corporate culture and our focus on serving our customers.

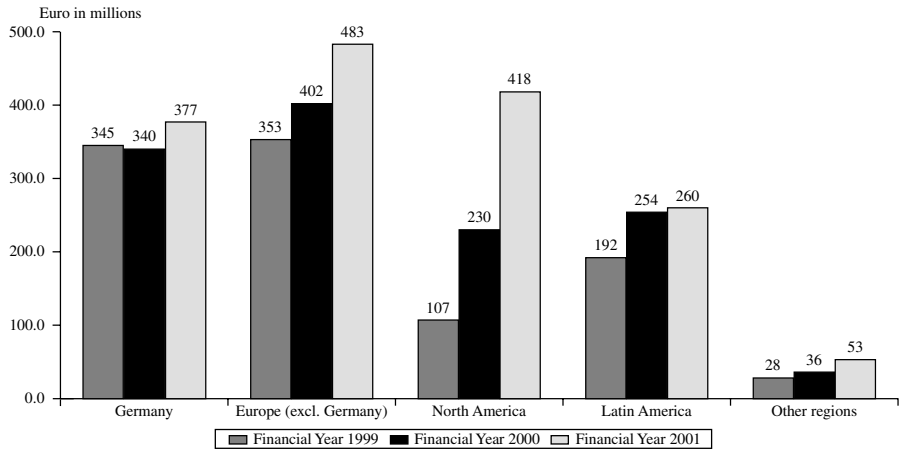
Pharmaceuticals

Overview

We develop, manufacture and market a wide range of pharmaceutical products, with a focus on innovative therapeutics. In addition, we offer diagnostic and imaging products and over-the-counter ("OTC", or non-prescription) drugs. We benefit from an extensive product portfolio, with particular strengths in the areas of gastrointestinal, respiratory and cardiovascular therapies, and market our pharmaceuticals internationally, mainly in Germany and other countries in Europe, but also in Latin America and, increasingly, North America. The strength of our portfolio has enabled our pharmaceuticals division to increase its net sales substantially in recent years.

In 2001, our pharmaceuticals division generated net sales of € 1,591 million, an increase of 26% compared with 2000. This growth has been accompanied by a greater diversity in terms of the regional distribution of our revenues. The chart below provides a breakdown of our pharmaceuticals net sales by geographic region for the three years ended December 31, 2001:

Pharmaceutical Net Sales by Geographic Region



A substantial portion of the North American growth of our business derives from the successful launch of Pantoprazole in the United States in May 2000. We expect the proportion of our net sales accounted for by sales to North America to increase in future years thanks to Pantoprazole and new pharmaceuticals currently under development. The growth of our operations in Europe reflects the continued success of Pantoprazole in these markets. As a result of the international dimension of our business, our results of operations are materially affected by exchange rate fluctuations in any given period, especially by changes in the exchange rate between the euro on the one hand and the U.S. dollar on the other hand. See "Item 3: Key Information — Risk Factors — Risks Related To Our Business Generally — Exchange Rate Fluctuations Could Affect our Results of Operations and Reduce our Ability to Price our Products Competitively" for more information on our exchange rate exposure.

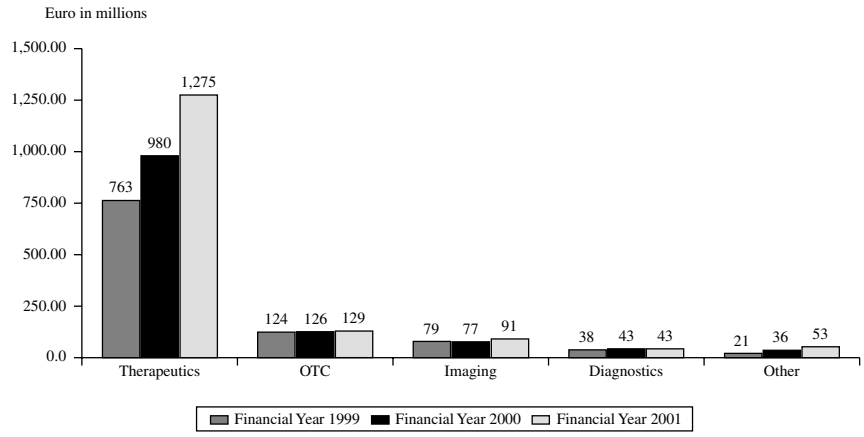
Our pharmaceuticals division comprises four business areas:

- Therapeutics, which comprises prescription drugs for gastrointestinal, respiratory tract and cardiovascular indications as well as a variety of other therapeutics;
- Diagnostics, which comprises laboratory diagnostic systems and reagents for in vitro applications;
- Imaging, which comprises diagnostic reagents, such as contrast media, for in vivo applications; and
- OTC, which comprises drugs, tonics, vitamins and medical accessories that patients may purchase over-the-counter without the need to obtain a prescription.

In addition, we generate limited revenues from other sources, mainly from contract manufacturing on behalf of third parties.

The following chart provides a breakdown of our pharmaceutical net sales by business area for the three years ended December 31, 2001:

Pharmaceutical Net Sales by Business Area



The growth of our pharmaceuticals division is driven primarily by our therapeutics business and especially by our anti-ulcer drug Pantoprazole, which in 2001 was responsible for 82% of the division's growth and 43% of its net sales.

The following table shows the targeted applications and revenues generated by the five most important revenue contributors of our pharmaceuticals division in 2001:

Principal Products and Applications

Product	Application	Revenues generated in 2001 (€ in millions)
Pantoprazole oral	Gastrointestinal therapeutic for the treatment of reflux disease and ulcers	628
Ebrantil® oral	Cardiovascular therapeutic for the treatment of hypertension	44
Imeron®	Imaging reagent used for in vivo diagnostic applications	44
Pantoprazole IV	Gastrointestinal therapeutic for the treatment of reflux disease and ulcers	42
Riopan®	Drug for the treatment of sour stomach	34

Products

Therapeutics

In our therapeutics business, we develop, manufacture and market prescription drugs, commonly referred to as ethical therapeutics, primarily for gastrointestinal and respiratory tract indications. In addition, we market therapeutics for cardiovascular and a variety of other indications. In 2001, our therapeutics business generated net sales of € 1,275 million. The following table shows a breakdown of our therapeutics net sales by franchise for the three years ended December 31, 2001:

Therapeutics Net Sales by Franchise

	1999	2000	2001
	(€ in millions)		
Gastrointestinal	324	490	795
Cardiovascular	149	170	194
Respiratory tract	57	57	53
Other(1)	233	263	233
Total	763	980	1,275

(1) The 1999 and 2000 sales of our other therapeutics business included revenues in the amount of € 54 million and € 53 million, respectively, generated primarily by our joint venture with H. Lundbeck A/S, a Danish company active in the treatment of diseases of the central nervous system ("CNS"). In February 2001, we sold our interest in the joint venture. As a result, CNS-related drugs no longer account for a significant portion of our other therapeutics business.

In the medium- to long-term, we intend to expand our therapeutics business by entering the oncology market. We have already commenced basic research related to oncology and entered into a number of collaborations with biotech companies through which we seek to enhance our R&D expertise in this area. See "— Research and Development — R&D strategy" for more information on our R&D efforts in this area.

Gastrointestinal franchise. In our gastrointestinal franchise, we market drugs for the treatment of diseases affecting the human esophagus, stomach and intestine. In 2001, our gastrointestinal business achieved net sales of € 795 million. We originally gained a foothold in the market for gastrointestinal indications through Riopan, a drug for treating ulcers that is capable of neutralizing acidity. While we sell Riopan as an

ethical drug in some markets, we market it primarily as an OTC drug. See "— OTC" for more information on Riopan.

The most important product in our gastrointestinal portfolio is our patent-protected therapeutic Pantoprazole. In 2001, Pantoprazole accounted for net sales of € 680 million or 86% of the revenues of our gastrointestinal franchise. The successful launch of Pantoprazole in most pharmaceuticals markets around the world is the first visible result of our increasing focus on R&D.

Pantoprazole is an acid suppressant drug that belongs to the family of so-called proton pump inhibitors ("PPIs"). Over the past decade, the worldwide market for PPIs has experienced rapid growth, and the number of PPIs and their labeled indications have continuously expanded. Doctors typically use Pantoprazole for the short-term treatment (up to 16 weeks) of patients with gastroesophageal reflux disease ("GERD"), including patients with erosive esophagitis, which is a more serious form of GERD, a chronic condition caused by the reflux of stomach acid into the esophagus. Medscape estimates that more than 40% of adults experience GERD symptoms at least twice a week. If left untreated, esophageal damage caused by GERD can lead to even more serious complications, including a precancerous condition known as Barrett's esophagus and esophageal cancer. Pantoprazole blocks the enzyme responsible for producing acid in the gastric mucosa, thereby restricting the flow of acid into the stomach. Recently, Pantoprazole also received approval in the United States for the long-term treatment of GERD, which has significantly expanded its therapeutic profile. In the European Union, this indication was already approved in 1998. Pantoprazole is also used to treat gastric and duodenal ulcers. Ulcers result from the digestive action of the gastric juice on the mucous membrane when the latter is rendered susceptible to its action, for example, by certain drugs or local factors, including the Helicobacter pylori infection. Helicobacter pylori, which is widespread in industrialized countries, is the bacterium chiefly responsible for peptic ulcers. In addition, Pantoprazole recently received approval from the U.S. Food and Drug Administration ("FDA") for application in an intravenous ("IV") formulation. IV Pantoprazole has important therapeutic benefits for the treatment of patients who are unable to receive a PPI by other routes and who need an IV agent for the short term. In some countries, we also offer Pantoprazole in combination with two antibiotics for the eradication of Helicobacter pylori.

We believe that Pantoprazole enjoys significant therapeutic advantages vis-à-vis its competitors. First, the clinical studies that we have conducted on Pantoprazole suggest that Pantoprazole has no clinically relevant potential for interaction with other drugs. This feature distinguishes Pantoprazole from competing PPIs, including the market-leading PPI and its recently launched successor. Our studies have also shown that Pantoprazole has a higher bioavailability than the market-leading PPI. Bioavailability is a measure for the degree and rate at which a substance is absorbed into the body or is made available at the site of therapeutic activity. Finally, Pantoprazole is the only PPI currently available in the United States as both an oral and an IV preparation and the only PPI that enables patients to switch easily from IV to oral application without complications.

We have offered Pantoprazole in our home market Germany under the name Pantozol® since 1994 and launched it in the United States in May 2000 under the name Protonix®. As a result, we now offer the drug in virtually all regions of the world with the exception of Japan. According to our internal records and data provided to us by our co-marketing partners, co-promotion partners and licensees, global market sales of Pantoprazole amounted to € 1,326 million in 2001. Market sales include our own direct sales to the market as well as the sales of our licensees and co-marketing and co-promotion partners. See "— Sales and Marketing" for a description of our sales and marketing organization.

Pantoprazole has experienced rapid growth in every market in which it has been launched. This growth has been most pronounced in Europe and, recently, in North America. Based on data available to us, total market sales of Pantoprazole in 2001 totaled € 142 million in Germany, € 339 million in Europe excluding Germany, € 716 million in North America, € 58 million in Latin America, and € 71 million elsewhere. These figures yield total market sales of Pantoprazole of € 1,326 million in 2001, compared with € 650 million in 2000 and € 369 million in 1999. The accelerated growth in total market sales of Pantoprazole in 2000 and 2001 reflects the product's strong growth in the U.S. market, where it was introduced in May 2000.

Our launch of Pantoprazole in the United States benefited from our marketing collaboration with Wyeth Pharmaceuticals, the pharmaceuticals division of Wyeth, Inc. ("Wyeth"). Wyeth initially dedicated a sales force of approximately 2,100 representatives to the marketing of Pantoprazole. Pantoprazole's share of new prescriptions in the United States has increased steadily since its launch in May 2000. According to IMS Health, as of the week ending April 26, 2002, Pantoprazole's share of new U.S. prescriptions was 14.4%.

We expect Pantoprazole to continue to be a key revenue driver for our business in the near future. Pantoprazole faces competition from a variety of other PPIs, however, including AstraZeneca PLC's market-leading PPI, which is based on a substance called omeprazole. Once the omeprazole patents expire in a market and generic versions of omeprazole are launched, we may be subject to additional competitive pressures in that market. In Germany, the substance patent for omeprazole expired in April 1999. Despite the launch of more than a dozen generic versions of omeprazole in the German market since then, however, Pantoprazole has continued to capture market share. In the United States, the substance patent for omeprazole expired in April 2001, although an extension to October 2001 was granted due to pediatric exclusivity. Currently, other patent protection issues with regard to omeprazole are the subject of ongoing court proceedings, the outcome of which is uncertain. While it is difficult to predict when generic forms of omeprazole will be launched in the United States, their launch would likely result in increased competition in the U.S. PPI market and lead to downward price pressure. Based on our experience with the German market, we believe that any such pressure will affect primarily AstraZeneca's own branded PPI. Nevertheless, sales of Pantoprazole may also be affected. Factors that may reduce Pantoprazole's exposure to competition by generics include the fact that it is already priced at a substantial discount to the market-leading PPI and that Wyeth's branding experience should enable us to continue to convey the therapeutic benefits of Pantoprazole to the market. In anticipation of the advent of generics in the PPI market, AstraZeneca has recently launched Nexium, which it is marketing as a next-generation PPI. If AstraZeneca succeeds in converting users of existing PPIs to Nexium, the growth of Pantoprazole could be adversely affected, particularly in the United States. See "Item 3: Key Information — Risk Factors" and "— Competition" for more information on the competitors of Pantoprazole.

Our continued commitment to the development of innovative gastrointestinal therapeutics has yielded a potential next-generation drug for indications similar to those of Pantoprazole that is currently in Phase I clinical trials in the United States and Phase II clinical trials in the European Union. See "— Research and Development — Pipeline" for more information on our R&D efforts in the area of gastrointestinal therapeutics and the therapeutic profiles of these drug candidates.

Cardiovascular franchise. Our cardiovascular franchise features drugs for the treatment of diseases affecting the heart and blood vessels. In 2001, our cardiovascular business had net sales of € 194 million.

Our main product offerings in the cardiovascular area are Ebrantil®, a drug based on a substance called urapidile, which is available as both an oral and an IV formulation, and Querto®, a therapeutic based on a substance called carvedilol. Ebrantil and Querto are used for the treatment of various types of hypertension. Hypertension is characterized by an increase in blood pressure above normal levels over a prolonged period of time. The condition can cause damage to the heart and blood vessels, creating a risk of heart attack, heart failure and stroke. While the IV formulation of Ebrantil is used primarily to treat hypertensive crisis and postoperative hypertension, Querto is also used for the treatment of chronic heart failure. Ebrantil is a so-called selective alpha-1 receptor antagonist with central anti-hypertensive action, whereas Querto is a beta blocker. Alpha and beta receptors are cellular entities that exist on the surfaces of cells and are stimulated by the sympathetic nervous system. Both alpha receptor antagonists and beta blockers reduce stress symptoms by inhibiting the effects of the sympathetic nervous system, thereby preventing cardiovascular damage. While Ebrantil is a result of our own cardiovascular R&D efforts, we licensed Querto from Boehringer-Mannheim GmbH, which now forms part of F. Hoffmann-La Roche Ltd.

Respiratory tract franchise. In our respiratory tract franchise, we offer drugs to treat organs functioning in respiration, such as the nose, nasal passages, bronchi and lungs. Our respiratory tract business generated net sales of € 53 million in 2001 and has been relatively stable over the past few years. Our R&D pipeline, however, contains three innovative drug candidates for widespread respiratory tract indications in advanced

stages of clinical trials. If the clinical trials that we conduct in connection with these drug candidates yield positive results and we are able to obtain regulatory approval for their commercial launch, we expect that our respiratory tract business will grow substantially in the future. See "— Research and Development — Pipeline" for more information on our R&D pipeline in the respiratory tract area and "Item 3: Key Information — Risk Factors" for risks associated with the regulatory approval of pharmaceuticals under development.

Currently, the principal drug of our respiratory tract franchise is Euphyllin®, a drug that was among the very first products developed, manufactured and marketed by our pharmaceuticals division. Euphyllin is used for the treatment of asthma and chronic obstructive pulmonary disease ("COPD"). Asthma is a chronic inflammation of the airways, often of allergic origin, that is marked by continuous labored breathing accompanied by wheezing, breathlessness, a sense of constriction in the chest, and often by attacks of coughing or gasping. COPD is a pulmonary disease that is characterized by chronic, typically irreversible airway obstruction resulting in a slowed rate of exhalation. The airflow limitation is typically associated with an abnormal inflammatory response of the lungs to noxious particles or gases. COPD is often, though not always, caused by smoking. Over time, greater airway damage occurs, and patients eventually die due to lung failure. Euphyllin is an important therapeutic for the long-term treatment of asthma and COPD. The drug expands the bronchial air passages and has an anti-inflammatory effect. In addition, it is capable of improving the pulmonary function, ameliorating gas exchange, increasing mucociliary clearance, which is an important defense mechanism of the lung against inhaled matter, and reducing the airway hyperresponsiveness associated with asthma. The most advanced drug of our Euphyllin product line is Euphylong®, a therapeutic that we designed to be administered only once per day.

For respiratory tract indications, we also offer Broncho-Vaxom®, an oral drug used principally for the treatment of recurrent respiratory tract infections. Broncho-Vaxom consists of fractions of eight different strains of bacteria whose application stimulates the natural defenses of the body. As a result, the drug can lessen the severity of symptoms and help patients develop a greater resistance to respiratory tract infections, thereby reducing the incidence and duration of such infections in adults and children. We license Broncho-Vaxom from OM PHARMA SA, a company located in Switzerland.

Other therapeutics. In our other therapeutics business, we market a variety of therapeutics for indications outside of our three core franchises. In 2001, our other therapeutics business had net sales of € 233 million. Our main products in this area are drugs for the treatment of rheumatism and for urological and gynecological indications, as well as iron products.

OTC

In our OTC business, we market a variety of non-prescription brands directly to the consumer. Our portfolio includes gastrointestinal drugs, circulatory remedies, tonics and vitamins. Unlike ethical therapeutics, patients may purchase OTC drugs without a prescription. The OTC market has grown considerably in importance in recent years, as health insurance companies have become more cost-sensitive and refuse to refund the costs of certain categories of therapeutics (especially drugs used to treat "trivial" complaints). Therefore, we have switched several products from prescription to self-medication in the recent past. We achieve approximately half of the revenues of our OTC business in Germany, which we serve through our Hamburg-based subsidiary Roland Arzneimittel GmbH. We also distribute OTC drugs through our subsidiaries in a number of other regions of the world, most notably in other parts of Western Europe and in Latin America. In 2001, our OTC business generated net sales of € 129 million.

The most important products in our comprehensive OTC portfolio are Riopan®, Buerlecithin® and Sanostol®. Riopan is an antacid for the treatment of GERD, duodenal and gastric ulcers, and stress-related mucosal damage. Antacids are agents that neutralize acidity and are used as an adjunct to other drugs to relieve ulcer pain and as self-medication against acid indigestion, heartburn, dyspepsia and sour stomach. The therapeutic importance of antacids has been declining in recent years in view of the better clinical efficacy of PPIs, such as our patent-protected drug Pantoprazole. We currently market Riopan as an ethical therapeutic in some markets but mainly offer it as an OTC drug. Buerlecithin is a well-known tonic based on lecithin, a

substance found in soy plants, and is used to increase mental productivity. Sanostol is a widely recognized vitamin preparation for children in Germany and many other countries.

Imaging

In our imaging business, we offer a variety of in vivo diagnostic applications, that is, applications for diagnosing medical conditions in the living body of a human. Imaging is a term that covers a range of diagnostic techniques for creating images of parts of the human body. Our portfolio comprises contrast media for both x-ray imaging and magnetic resonance imaging ("MRI"). MRI is an increasingly important noninvasive diagnostic technique that produces computerized images of internal body tissues and is based on nuclear magnetic resonance of atoms within the body induced by applying radio waves. In 2001, our imaging business generated net sales of € 91 million. We offer our imaging portfolio in cooperation with Bracco S.p.A., an Italian company active in contrast media. Under the terms of our collaboration with Bracco, we manufacture a variety of contrast media developed by Bracco and market them in Germany and in parts of Central Europe. We believe that as a result of our collaboration with Bracco, we are among the leading providers of contrast media in Europe.

Diagnostics

In our diagnostics business, we offer the Liaison® laboratory analysis system for in vitro diagnostic purposes and develop, manufacture and market a variety of reagents for use in connection with this system. In vitro diagnostics is an umbrella term for medical tests that are used to examine fluid or tissue samples from the human body to detect, diagnose and manage medical conditions. Such tests assist doctors with the examination of patients and the discovery and assessment of the development of diseases. The main applications of our in vitro diagnostic tools are the diagnosis of hormonal imbalances, tumors and autoimmune diseases, i.e., diseases that involve or are caused by antibodies or T cells that attack the cells of the organism which produces them. In 2001, our diagnostics business generated net sales of € 43 million.

In November 2000, we entered into an agreement with DiaSorin s.r.l., an international diagnostics group that has special know-how in the areas of hepatitis and infectious diseases. Pursuant to this collaboration, DiaSorin assists us in developing a range of infectious disease test kits for use in connection with our Liaison® system. The development of these additional kits will enlarge the scope of applications that are available for the Liaison system, thereby enabling us to target new customers. In addition, we also expect to sell kits to those of our customers who have already installed Liaison systems in their laboratories, as they, too, will benefit from the extended application menu. Our collaboration with DiaSorin equally covers the distribution of the system in selected overseas markets where we do not currently have a presence of our own.

At the beginning of 2001, we reorganized our in vitro diagnostics business by creating a separate unit for molecular diagnostics. Molecular diagnostics is concerned with diagnosing diseases by detecting specific sequences of nucleic acids that uniquely identify the agents that cause particular diseases. By using nucleic acid probes, scientists working in this field can screen and diagnose cancer, genetic diseases, and bacterial, viral and fungal infections more rapidly and with greater precision than with conventional culturing approaches. We obtained the relevant know-how in connection with our acquisition of Sangtec Medical AB, a Swedish company, in 1999. Our molecular diagnostics unit operates under the name Sangtec Molecular Diagnostics and is located in Bromma, Sweden. It is responsible for all our research efforts related to molecular diagnostics and focuses on developing a new generation of tools for the diagnosis of medical conditions and for monitoring the efficacy of medical treatment in areas such as oncology and infectious diseases. We believe that the expertise of Sangtec Molecular Diagnostics in the development of DNA-based and nucleotide diagnostics may benefit our R&D efforts in the oncology field and other research areas. To provide the unit with state-of-the-art technology, we have entered into licensing arrangements with F. Hoffmann-La Roche Ltd. and Invitrogen Corporation. See "— Research and Development — R&D strategy" for more information on these arrangements.

Research And Development

R&D strategy

We consider R&D to be the foundation of the long-term growth of our pharmaceutical division and are committed to maintaining a high level of investment in R&D in the future. The table below provides information regarding our R&D expenditures for the three years ended December 31, 2001:

Investment in R&D

	1999	2000	2001
	(€ in millions, except %)		
R&D expenditures	144	190	252
% of pharmaceuticals net sales	14.0	15.1	15.8
% of therapeutics net sales	18.8	19.4	19.8

Our R&D budget for 2002 is € 322 million. We believe that our current level of investment in R&D positions us well vis-à-vis our peers. Our goal is to continue to spend approximately 20% of our therapeutics net sales on R&D in the future. We intend to allocate approximately 20% of our investment in R&D in any given year to basic research and drug discovery.

The main focus of our R&D expenditures in recent years has been therapeutics, which is the single most important contributor to our pharmaceuticals revenues and which we expect to increase in importance in the future. Within therapeutics, we concentrate on the development of innovative drugs for gastrointestinal and respiratory tract indications. Recently, we identified oncology as a further focal point of our R&D efforts. To this end, we have commenced basic oncological research and entered into a variety of collaborations with biotech companies. In addition, we also conduct R&D related to in vitro diagnostics, including molecular diagnostics.

Our current R&D facilities are located in Constance, Germany; Hamburg, Germany; Bromma, Sweden, and Melville, New York. To support the international expansion of our operations, we recently decided to establish additional R&D facilities in overseas locations. In light of the relative size and importance of the U.S. market, we intend to focus our international R&D activities primarily on the United States. Among other things, we are in the process of forming a research unit in Waltham, near Boston, Massachusetts. The unit will be equipped with technology licensed from GPC Biotech AG ("GPC") and will specialize in functional genomics and proteomics. Its aim is to assist us in decoding complex cell functions and detecting genetically steered cell malfunctions. Since we have several drug candidates in advanced stages of development, we are currently utilizing our U.S. facilities also to conduct clinical studies on, and to assist us with obtaining regulatory approval for, new therapeutics in the United States.

In addition to carrying out R&D projects internally, we continuously seek to enhance the scope and depth of our research portfolio by obtaining access to outside knowledge, mainly through collaborations with companies in the biotech field. Our immediate goal is to intensify our activities in the areas of genomics, proteomics and high-throughput screening ("HTS"). To this end, in 1999, we budgeted $100 million in investments over the next several years to acquire equity holdings in biotech companies, sponsor research projects and facilitate collaborations that we believe will yield results which may assist us with the development of innovative new therapeutics. For example, in 2001, we acquired a strategic 8.3% stake in GPC, a biotech company with facilities in the United States and Germany with which we have a longstanding relationship. In addition to collaborating with third parties in the area of basic research, we also enter into co-development arrangements with third parties. By supplementing our own development efforts with the resources of third parties, we believe that we can exploit the commercial potential of our research results more quickly and efficiently.

We believe that our scientific staff is a key to our success. At December 31, 2001, 1,052 of our employees — 15% of the workforce of our pharmaceuticals division — worked in our pharmaceutical R&D laboratories. Our goal is to attract and retain the best-qualified scientists for our R&D activities. To this end,

we offer a competitive compensation package that affords our employees the opportunity to participate in our various stock option plans. See "Item 6: Directors, Senior Management and Employees" for additional information on our stock option plans.

Pipeline

Overview. We currently have several therapeutics in various stages of our R&D pipeline. For each project, we are required to conduct a number of pre-clinical and clinical studies. In the pre-clinical project phase, we typically conduct a number of in-vitro and in-vivo studies on animals to test the molecular and physiological effects of a drug candidate on cellular systems and its mechanisms of action. If these tests yield positive results, we then conduct Phase I, Phase II and Phase III clinical studies on humans to test the safety and clinical efficacy of the drug candidate. For more information on the regulatory approval process, see "— Pharmaceuticals — Regulation".

While regulators in the United States and the European Union require that we conduct comprehensive pre-clinical and clinical studies before applying for authorization to market a drug, we typically need not conduct all requisite studies in both jurisdictions. Instead, we are usually able to apply to the regulator of one jurisdiction to give us credit for studies conducted in other jurisdictions. Sometimes, a regulator will require us to supplement our existing studies with additional trials in order to satisfy all applicable requirements. As a result, we often manage to use, for example, the results of Phase I trials conducted in the European Union in order to qualify for Phase II trials in the United States and vice versa. Historically, we used to first test our drug candidates in the European Union and subsequently transfer the results of these tests to the United States, subject to any additional testing required by the FDA. More recently, in connection with the international expansion of our business, we started to conduct trials in the European Union and United States in parallel. In doing so, we rely partly on our own resources and partly on collaborations with third parties.

Consistent with our R&D strategy, we focus our development efforts on innovative drug candidates for gastrointestinal and respiratory tract indications.

Gastrointestinal franchise. In the gastrointestinal area, we focus our R&D efforts on two drug candidates, one for the treatment of GERD and one for the treatment of gastrointestinal diseases induced by the Helicobacter pylori infection. The table below provides an overview of our gastrointestinal R&D projects along with their respective development stages.

Gastrointestinal Pipeline

		Current project phase		Expected filing date of NDA/MAA(1)	
Drug candidate	**Indication**	**US**	**EU**	**US**	**EU**
BY 359	GERD	Phase I	Phase II	2005	2005
BY 170424	Helicobacter pylori-induced gastrointestinal diseases	Preclinical	Preclinical	N/A(2)	N/A(2)

(1) As part of the regulatory approval process, a New Drug Application, or NDA, must be submitted to the Food and Drug Administration in the United States. In the European Union, a Marketing Authorization Application, or MAA, has to be submitted to the European Agency for the Evaluation of Medicinal Products ("EMEA"). For more information on the regulatory approval process, see "— Pharmaceuticals — Regulation". In light of the inherent unpredictability of the regulatory process, you should be aware that there can be no assurance that an MAA or NDA with respect to any of the drug candidates listed in the table above will be filed by the time indicated or at all.

(2) To be determined.

Unlike Pantoprazole, which is a PPI, BY 359 is an acid pump antagonist ("APA"). APAs are widely considered the next generation of acid suppressants. Like PPIs, APAs restrict the flow of acid into the

stomach. They differ from PPIs, however, in the way that they operate. Whereas PPIs bind to active proton pumps, thereby inhibiting them irreversibly, APAs reversibly inhibit the ability of such pumps to produce acid. As a result of this difference, we believe that BY 359 should have significant therapeutic benefits compared with currently available treatments for GERD and ulcers, such as a faster onset of action, which may result in a faster symptom relief. This characteristic should make BY 359 ideal for treating the symptoms of various gastrointestinal diseases. Following the successful completion of four Phase I studies with respect to BY 359 in the European Union, we are currently in the process of conducting several Phase II studies. In the United States, we have recently commenced our first Phase I study.

BY 170424 is a drug candidate that is specifically targeted at the treatment of Helicobacter pylori ("H. pylori"). H. pylori is the bacterium that is chiefly responsible for peptic ulcers. According to Medscape, approximately 40% of the U.S. population are infected with H. pylori. Current therapies require a combination of one PPI and two antibiotics for the treatment of H. pylori. These therapies, however, while effective in principle, suffer from poor compliance by patients and increasing resistance by the bacterium to the antibiotics that are currently used to treat the infection. We are developing BY 170424 as an oral monotherapy, which means that patients would be required to take only one dosage per day rather than six tablets, which is the regimen prescribed by current therapies. This feature should improve compliance. The project is currently in an advanced stage of pre-clinical trials.

Respiratory tract franchise. Our pipeline for respiratory tract indications contains a series of innovative drug candidates for the treatment of asthma, chronic obstructive pulmonary disease ("COPD") and rhinitis. Rhinitis is a disease that causes inflammation of the mucous membrane of the nose. The table below provides an overview of our respiratory tract pipeline along with the respective development stages of each drug.

Respiratory Tract Pipeline

		Current project phase		Expected filing date of NDA/MAA(1)	
Drug candidate	**Indication**	**US**	**EU**	**US**	**EU**
Ciclesonide MDI	Asthma	Phase III(2)	Phase III	2003	2002
Ciclesonide DPI	Asthma	N/A(3)	Phase I	2005	2005
Ciclesonide nasal	Rhinitis	Preclinical	Preclinical	N/A(4)	N/A(4)
Roflumilast oral	Asthma	Phase III(5)	Phase III(5)	2003/4	2002
Roflumilast oral	COPD	Preclinical(5)	Phase III(5)	2003/4	2002
Pumafentrine oral	Asthma	Phase II	Phase I	2006	2006
Pumafentrine oral	COPD	Phase I	Phase II	2006	2006

(1) As part of the regulatory approval process, a New Drug Application, or NDA, has to be submitted to the Food and Drug Administration in the United States. In the European Union, a Marketing Authorization Application, or MAA, has to be submitted to the European Agency for the Evaluation of Medicinal Products ("EMEA"). For more information on the regulatory approval process, see "— Pharmaceuticals — Regulation". In light of the inherent unpredictability of the regulatory process, you should be aware that there can be no assurance that an MAA or NDA with respect to any of the drug candidates listed in the table above will be filed by the time indicated or at all.

(2) In conducting Phase III studies with respect to this project in the United States, we collaborate with Aventis S.A.

(3) We do not intend to conduct Phase I studies with respect to this project in the United States, as we expect to use the results of the Phase I studies that we are currently conducting in the European Union as the basis of future Phase II studies both in the European Union and in the United States.

(4) To be determined.

(5) In conducting clinical studies with respect to this project, we collaborate with Pharmacia Corporation.

Ciclesonide is an inhalable steroid for the treatment of asthma and rhinitis. Because Asthma is a global and widespread disease, there is a substantial need for an effective therapeutic that is capable of healing the condition. Steroids are powerful anti-inflammatory drugs that prevent asthma attacks by reducing airway hyper-responsiveness and inflammatory reactions, such as mucous secretion. Inhaled steroids are considered the current drug of choice for the treatment of asthma, as of the two principal alternatives, oral steroids have greater side effects and anti-leukotriene agents are less effective in improving lung function. The inhaled steroids that are currently available on the market have two main side effects. First, when administered via inhalers, portions of the drugs' active ingredients are deposited not only in the lung but also in the mouth and throat, which can cause local side effects such as hoarseness and fungal infections. Second, once spread throughout the body following absorption and distribution via the blood, the systemic availability of these ingredients can lead to serious systemic effects. Of these systemic effects, diabetes, osteoporosis and slowed growth in children are the most important. In contrast, Ciclesonide is activated predominantly at the site of its action, in this case the lung. The activation is caused by local airway enzymes known as esterases. This feature of Ciclesonide should reduce the systemic effects that characterize existing inhaled steroids and provide the drug with a significant therapeutic advantage over alternative treatments.

We are developing Ciclesonide for use in connection with metered dose inhalers ("MDIs"), dry powder inhalers ("DPIs") and nasal applicators. With respect to the MDI version of Ciclesonide, for which we use a CFC-free environmentally friendly device, we are currently conducting a number of Phase III studies both in the United States and in the European Union. While several of the studies that we are conducting in the European Union have already yielded satisfactory results, the results of the studies that we are conducting in collaboration with Aventis S.A. in the United States are not yet available. With respect to the DPI version of Ciclesonide, we are currently conducting one Phase I study. This study is in addition to a total of 32 Phase I studies that we have conducted with respect to Ciclesonide in various trials since 1995. Because these studies have established the pharmacological and toxicological characteristics of Ciclesonide, we expect to be able to use the results of these studies not just in connection with the MDI version of Ciclesonide but also as the basis of future Phase II studies of the DPI version. With respect to the nasal application version, we are currently in the process of preparing to commence Phase I studies. No Phase I studies on this version have been conducted to date.

Roflumilast, another of our drug candidates, is a selective phosphodiesterase ("PDE") 4 inhibitor for the treatment of asthma and COPD. In the United States, COPD is second only to cardiovascular disease as a cause of disability, according to U.S. Social Security statistics, which speaks to the substantial need for an effective treatment. PDE 4 inhibitors are substances that have anti-inflammatory and immuno-modulatory effects and are effective against various inflammatory diseases. We refer to Roflumilast as a "selective" PDE 4 inhibitor because it selectively inhibits one form of the PDE enzyme family, namely the PDE 4 enzyme. As a result of its special molecular interaction with this enzyme, we expect that Roflumilast will have an improved side-effect profile compared with other PDE 4 inhibitors, which typically have significant side effects, such as nausea and headache. Unlike most existing therapies, Roflumilast can be administered orally.

With respect to the asthma indication of Roflumilast, we have completed two Phase III studies in the European Union and are currently in the process of conducting three additional studies. In the United States, we are currently conducting two Phase III studies, neither of which has been completed. As far as the COPD indication of Roflumilast is concerned, one Phase II study has been completed and two Phase III studies are underway in the European Union.

Our pipeline drug Pumafentrine is a dual selective "PDE 4>3" inhibitor, producing greater inhibition of PDE 4 than PDE 3, for the treatment of asthma and COPD. Because Pumafentrine combines the characteristics of a PDE 4 inhibitor with those of a PDE 3 inhibitor, it may have a greater anti-inflammatory effect than pure PDE 4 inhibitors. In addition, Pumafentrine may have a bronchodilatory effect, which means that it may cause the bronchial air passages to expand. Since we are developing Pumafentrine as a "selective" PDE 3 and PDE 4 inhibitor, it should have substantially fewer side effects than "non-selective" inhibitors. We expect that the greater anti-inflammatory profile of Pumafentrine should enlarge the scope of the drug's therapeutic profile.

We have conducted a total of 18 Phase I studies with respect to Pumafentrine. We are currently conducting one Phase II study with respect to the asthma indication of Pumafentrine in the United States and one Phase II study with respect to the COPD indication in the European Union.

Despite certain similarities in their indications, our various pipeline drugs in the respiratory tract area are targeted at complementary markets. While Ciclesonide and Roflumilast are both aimed at the treatment of asthma, they have different therapeutic profiles as a result of differences in the manner in which they are administered. In addition, unlike Ciclesonide, Roflumilast is being developed also for the treatment of COPD. Finally, because Pumafentrine is still at an early development stage, we plan to market it at a later time than Ciclesonide and Roflumilast.

While clinical trials of the various pipeline drugs described above have so far shown promising results, there is no assurance that any of these drugs will ever reach the market. There is always a significant possibility that adverse results with respect to a drug will become apparent in the future, which may result in substantial delays in the launch of the drug and possibly force us to abandon the drug altogether. An example of a promising drug candidate that showed unsatisfactory results at a late stage of clinical trials is Venticute, a lung surfactant that we originally developed for the treatment of acute respiratory distress syndrome ("ARDS"). ARDS is an emergency condition that occurs when inflammation damages the lung. The condition can be caused by direct injury to the lung as well as by inflammation triggered by injury, including the inhalation of smoke, sepsis, bacterial or viral pneumonia, chest trauma, burns, near drowning or blood transfusion. Phase II clinical data suggested that Venticute might be an effective treatment for all patients developing ARDS symptoms, irrespective of the cause that led to the disease. The two Phase III studies that we conducted and evaluated in 2001, however, showed unsatisfactory results with respect to the drug's efficacy. As a result, we decided to suspend the project in the fall of 2001. A subsequent subgroup analysis, however, showed promising effects in patients with primary lung damage, such as pneumonia (as opposed to secondary lung damage resulting from other causes, such as injury). We are currently preparing a Phase III study to test Venticute in patients requiring mechanical ventilation due to pneumonia or aspiration who are at risk of developing ARDS or have been diagnosed with ARDS. We intend to start this study in the summer of 2002.

R&D collaborations

The table below provides an overview of our current R&D collaborations, including a brief description of the scope and objectives of each:

R&D Collaborations

Partner	Scope
Research collaborations	
GeneData AG	Bioinformatics and genomics information management and analysis systems
GPC Biotech AG	Investigation of new genomic targets for the control of infections caused by the Helicobacter pylori and Chlamydia pneumoniae bacteria
	Identification of tumor-specific targets
	Creation of a functional genomics/proteomics research unit in Waltham, near Boston, Massachusetts
	Collaboration in the area of pathway mapping and kinases
Atugen AG	Target validation
F. Hoffmann-La Roche Ltd.	License to use polymerase chain reaction technology in human in-vitro diagnostics

Partner	Scope
Invitrogen Corporation	Sterilization technology to prevent contamination of polymerase chain reaction-based assays
Development collaborations	
Aventis S.A.	Co-development and co-marketing of Ciclesonide in the United States
Teijin Ltd.	Development and marketing of Ciclesonide in Japan; co-development of the nasal application of Ciclesonide
Pharmacia Corporation	Co-development and co-marketing of Roflumilast in the United States, Europe and other markets

Research collaborations. In 2000, we entered into an alliance with GeneData AG, a Swiss company that is a leading provider of bioinformatics and genomics information management and analysis systems used in various genomic R&D applications. Our collaboration with GeneData has put us in a position to manage the huge amounts of data involved in functional genome analysis, thereby significantly enhancing our capabilities in this important area of pharmaceutical R&D.

In December 2000, we entered into a five-year research alliance with GPC Biotech AG in the area of tumor research. The alliance complements an earlier collaboration of ours with GPC, under which we worked together to investigate new genomic targets for the control of infections caused by Helicobacter pylori, a bacterium that plays a key role in triggering peptic ulcers, and by Chlamydia pneumoniae. Under the terms of this agreement, we collaborate in the identification of tumor-specific targets, that is, targets whose inhibition selectively eradicates cancer cells (but not normal cells). Most current chemotherapeutics for tumors show poor efficacy and safety profiles because they are unable to specifically target tumor cells. As a result, we believe that our collaboration with GPC will benefit our oncological research efforts. In addition to research, we are also entitled to have target validation, assay development and screening carried out by GPC. In 2001, we entered into an agreement with GPC, pursuant to which the company will provide us with technology for our research unit in Waltham, near Boston, Massachusetts, which will specialize in functional genomics and proteomics. In addition, under the terms of the agreement, we will collaborate with GPC in the area of pathway mapping and kinases. Kinases are enzymes that catalyze the transfer of phosphate groups.

In July 2001, we entered into a three-year arrangement with Atugen AG pursuant to which Atugen will carry out target validation for us, including the validation of tumor-specific targets. Target validation constitutes an essential step in the process of turning new target proposals identified with genomic technologies (which is the subject-matter of our agreement with GPC) into new drugs. The agreement will help us determine whether a target is critically involved in a disease process and whether drugs that modulate the target are likely to have a beneficial therapeutic effect.

In connection with the reorganization of our in vitro diagnostics business and the creation of a separate unit for molecular diagnostics, we obtained a license from F. Hoffmann-La Roche Ltd. in 2000 that entitles us to use Roche's polymerase chain reaction ("PCR") technology in human in-vitro diagnostics. PCR is an in vitro technique for rapidly synthesizing large quantities of a given DNA segment. PCR involves separating the DNA into its two complementary strands, binding a primer to each single strand at the end of the given DNA segment where synthesis should start, using DNA polymerase to synthesize two-stranded DNA from each single strand, and repeating the process. We also entered into a licensing agreement with Invitrogen Corporation, a California company, in 2000 that entitles us to use Invitrogen's sterilization technology to prevent the contamination of PCR-based assays. While our R&D projects in the molecular diagnostics area focus on diagnostics, we believe that, because they involve genomic technologies, they will yield results that will also benefit our R&D efforts in other fields, in particular oncology.

Development collaborations. We are currently party to three development collaborations. In 2001, we entered into an agreement with Aventis Pharmaceuticals Inc., the U.S. pharmaceuticals subsidiary of Aventis

S.A., pursuant to which we cooperate with Aventis in connection with the ongoing Phase III clinical trials for Ciclesonide carried out in the United States and share the costs of these trials. In addition, we agreed with Aventis that if we obtain regulatory approval to launch Ciclesonide in the United States, we will distribute the drug in the U.S. market in collaboration with Aventis. In 1998, we entered into a contract in relation to the same drug with Teijin Ltd., a Japanese conglomerate, pursuant to which we granted Teijin the right to develop and market Ciclesonide in Japan. Our collaboration with Teijin will enable us to exploit the Japanese market, which operates substantially differently from the U.S. and EU markets, through an experienced partner without having to build the necessary capacity ourselves. In addition, we agreed with Teijin to collaborate in the development of the nasal application of Ciclesonide. In 2002, we entered into an agreement with Pharmacia Corporation pursuant to which we will co-develop Roflumilast for the United States, Europe and other important markets. While we coordinate the development of the drug in the European Union, Pharmacia does so in the United States. The agreement provides that, following the receipt of regulatory approval in the relevant jurisdictions, we and Pharmacia will jointly launch and promote Roflumilast in the United States, Europe and other markets. Under the agreement, we will receive an upfront payment in the amount of $30 million in the second quarter of 2002 and may receive additional payments based on the achievement of certain milestones in the future.

Supplies And Raw Materials

We purchase our supplies and raw materials on a worldwide basis from a number of third-party providers. In those instances where there is only a single supplier, we seek to reduce our dependence on that supplier by accumulating and maintaining strategic reserves of the supplies and raw materials that we need for the manufacture of our products, qualify new suppliers, and, to the extent feasible, develop production processes in our own facilities. We typically attempt to secure strategic materials through medium-and long-term supply contracts and to ensure that in case of an outage, alternative sources would be readily available to us without undue expense and delay. We have not experienced significant difficulties in obtaining sufficient amounts of supplies and raw materials in recent years, and we do not expect to encounter such difficulties in the foreseeable future.

Production

In the area of production, our goal is to ensure consistent quality and to minimize costs by creating facilities that specialize in discrete manufacturing tasks. We concentrate the manufacture of most of our products for the supply of the worldwide pharmaceuticals markets in Europe. Our manufacturing facility in Singen, Germany, has sole responsibility for all sterile application forms of therapeutics and also produces non-sterile semi-solid and liquid application forms as well as active pharmaceutical ingredients. Our facility in Oranienburg, Germany, is engaged in the production of solid dosage forms. Both sites comply with current good manufacturing practice ("cGMP") standards, which are standards mandated by the Food and Drug Administration for the regulatory approval of new pharmaceuticals. Our new facility in Lyskowice, Poland, which we have recently completed, specializes in solid and liquid formulations. In Latin America, we are in the process of concentrating our activities for the Mercosur area in our recently completed facility in Jaguariuna, Brazil.

We currently operate eleven production facilities around the world. We source the active ingredient for Pantoprazole principally from our manufacturing facility located in Singen, Germany, and from Isochem SA, a French company that performs contract manufacturing for us. The Pantoprazole tablets are manufactured at our Oranienburg facility. While we procure key starting materials for Pantoprazole from our facility in Bombay, India, we also use external sources. For the construction of our Bombay facility we have entered into a 50% joint venture with a third party. We own all of our principal production facilities and substantially all of the land on which they are located.

The following table shows selected key information with respect to our principal current manufacturing facilities as well as our facilities under construction:

Production Facilities

Location	Function	Size (m2)
Singen, Germany	Pharma (sterile, solid and semi-solid dosage forms and active pharmaceutical ingredients)	170,000
Oranienburg, Germany	Pharma (solid dosage forms)	64,307
Dietzenbach, Germany	Diagnostics	10,571
Zwanenburg, Netherlands	Pharma (pellets, which are intermediate products for solid dosage forms)	14,648
Lyskowice, Poland	Pharma (solid and liquid dosage forms)	25,000
Bromma, Sweden	Diagnostics	4,413
Melville, New York	Pharma (semi-solid and liquid dosage forms)	52,000
Hicksville, New York	Pharma (semi-solid dosage forms)	23,149
Mexico City, Mexico	Pharma (solid, semi-solid and liquid dosage forms)	11,904
Buenos Aires, Argentina	Pharma (semi-solid and liquid dosage forms)	51,748
Jaguariuna, Brazil	Pharma (solid, semi-solid and liquid dosage forms)	220,000
Bombay, India	Key starting materials for Pantoprazole	25,106

Sales And Marketing

We have sales and marketing organizations in virtually all geographic regions in which we compete. As with other pharmaceuticals companies, however, we do not distribute our products exclusively through our own sales and marketing organization but also use collaborations with third parties. For example, while we supply a number of hospitals directly, we frequently rely on wholesalers to distribute our products to retailers, such as pharmacies. Furthermore, with respect to Pantoprazole, we have found it desirable to supplement our internal sales and marketing efforts with the branding experience and marketing capabilities of external partners, particularly in the United States.

Among our third-party partners, we make a distinction between co-marketing partners, co-promotion partners and licensees. Licensees are partners that we typically use in markets that we do not serve ourselves. By contrast, co-marketing and co-promotion partners are distributors that we use in markets where we have a sales and marketing organization of our own. We use co-marketing partners when we decide to sell a product under more than one brand in the same market. Although we typically coordinate our efforts with our partners, particularly in terms of dealing with regulators and drug safety, we and our partners each manage a separate brand and use distinct distribution channels. To generate revenue, we charge our partners a fee in an amount tied to the price that they charge their customers. By contrast, when we use co-promotion partners to sell a product under a single brand, either we or our partners take sole responsibility for distributing the product, although we cooperate with our partners in promoting the brand under which the product is marketed.

The type of arrangement we use in any given situation depends on the particular product and the features of the targeted market. For example, we currently use co-marketing partners for the distribution of Pantoprazole in Germany, most other European countries and Latin America. In Canada, we distribute Pantoprazole in collaboration with a co-promotion partner. An example of a licensing arrangement is our agreement with Wyeth to distribute Pantoprazole in the United States, where we currently do not have a

significant sales and marketing organization of our own. Pursuant to our agreement with Wyeth, Wyeth is required to use commercially reasonable efforts to distribute Pantoprazole in the U.S. market and to bill its customers for the drug directly. Wyeth is free to set the retail price at its discretion, which affords it the flexibility necessary to adapt its distribution strategy to the prevailing market conditions. In return, Wyeth is required to pay us a fixed percentage of its net sales, subject to a minimum price.

Going forward, we intend to use licensees primarily in markets that we do not consider a strategic focus or where we believe that the costs of building and maintaining the necessary infrastructure and expertise outweighs the benefits of having a sales and marketing organization of our own. In strategically important markets that offer a substantial growth potential for our pharmaceuticals business, especially the United States, our goal is to rely less on licensees and instead to use experienced local companies as co-marketing and co-promotion partners. We believe that this approach will enable us to gradually build our own sales forces in these markets and to reduce our dependence on partners. We have already entered into a cooperation agreement with Aventis for the distribution of our pipeline drug Ciclesonide in the United States and have entered into a similar agreement with Pharmacia with respect to Roflumilast.

We use sales and marketing methods customary in the pharmaceuticals industry. In addition to advertising our drugs, we maintain a network of sales representatives and use our company's website to provide information about our pharmaceuticals. We also grant discounts to our customers. Our discounting practice varies widely among the countries in which we are active, depending on the respective country's regulatory framework and our position in the relevant market. The amount of control that we have over the sales mix used by our partners in any given market depends on the distribution arrangements we use in that market.

In connection with our company's 25th anniversary, we have made the strategic decision to rename our pharmaceuticals division ALTANA Pharma and to use the ALTANA brand in connection with our products. We plan to supplement our rebranding effort with a marketing campaign to present our new brand to the pharmaceuticals markets. Our new branding strategy should enable us to achieve a greater awareness of our innovative product portfolio and create a basis for sustained customer loyalty.

Competition

For the most part, our pharmaceuticals division operates in markets characterized by intense competition. Our competitors include a wide variety of companies, ranging from small biotech companies to large national and international pharmaceuticals groups and from off-patent manufacturers of generic pharmaceuticals to owners of preeminent brands.

The global therapeutics markets are highly competitive and are targeted both by large companies and by small niche players. The main competitive factors include product efficacy and safety and distribution capabilities. In addition, price has become increasingly important, particularly in Europe and Latin America. Our main competitor for drugs in the gastrointestinal area is AstraZeneca PLC, which offers the market-leading PPI based on a substance called omeprazole. AstraZeneca has recently launched a new drug under the name Nexium, which it is actively marketing as a successor therapeutic to its existing PPI. Other companies offering PPIs that compete with Pantoprazole include Takeda Chemical Industries, LTD. and Eisai Co. Ltd. In addition, following the expiration of the U.S. patents for omeprazole, we expect Pantoprazole to face competition by generic PPIs based on omeprazole in the United States. Pantoprazole already faces competition from generic omeprazole in Germany, the introduction of which has resulted in overall downward price pressure in the German market for PPIs. While Pantoprazole has been less affected by this trend and has continued to grow in sales in Germany despite the launch of more than a dozen generics, there is no assurance that we will be able to repeat our German experience in the United States once the omeprazole patents there have expired. See "Item 3: Key Information — Risk Factors" for a discussion of the risks resulting from competition by generics and "— Therapeutics" for more information on Pantoprazole and the likely impact of the launch of Nexium and generic PPIs. In the respiratory tract area, we compete primarily with AstraZeneca, GlaxosmithKline Plc., Merck & Co. Inc. and Boehringer-Ingelheim GmbH.

The diagnostics and imaging markets are highly competitive. The key competitive factors include price (especially with respect to x-ray contrast media), product efficacy, safety, and sales and marketing

capabilities. As far as new diagnosing techniques are concerned, technological innovation is also an important factor. Our competitors include Schering AG, Mallinckrodt Inc. and Nycomed-Amersham plc.

In the OTC area, the key competitive factors are price and branding. The OTC market is highly fragmented, and we face competition not only from other pharmaceuticals companies but also from distributors of homeopathic remedies and medical accessories.

Intellectual Property

Intellectual property and especially patent protection are of critical importance to our pharmaceuticals business. At December 31, 2001, we held 74 U.S., 28 European and 15 Japanese patents for various pharmaceutical inventions. In addition, we have 44 patent applications pending in the United States, 128 at the European Patent Office and 94 in Japan. Our most important patents are those covering Pantoprazole as well as the patents for which we have applied and which have been granted in connection with our various pipeline drugs.

Pantoprazole enjoys patent protection in Europe until June 2005 and in the United States until July 2005. In addition, however, Pantoprazole benefits from supplementary protection certificates in Europe until the end of May 2009, and we also have filed an application for an extension of the term of our patents in the United States. As a result, we expect to be able to market Pantoprazole on an exclusive basis for several additional years. You should note, however, that our Pantoprazole patents do not prevent third parties from developing, manufacturing and marketing drugs with similar therapeutic profiles so long as they are based on inventions that do not infringe on our patents.

Other patents and pending patent applications that are material to our business include:

	Patent Expiration Year(1)		
	Europe(2)	United States	Japan
Ciclesonide (substance)	2011(3)	2013(3)	2011(3)
Ciclesonide (key intermediate)	2014	2014	2014
Ciclesonide (purification process)	2017	2017	2017
Ciclesonide (aerosol)	2018	2018	2018
Roflumilast (substance)	2014(3)	2014(3)	2014(3)
Pumafentrine (substance)	2017(3)	2017(3)	2017(3)

(1) Assumes that pending patent applications will be granted.

(2) Includes European patents or national patents in major European countries.

(3) Does not reflect a possible extension of the term of patent protection nor the grant of supplementary protection certificates for up to five additional years.

We rely on intellectual property that we obtain through cross-licensing arrangements with third parties to develop, manufacture and market pharmaceuticals. For example, we have recently entered into licensing arrangements with Hoffmann-La Roche and Invitrogen to obtain access to technologies that we consider critical to the R&D projects carried out in our molecular diagnostics unit. If we are unable to obtain licenses on commercially reasonable terms in the future, we may be limited in our ability to develop, manufacture and market new products.

We depend on our ability to obtain and, if challenged, successfully defend our patents, trademarks, trade secrets, licenses and other forms of intellectual property protection. Although we intend to continue to prosecute patent applications aggressively, we may not be able to obtain patents for all our inventions. In addition, the process of seeking patent protection is lengthy and expensive, and the issuance of a patent is conclusive neither of its validity nor of its scope. Therefore, there is no assurance that our currently pending or future patent applications will result in patents being granted or that, if patents are issued, they will be valid or of sufficient scope or strength to provide us with meaningful legal protection or a commercial advantage in the

marketplace. In addition, if our competitors develop technologies that are themselves protected by patents, licenses or other forms of intellectual property protection, the underlying technologies may be unavailable to us or available to us only on unfavorable terms.

A significant part of our intellectual property consists of registered trademarks. We are continuously engaged in developing brand names for new products, securing trademark protection for our new brand names, policing our existing trademarks and enforcing our legal entitlements in situations where third parties infringe upon any of these rights. Before we start to advertise and sell a product under a new brand name, we seek to minimize the risks of infringing upon the trademark rights of others by filing for trademark protection and by conducting trade and service mark searches and other inquiries.

As with other pharmaceuticals companies, a portion of our know-how is not patent-protected. To protect this information, we rely on trade secret law and frequently enter into confidentiality agreements with our employees, customers and partners. These agreements may be unenforceable, however, and the remedies that are available to us for breaches may be inadequate. Likewise, our competitors may gain access to our know-how by lawful means, for example, by reverse engineering, or may independently develop the same know-how, which may destroy any competitive edge that we may have.

As a result of the key role that intellectual property plays in the pharmaceuticals industry, we may from time to time become involved in litigation as either plaintiff or defendant. For example, in 1995, AstraZeneca PLC. sued us alleging that our gastrointestinal therapeutic Pantoprazole infringes their omeprazole patents. While we successfully settled this claim on terms favorable to us, there can be no assurance that we will also be able to settle other claims brought against us by third parties in the future. If we are unable to successfully settle future claims on terms acceptable to us, we may be required to engage in costly and time-consuming litigation and may be prevented from, or experience substantial delays in, marketing our existing pharmaceuticals and launching new ones. Each of these events could materially adversely affect our business, financial condition or results of operations or halt the sales of our existing products. For more information concerning the types of litigation that we face in our business, see "Item 3: Key Information — Risk Factors — Risks Related To Our Business Generally — We may be Unable to Obtain and Defend Intellectual Property Rights and may be Accused of Infringing upon the Intellectual Property Rights of Others" and "— Legal Proceedings".

Regulation

All companies developing, manufacturing and marketing pharmaceuticals are subject to extensive, complex and evolving regulations in the United States, Europe and Japan. Recently, the regulators in the United States, the European Union and Japan launched the International Conference on Harmonization, a collaborative effort with the goal of streamlining the development and registration of medicinal products by harmonizing the applicable procedures in the three regions. For the foreseeable future, however, we will have to seek separate approval in each region.

United States

The principal U.S. regulators that are relevant to the business of our pharmaceuticals division are the U.S. Food and Drug Administration ("FDA") and to a lesser extent the U.S. Drug Enforcement Agency ("DEA") and state government agencies. The Federal Food, Drug and Cosmetic Act, the Controlled Substances Act and other federal statutes and regulations all govern or influence the development, testing, manufacture, packaging, labeling, storage, record keeping, safety, approval, advertising, promotion, marketing, sale and distribution of our pharmaceuticals.

FDA approval is required before any dosage form of any new pharmaceutical, including any off-patent equivalent of a previously approved pharmaceutical, may be marketed. The process for obtaining governmental approval to market pharmaceuticals in the United States is rigorous, time-consuming and costly, and it is impossible to predict the extent to which this process may be affected by legislative and regulatory developments. We are dependent on receiving FDA and other types of governmental approvals prior to producing and marketing virtually all of our new pharmaceuticals in the United States. Consequently, there is

always a chance that the FDA or any other applicable agency will not approve our new pharmaceuticals, or that the rate, timing and cost of such approvals will adversely affect our launch plans and ultimately our results of operations. See "Item 3: Key Information — Risk Factors — Risks Related To Our Pharmaceuticals Business — Our Business is Subject to Extensive Governmental Regulation, Including Price Controls" for a discussion of these risks.

All applications for FDA approval are required to contain information relating to formulation, raw materials, stability, manufacturing, packaging, labeling and quality control. There are two types of applications for FDA approval:

- *New Drug Application ("NDA").* We file an NDA whenever we seek approval for drugs with active ingredients and/or with dosage strengths, dosage forms, delivery systems or pharmacokinetic profiles that have not been previously approved by the FDA. NDAs are typically filed for newly developed branded pharmaceuticals as well as for new dosage forms of existing drugs that have been approved previously.
- *Abbreviated New Drug Application ("ANDA").* We file an ANDA whenever we seek approval for off-patent, that is, generic, equivalents of previously approved drugs or unapproved dosage forms of such drugs.

The process mandated by the FDA before a previously unapproved pharmaceutical may be marketed in the United States essentially involves the following steps:

- Preclinical laboratory and animal tests;
- Submission of an investigational new drug application ("IND"), which must become effective before clinical trials may begin;
- Adequate and well-controlled human clinical trials to establish the safety and efficacy of the proposed drug for its intended use;
- Submission of an NDA containing the results of the preclinical and clinical trials establishing the quality, safety and efficacy of the proposed drug for its intended use; and
- FDA approval of the NDA.

Preclinical tests encompass the laboratory evaluation of a new pharmaceutical, its chemistry, formulation and stability, as well as animal studies to assess its potential safety and efficacy. Following the conclusion of preclinical tests, the results of these studies, which have to demonstrate that the pharmaceutical delivers sufficient quantities of the drug to the bloodstream to create the desired therapeutic results, are submitted to the FDA as part of an IND, which must become effective before human clinical trials may begin. The IND automatically becomes effective 30 days after receipt by the FDA unless the FDA, during that 30-day period, raises concerns or questions about the conduct of the trials as outlined in the IND. In such cases, the IND sponsor and the FDA must resolve any outstanding concerns before clinical trials can begin. In addition, an independent Institutional Review Board at the medical center that proposes to conduct the clinical trials must review and approve any clinical study before it commences.

Human clinical trials are typically conducted in three sequential phases:

- *Phase I.* During this phase, the drug is initially introduced into a relatively small number of healthy humans or patients and is tested for safety, dosage tolerance, absorption, metabolism, distribution and excretion.
- *Phase II.* This phase involves studies in a limited patient population to identify possible adverse effects and safety risks, to determine the efficacy of the drug for specific targeted diseases or conditions, and to determine dosage tolerance and optimal dosage.
- *Phase III.* When Phase II evaluations demonstrate that a dosage range of the drug is effective and has an acceptable safety profile, Phase III trials are undertaken to further evaluate dosage, clinical efficacy and test for safety in an expanded patient population at geographically dispersed clinical sites.

We then submit to the FDA the results of our internal development process and of the mandatory preclinical and clinical studies along with documentation evidencing our compliance with applicable Chemistry, Manufacturing and Controls ("CMC") requirements as part of an NDA. The drug development and NDA approval process averages approximately five to ten years.

FDA approval of an ANDA is required before we may begin marketing an off-patent or generic equivalent of a drug that previously has been approved under an NDA or a previously unapproved dosage form of a drug that has been approved under an NDA. The ANDA approval process differs from the NDA approval process in that it does not require new preclinical and clinical studies; instead, it relies on the clinical studies establishing safety and efficacy conducted for the previously approved drug. The ANDA process, however, requires the generation of data that show that the ANDA drug is bioequivalent (that is, therapeutically equivalent) to the previously approved drug. "Bioequivalence" compares the bioavailability of one drug with another and, if established, indicates that the rate and extent of absorption of an off-patent drug in the body are substantially equivalent to the previously approved drug. "Bioavailability" establishes the rate and extent of absorption, as determined by the time-dependent concentrations of a drug in the bloodstream needed to produce a therapeutic effect. Because ANDAs do not require that new clinical trials be conducted in order to establish the safety and efficacy of the drugs for which approval is sought, the ANDA approval process typically is substantially less time-consuming than the NDA approval process.

Supplemental NDAs or ANDAs are required for, among other things, approval to transfer products from one development site to another. Such applications may be under review by the FDA for a year or more. In addition, certain drugs may be approved for transfer only once new bioequivalency studies have been conducted or other certain requirements have been satisfied.

To obtain FDA approval of both NDAs and ANDAs, our procedures and operations must conform to FDA quality system and control requirements generally referred to as current Good Manufacturing Practices ("GMP"), as defined in Title 21 of the U.S. Code of Federal Regulations. These regulations cover all aspects of the development, manufacturing and marketing process from receipt and qualification of components to distribution procedures for finished products. Since they are evolving standards, we have to continue to expend time, money and effort in all production and quality control areas to maintain compliance. The evolving and complex nature of regulatory requirements, the broad authority and discretion of the FDA, and the high level of regulatory oversight results in the continuing possibility that we may be adversely affected by regulatory actions despite our efforts to maintain compliance with the applicable regulatory requirements. See "Item 3: Key Information — Risk Factors — Risks Related To Our Pharmaceuticals Business — Our Business is Subject to Extensive Governmental Regulation, Including Price Controls" for a discussion of these risks.

In addition, we are subject to periodic inspections of our facilities, procedures and operations and/or the testing of our pharmaceuticals by the FDA, the DEA and certain other authorities that conduct periodic inspections to assess our compliance with applicable regulations. The FDA also conducts pre-approval and post-approval reviews and plant inspections in connection with its review of our applications for new products to determine whether our systems and processes comply with GMP and other applicable FDA regulations. If the FDA determines that deficiencies have occurred at any of our facilities, it may, among other things, withhold approval of any NDAs, ANDAs or other applications that we have submitted. Our vendors that provide us with finished products or components used to manufacture, package and label pharmaceuticals are subject to similar regulations and periodic inspections. Following its inspections, the FDA may issue notices on Form 483 and Warning Letters that may cause us to modify certain activities identified during the inspection. A Form 483 notice is typically issued at the conclusion of an FDA inspection and lists conditions that the FDA investigators believe may violate GMP or other FDA regulations. FDA guidelines specify that a Warning Letter be issued only for violations of "regulatory significance" for which the failure to adequately and promptly achieve correction may be expected to result in an enforcement action.

Failure to comply with FDA and other governmental regulations may result in fines, unanticipated compliance expenditures, recall or seizure of pharmaceuticals, total or partial suspension of production and/or distribution, suspension of the FDA's review of NDAs, ANDAs or other applications, enforcement actions, injunctions and criminal prosecution. Under certain circumstances, the FDA also has the authority to revoke

previously granted approvals. Although we have internal compliance programs, if these programs do not meet the applicable standards or if our compliance is deemed deficient in any significant way, our business may be materially adversely affected. See "Item 3: Key Information — Risk Factors — Risks Related To Our Pharmaceuticals Business — Our Business is Subject to Extensive Governmental Regulation, Including Price Controls" for a further discussion of risks in connection with FDA regulations.

The Generic Drug Enforcement Act of 1992 established penalties for wrongdoing in connection with the development or submission of ANDAs. Under this act, the FDA has the authority to permanently or temporarily bar companies or individuals from submitting or assisting in the submission of ANDAs and to temporarily deny approval and suspend applications to market off-patent drugs. The FDA may also suspend the distribution of all drugs approved or developed in connection with certain wrongful conduct and/or withdraw approval of ANDAs and seek civil penalties. The FDA may also significantly delay the approval of any pending NDA, ANDA or other regulatory applications under the Fraud, Untrue Statements of Material Facts, Bribery and Illegal Gratuities Policy Act.

Recently, there has been enhanced political attention and governmental scrutiny at the federal and state levels of the prices paid or reimbursed for pharmaceuticals under Medicaid, Medicare and similar programs. The U.S. Federal Trade Commission ("FTC") has announced its intention to conduct a study of whether brand-name and generic drug providers have entered into agreements, or have used other strategies, to delay competition from generic versions of patent-protected drugs. The FTC's announcement could affect the manner in which generic drug providers resolve intellectual property litigation with branded pharmaceutical companies, and may result in an increase in private-party litigation against pharmaceutical companies. See "Item 3: Key Information — Risk Factors" for a discussion of government regulation in connection with third-party reimbursement programs.

European Union

Much of what has been said with respect to the approval process applicable to new drugs in the United States also applies to the European Union. In the European Union, however, two different basic procedures are available: a centralized approval procedure and one based on the Mutual Recognition Procedure. The London-based European Agency for the Evaluation of Medicinal Products ("EMEA") governs the centralized drug registration and approval process and consists of two committees, one for proprietary medicinal products ("CPMP") and one for veterinary medicinal products ("CVMP"). Each member state of the European Union has two members on each committee. The committees make recommendations based on reviews of appointed rapporteurs and co-rapporteurs, who are part of the CPMP/CVMP. Following the committee's recommendation, the European Commission issues a formal decision, which is valid throughout the entire European Union. Upon completion of the approval process, the drug may be marketed within all member states. An alternative procedure is the Mutual Recognition Procedure. Pursuant to this procedure, one member state carries out the primary evaluation. The other member states then have 90 days to decide whether they accept or reject the decision made by that member state. If a member state does not follow the decision of the reference country, then the process is referred to the CPMP and is reviewed according to the centralized procedure. Based on the CPMP's determination, a formal decision is made by the European Commission.

Japan

In Japan, two issues make the approval process difficult for drugs developed outside of that country. First, the Japanese approval agency recognizes only some of the documents used in registration procedures in other countries. Second, the Japanese approval agency requires that tests to determine appropriate dosages for Japanese patients be conducted on Japanese patient volunteers. As a result of these issues, parts of Phase II and Phase III clinical trials carried out in the United States or Europe typically need to be repeated in Japan. These regulatory requirements may cause delays of two to three years in introducing drugs developed outside of Japan to the Japanese market.

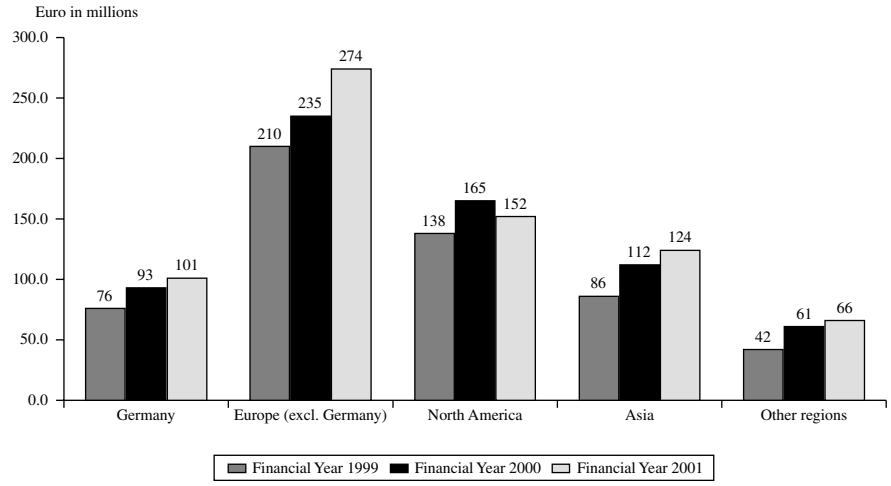
Chemicals

Overview

We develop, manufacture and market a wide range of specialty chemicals targeted at selected niche markets. Specialty chemicals are high value-added products used in the manufacture of a wide array of applications. Compared with commodity chemicals, specialty chemicals are typically made in smaller volumes. We offer our specialty chemicals together with support and comprehensive customer service regarding the use of our products and their adaptation to the specific manufacturing requirements of individual customers. The highly application-specific nature of specialty chemicals impedes product substitution, which fosters close relationships between suppliers and customers.

In 2001, our chemicals division generated net sales of € 717 million, an increase of 8% compared with 2000. The chart below provides a breakdown of our chemicals net sales by geographic region for the three years ended December 31, 2001:

Chemicals Net Sales by Geographic Region



Our chemicals division has grown steadily in most geographic regions in which we are active. As a result of the international dimension of our business, our results of operations are materially affected by exchange rate fluctuations in any given period, especially by changes in the exchange rate between the euro on the one hand and the U.S. dollar and the Japanese yen on the other hand. See "Item 3: Key Information — Risk Factors — Risks Related To Our Business Generally — Exchange Rate Fluctuations Could Affect our Results of Operations and Reduce our Ability to Price our Products Competitively" for more information on our exchange rate exposure.

Our chemicals division comprises four business areas:

- Additives & Instruments, which comprises paint additives, plastic additives and wax additives as well as paint testing instruments, including gloss and color meters;
- Coatings & Sealants, which comprises can and coil coatings for packaging and general industry applications as well as sealing compounds for cans and closures;
- Wire Enamels, which comprises electrical insulation coatings for copper and aluminum wires; and
- Varnish & Compounds, which comprises electrical insulation systems for use in electrical and electronic components as well as compounds for a variety of other applications.

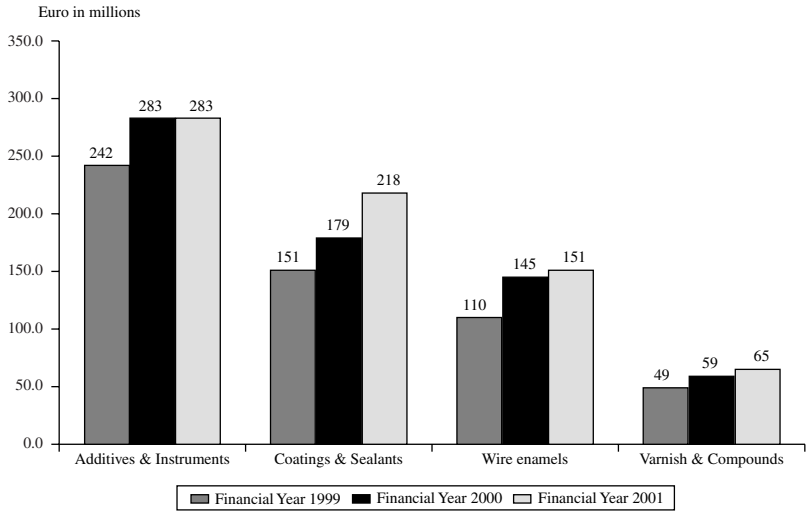
Historically, we presented our chemicals division on the basis of three business areas: additives, specialty coatings and instruments. In the course of 2001, we changed the basis of this presentation and now use the four business areas described above as the basis for presenting our chemicals division. To ensure comparability

across reporting periods, we have restated prior period financial data to conform to the new basis of presentation.

Our chemicals division has grown steadily over the past several years both organically and as a result of strategic acquisitions. We expect to continue to rely on a combination of organic growth and acquisitions for the expansion of our operations in the future. When we make acquisitions, we look for targets that enable us to achieve synergies and that have a management that is both experienced, competent, and willing and able to accept our culture and our focus on serving our customers.

The chart below provides a breakdown of our chemicals net sales by business area for the three years ended December 31, 2001:

Chemicals Net Sales by Business Area



Because chemicals are used in a variety of industries, manufacturers of specialty chemical products are typically affected by the business cycles experienced by the industries that they serve. By targeting selected niche markets in complementary industries, we seek to diversify our risk and reduce our exposure to these cycles.

Products

Additives & Instruments

We provide a wide range of innovative, high-quality additives and related measuring and testing instruments. In 2001, net sales generated by our Additives & Instruments business totaled € 283 million.

We offer a comprehensive portfolio of paint additives, plastic additives and wax additives, which we develop for the specific requirements of our customers in the coatings, plastics and printing ink industries and which we market under our global brand BYK-Chemie. Additives are substances that have essentially two applications: First, they facilitate manufacturing processes, for example, by reducing viscosities and shortening processing times, and second, they substantially improve the quality of products, especially their mechanical properties and appearance. Because additives can achieve effects that otherwise would not be possible, additives have become an integral and indispensable part of modern paint and plastics formulations. Due to their high effectiveness, they are usually applied in small dosages.

Our additives portfolio comprises wetting and dispersing additives for pigments and fillers, additives to improve surface properties, defoamers and air release agents, rheological additives, wax emulsions, dispersions and micronized waxes. Our additives are used in a variety of downstream applications, such as architectural

and industrial coatings, automotive finishes, wood, can and coil coatings, printing inks, vinyl floorings, polyester, epoxy or acrylic resin systems and polishes.

In connection with our additives, we also offer measuring and testing instruments that may be used to measure the surface characteristics of plastics and paints, including their color and gloss attributes. We market our instruments under our global brand BYK-Gardner. By enabling our customers to adjust their selection and dosage of additives based on the surface characteristics of the raw materials that they use, our instruments portfolio naturally complements our additives offering. We believe that our ability to offer complete solutions consisting of additives and instruments affords us a competitive edge.

We manage our additives business from the headquarters of our chemicals division, which are located in Wesel, Germany, and which are responsible for our worldwide R&D, manufacturing and marketing efforts. In contrast, sales and customer service are the responsibility of our local operating companies, which operate in proximity to our customers. We believe that this dual approach enables us to achieve operational synergies, while staying in touch with our customers.

Our Additives & Instruments business has expanded continuously over the past several years, almost entirely as a result of organic growth.

Coatings & Sealants

In the area of Coatings & Sealants, we offer can and coil coatings as well as compounds and sealants. In 2001, our Coatings & Sealants business generated net sales of € 218 million. Our can and coil coatings are used, among other things, to coat steel and aluminum sheets and coils. An important downstream application of our coatings portfolio are packaging materials that are used in the food industry, including cans, drums and closures as well as aluminum, plastic and paper foils for flexible packages. In addition, our coil coatings are also used for other applications, such as facade claddings, roller shutters, blinds and furniture. Our compounds and sealants portfolio comprises sealing compounds for use in food and beverage cans, bottle closures and jar lids.

We believe that we offer a comprehensive portfolio of Coatings & Sealants. This is especially true of packaging applications, for which we are able to provide our customers with complete solutions. Our position in the coatings market is particularly strong in Europe. In the area of closure compounds and can sealants, we consider ourselves to be among the leading providers worldwide. Our declared goal is to be the best in class with respect to every type of product that we offer and every market that we are active in.

Our Coatings & Sealants business has grown steadily in the past, and we intend to continue to grow in the future. Our growth strategy involves the acquisition of niche players that we consider desirable fits for our business. In 2001, we acquired the can and coil coating business of Blancomme S.A., a French company that had revenues in 2000 of € 13 million. The acquisition of Blancomme has substantially improved our presence in the French market.

Wire Enamels

In our Wire Enamels business, we offer specialty coatings for the electrical insulation of copper and aluminum wires used in a variety of electrical applications, including electrical motors, transformers, household appliances and consumer electronics. Our products are formulated to fulfill various performance requirements in addition to electrical insulation, such as thermal endurance and mechanical and chemical resistance (these characteristics are important, for example, for high-performance hermetic electrical motors used in refrigerators). In 2001, our Wire Enamels business generated net sales of € 151 million.

We believe that we are a leading provider of wire enamels worldwide. We owe our leading position to our consistent investment in innovation and technical know-how over a number of years and selective acquisitions of innovative companies with strong positions in the markets in which they operate. At the end of 2000, we acquired 85% of the shares of Syntel S.p.A., an Italian company active in the production and sale of wire enamels. Effective January 1, 2002, we acquired the remaining outstanding shares of Syntel. In 2000, Syntel

had revenues of € 15 million. We will continue to consider acquisition opportunities to further expand our business in selected geographic regions in the future.

Varnish & Compounds

In our Varnish & Compounds business, we offer a comprehensive range of liquid electrical insulation systems that are designed to provide good electrical properties, chemical resistance and thermal endurance even under severe operating conditions. Our Varnish & Compounds portfolio comprises:

- Varnishes and resins for the impregnation of electrical windings in motors, generators and other coils;
- Compounds for the potting, encapsulation and embedding of electrical and electronic components such as transformers, printed circuit boards and capacitors; and
- Coatings and compounds for specialized applications, including tooling, rapid prototyping and magnetic materials.

In 2001, our Varnish & Compounds business generated net sales of € 65 million.

As with Coatings & Sealants and Wire Enamels, part of our growth strategy in our Varnish & Compounds business area is to expand our market position by making acquisitions. In 2001, we acquired a 50.2% stake in Sterling Technology Ltd., a British company with revenues of € 7 million in 2000, and Epoxylite, a U.S. corporation with revenues of € 14 million in 2000. Both companies are active in the development, manufacture and marketing of varnish and compounds for electrical insulation applications.

Research And Development

While the specialty chemicals industry is not as R&D-intensive as the pharmaceuticals industry, we consider the development of innovative specialty chemicals that are capable of satisfying our customers' needs a key prerequisite for the success of our business. The overarching goal of our R&D efforts is to create customized solutions that add value to our customers' manufacturing processes and the products that they market. In doing so, we seek to distinguish ourselves from our competitors in terms of quality and innovation. In order to be in a position to employ state-of-the-art technology in all aspects of our dealings with customers, we supplement our development processes with basic research in selected areas.

We manage most aspects of our R&D efforts in our Additives & Instruments business and in the area of Wire Enamels on a centralized basis. Virtually all research related to additives is carried out at the headquarters of our chemicals division, which are located in Wesel, Germany. While we also maintain laboratories for these products in close proximity to our customers in all major markets, none of them is engaged in research activities. The function of these laboratories is rather to provide our customers with technical assistance and to solve their problems on-site. In the area of Wire Enamels, we carry out basic research projects at our facilities in Wesel. In addition, we maintain R&D laboratories at selected local manufacturing sites. These laboratories develop and produce region-specific formulations in close contact with our customers and provide them with technical service and support. As far as Coatings & Sealants and Varnish & Compounds are concerned, we manage our entire R&D process on a decentralized basis, with our R&D laboratories being located at our local plants. To avoid overlaps and redundancies, our management promotes close collaboration and the mutual exchange of information between R&D facilities within each of our business areas.

As far as new technologies are concerned, such as UV-curing and nano technologies, which we expect to play an increasingly important role in the specialty chemicals industry, each of our business areas conducts its own R&D efforts. Because the value of new technologies to our business is highly application-specific, our management considers this approach preferable to concentrating all R&D in one location. To ensure that know-how built up in one business area becomes available to other business areas, we actively manage cooperation between our various R&D facilities involved in similar technology projects.

As of December 31, 2001, 432 people worldwide — 19% of the workforce of our chemicals division — were employed in our laboratories. Our R&D expenditures in this division totaled € 33 million in 2001, representing a 12% increase compared with 2000.

Supplies And Raw Materials

We purchase our supplies and raw materials from third parties and typically seek to diversify our sources so as to minimize the risk of supply chain outages. Although we purchase a limited amount of our supplies and raw materials from a single provider, we do not believe that the loss of any one of our providers would have a material adverse effect on our business. In addition, we believe that alternative sources for all supplies and raw materials that we need in our business would be readily available to us without undue expense and delay. We have not experienced significant difficulties in obtaining supplies and raw materials of sufficient amounts and quality in recent years, and we do not expect to encounter such difficulties in the foreseeable future.

Like other companies in the chemicals industry, we are exposed to raw material price increases. While we have historically been able to pass such increases on to our customers, we have recently experienced difficulty in doing so, which has created pressure on our margins. To reduce this pressure, we attempt to secure important raw materials by entering into long-term contracts.

Production

Our production strategy is to minimize costs by streamlining our manufacturing processes and by creating facilities that specialize in discrete product groups, thereby achieving economies of scale. In implementing this strategy, we focus on capacity and process improvements with respect to our existing facilities. To the extent necessary, we also construct new facilities. As a rule, we seek to promote close collaboration between our production facilities and our sales and service organizations so as to be able to adapt our manufacturing processes according to our customers' needs. We consider this approach especially important in the areas of Coatings & Sealants, Wire Enamels and Varnish & Compounds.

We own substantially all of our manufacturing facilities and substantially all of the land on which they are located. Our most important production facility in the chemical division is located in Wesel, Germany, where we manufacture the majority of the products of our additives business area. We operate our facility located in Pittsburgh, Pennsylvania, in a joint venture with the legal owner of the land and lease our facilities in Montataire, France, Collecchio, Italy, and Fort Wayne, Indiana.

The following table shows selected key information with respect to our current manufacturing facilities as well as our facilities under construction:

Production Facilities

Location	Function	Size (m^2)
Wesel, Germany	Additives	98,810
Kempen, Germany	Wire Enamels, Varnish & Compounds	36,713
Grevenbroich, Germany	Coatings	25,219
Bremen, Germany	Closure compounds	13,719
Lehrte, Germany	Coatings	24,719(1)
Geretsried, Germany	Measuring and testing instruments	10,323
Vienna, Austria	Coatings	28,508
Sedan, France	Coatings	20,000
Montataire, France	Coatings	4,342
Quattordio, Italy	Wire Enamels, varnish	40,096(2)
Ascoli Piceno, Italy	Wire Enamels, varnish	17,499
Burago, Italy	Coatings	12,323

Location	Function	Size (m^2)
Collecchio, Italy	Compounds	8,000
Deventer, Netherlands	Additives	18,850
Vigo, Spain	Can sealants	20,637
Manchester, United Kingdom	Varnish & Compounds	8,500
St. Louis, Missouri	Wire Enamels, Varnish & Compounds	70,000
Wallingford, Connecticut	Additives	75,366
Pittsburgh, Pennsylvania	Coatings & Sealants	5,060
Fort Wayne, Indiana	Wire Enamels	3,345
Tongling City, China(3)	Wire Enamels	19,627
Shunde, China	Coatings	9,754

(1) 14,104 m^2 owned and 10,615 m^2 leased.

(2) 26,030 m^2 owned and 14,066 m^2 leased.

(3) An additional facility for additives is currently being constructed at this site.

Customers, Sales and Marketing

We sell our specialty chemical products in more than 100 countries worldwide. Our customer focus and our commitment to quality and service have enabled us to achieve leading market positions. We seek to maintain close links between our manufacturing facilities and our sales and marketing organization in order to be able to respond to our customers' changing needs quickly. In addition, this approach enables us to ship products directly from our manufacturing facilities to our customers, which reduces both our and their inventories.

Our main customers in the area of Additives & Instruments are in the paint and plastics industry. We offer our Additives & Instruments portfolio worldwide under our global brands BYK-Chemie and BYK-Gardner. Our marketing efforts are coordinated by our headquarters in Wesel, Germany, and are supported by our global sales and marketing organization, which consists of marketing companies in the United States, France and Japan and sales offices in Korea, Singapore and China. In those areas of the world where it does not make sense for us to maintain sales and marketing organizations of our own, we rely on distributors with which we have long-term relationships and whom we typically remunerate on a commission basis. We do not depend on any one of our distributors, and none accounts for a material portion of our revenues. In addition, we employ technical consultants who provide technical advice and service to our customers in all major markets.

In the area of Coatings & Sealants, our customers comprise a small number of globally operating companies in the packaging and certain other industries. The customer base of our Wire Enamels business comprises a limited number of large manufacturers of magnet wires. Our principal customers for Varnish & Compounds are producers of electrical and electronic components. Because electrical and electronic devices are used in a wide variety of applications of everyday life, our customer base for Varnish & Compounds is very large and diverse. Each of the aforesaid business areas has a management of its own that coordinates its sales and marketing efforts and that is also involved in dealing with the key customers of the respective business area. The actual sales and marketing effort, however, is carried out at the local level by our operating companies and, to the extent that we do not serve a particular market through our own organization, either by way of direct sales made by us or through external agents, whom we remunerate on a commission basis. In the Coatings & Sealants area, we rely on our own sales and marketing organizations in Germany, most other major European markets, the United States and China. As far as Wire Enamels are concerned, we use our own sales operations in all major markets worldwide. For Varnish & Compounds, we maintain sales organizations in Germany, Italy, the U.K. and the United States.

Competition

Because specialty chemicals are frequently critical components of the manufacturing processes or end products in which they are used, they are typically offered together with support and customer service regarding their use and adaptation to the manufacturing requirements of individual customers. Therefore, the key competitive factors in all our business areas are the ability to respond to customers' needs and the commitment to constantly introducing new products and providing consistent quality and service.

The specialty chemicals industry is a highly fragmented industry, and there is no company that competes with us across all our business areas. The following table provides an overview of our principal competitors by business area:

	Competitors
Additives & Instruments	Avecia, Borchers (a subsidiary of Bayer AG), Ciba Specialty Chemicals, Cognis, Degussa-Tego and Solutia
Coatings & Sealants	
Can coatings	ICI, PPG and Valspar
Coil coatings	Akzo Nippon Paint, BASF, Becker Industrial Coatings, Sigma-Kalon and Tikkurila
Can and closure compounds	W.R. Grace
Wire Enamels	Schenectady, Du Pont, Nexans and Fupao Chemical
Varnish & Compounds	Vantico, Du Pont, Schenectady and Hitachi

Regulation

The development, manufacture and marketing of chemical substances is regulated by national and international laws. Almost every country has its own legal procedures for manufacturing, registration and import. Of all countries, the laws and regulations of the European Union, the United States and Japan, however, are those which are most significant to our business. These regulations include the European inventory of existing commercial chemical substances, the European list of notified chemical substances, the United States Toxic Substances Control Act and the chemicals list of the Japanese Ministry of Trade and Industry. Chemicals that are contained in on one or more of these lists can usually be registered and imported without additional testing into any other country, although additional administrative requirements may exist.

Employees

See "Item 6: Directors, Senior Management and Employees" for information on our employees.

Environmental Matters

Our operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which we operate governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination, as well as employee health and safety. Environmental compliance obligations and liability risks are inherent in many of our manufacturing activities. In the United States, certain environmental remediation laws, such as the federal "Superfund" law, can impose joint and several liability for site cleanup, regardless of fault, upon certain statutory categories of parties, including companies that sent wastes to a site. We are subject to potential liability at a number of owned and third party sites in the United States.

We believe that our operations are currently in material compliance with all applicable environmental laws and regulations. In many jurisdictions, environmental requirements may be expected to become more stringent in the future, which could affect our ability to obtain or maintain necessary authorizations and approvals and result in increased environmental compliance costs.

While our management does not believe that environmental compliance or remedial requirements are likely to have a material effect on us, there is no assurance that future material environmental compliance or remedial obligations will not arise in connection with our operations or facilities or that such obligations will not have a material adverse effect on our business, financial condition or results of operations.

We have established and continue to establish reserves for environmental remediation liabilities where the amount of such liability can be reasonably estimated. As a rule, investigations into potential contamination and subsequent cleanup are required only when a site is closed and the existing production facilities dismantled. We may not at this time accurately determine the ultimate potential liability for investigation and cleanup at sites that are still in operation.

Organizational Structure

We have subsidiaries that operate in a number of countries throughout the world. The following table provides information as of December 31, 2001, with respect to our current significant subsidiaries:

Significant Subsidiaries

Corporate name, location and country of incorporation	Field of activity	Equity(1) (€ in millions)	Ownership interest(2) (%)
Pharmaceuticals			
Byk Gulden Lomberg Chemische Fabrik GmbH, Constance, Germany	Production, Distribution	78	100
Roland Arzneimittel GmbH, Hamburg, Germany	Distribution	<1	100
Byk Sangtec Diagnostica GmbH & Co. KG, Dietzenbach, Germany	Production, Distribution	1	100
Byk Nederland B.V. Zwanenburg, Netherlands	Production, Distribution	42	100
Byk Belga S.A., Brussels, Belgium	Distribution	3	100
Laboratoires Byk France S.A.S., Le Mée-sur-Seine, France	Distribution	9	100
Byk Österreich Ges. mbH, Vienna, Austria	Distribution	9	100
Byk Gulden Italia S.p.A., Cormano, Italy	Distribution	23	100
Byk Elmu S.A., Madrid, Spain	Distribution	4	100
Byk Roland Polska Sp.z.o.o., Warsaw, Poland	Distribution	17	100
Altana Inc., Melville, New York	Production, Distribution	35	100
Byk Canada Inc., Oakville, Canada	Distribution	14	100
Byk Gulden S.A. de C.V., Mexico City, Mexico	Production, Distribution	110	100
Byk Química e Farmacéutica Ltda., São Paulo, Brazil	Production, Distribution	64	100
Byk Argentina S.A., Buenos Aires, Argentina	Production, Distribution	11	100

Corporate name, location and country of incorporation	Field of activity	Equity(1) (€ in millions)	Ownership interest(2) (%)
Chemicals			
BYK-Chemie GmbH, Wesel, Germany	Production, Distribution	107	100
Rhenania Coatings GmbH, Grevenbroich, Germany	Production, Distribution	3	100
DS-Chemie GmbH, Bremen, Germany	Production, Distribution	6	100
Joachim Dyes Lackfabrik GmbH, Lehrte, Germany	Production, Distribution	4	100
Wiedeking GmbH, Kempen, Germany	Production, Distribution	4	100
BYK-Cera B.V., Deventer, Netherlands	Production, Distribution	14	100
BYK-Chemie France S.A.S., Le Blanc-Mesnil, France	Distribution	4	100
Rembrandtin Lack Ges. mbH, Vienna, Austria	Production, Distribution	17	100
Dea Tech SIVA s.r.l., Ascoli Piceno, Italy	Production, Distribution	20	100
Salchi-Rhenacoat s.r.l., Milan, Italy	Production, Distribution	7	51
The P.D. George Company Inc., St. Louis, Missouri	Production, Distribution	30	100
BYK-Chemie USA, Wallingford, Connecticut	Production, Distribution	65	100
BYK-Chemie Japan KK, Osaka, Japan	Distribution	5	100
Other subsidiaries			
MIVERA Vermögensanlagen AG, Bad Homburg v.d.H., Germany	Asset Management	23	100
ALTANA Technology Projects GmbH, Bad Homburg v.d.H., Germany	Investments in and collaborations with biotech companies	51	100

(1) Figures calculated in accordance with International Accounting Standards ("IAS").

(2) Portion of ownership interest equals portion of voting power held.

Property, Plant & Equipment

We own approximately 1.8 million square meters of property at our production, distribution and administrative facilities around the world and nearly all of the land that they occupy. See "— Pharmaceuticals — Production" and "— Chemicals — Production" for more information on our production facilities. We operate our facility located in Pittsburgh, Pennsylvania, in a joint venture with the legal owner of the land. In addition, our facilities in Montataire, France, Collecchio, Italy, and Fort Wayne, Indiana are leased on ordinary market terms and conditions. None of our properties are subject to material encumbrances or similar security interests. We believe that our current facilities and those of our consolidated subsidiaries are in good condition and adequate to meet the requirements of our present and foreseeable future operations.

Legal Proceedings

As is the case with many companies in the pharmaceuticals and specialty chemicals industry, we have, are and may from time to time become a party to claims and lawsuits incidental to the ordinary course of our business. We are not currently involved in any legal or arbitration proceedings, however, that we expect to have a material adverse effect on our financial position, and, to our knowledge, no such legal or arbitration proceedings are currently threatened.

In 1988, we held 91% of Deutsch-Atlantische Telegraphen AG ("DAT"). In connection with the execution of a profit transfer and control agreement with DAT, which provided that all of DAT's profits and losses had to be transferred to us, we made a mandatory exchange offer to the minority shareholders offering them 1.3 shares of our company for each DAT share held by them. The offer was based on a valuation of DAT. Subsequently, several minority shareholders applied to the competent court for relief, alleging that our

compensation offer was inadequate. After raising our stake in DAT and integrating it into our company in 1990, we submitted a new compensation offer based on an exchange ratio of 1.4. After protracted litigation, in which lower courts confirmed the adequacy of our offers, the German Federal Constitutional Court reversed and decided that the compensation offered by us should have been based on the market price of the shares, which would have led to a higher compensation to the DAT shareholders. On March 12, 2001, the German Federal Supreme Court decided that the exchange ratio had to based on the average share price during the three months preceding the shareholders' meeting that approved the profit transfer and control agreement. The case was subsequently remanded to a district court, which is currently working out the details. As a result of the litigation, we expect to raise the exchange ratio to up to 3.45 shares of our company for one share of DAT (not taking into account the various stock splits that have occurred in the meantime). This would result in an obligation to deliver approximately 300,000 additional shares (based on our current share capital). We expect to deliver these additional shares from existing treasury stock. We have already purchased virtually all of the required shares and made appropriate provisions for any additional expenses that we may incur.

On November 6, 2001, Takeda Chemical Industries, Ltd. filed an action against us and Wyeth, the company with which we collaborate in connection with the distribution of Pantoprazole in the United States, in the United States District Court for the District of Delaware, alleging that the tablet formulation of Pantoprazole infringes Takeda's U.S. patents relating to the stabilized tablet formulation of their own proton pump inhibitor. As the complaint was never served on us or Wyeth, however, and as the time for service has expired, no litigation is currently pending. We are in the process of negotiating a settlement with Takeda and do not expect that the dispute or its settlement will have a material adverse effect on our business, financial condition or results of operations.

Item 5: ***Operating and Financial Review and Prospects***

The following discussion includes forward-looking statements based on assumptions about our future business. Our actual results could differ materially from those contained in the forward-looking statements.

You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements, including the related notes, and the other financial information that we have included elsewhere in this registration statement. For our consolidated financial statements as of and for the three years ended December 31, 2001, see the discussion beginning on page F-1. For our interim condensed consolidated financial information as of and for the three months ended March 31, 2002 and the comparable period of 2001, see the discussion beginning on page A-1. We have prepared our consolidated financial statements in accordance with IAS, which differ in certain significant respects from U.S. GAAP. For a description of the significant differences between IAS and U.S. GAAP and a reconciliation of net income and shareholders' equity to U.S. GAAP, you should read note 32 to our consolidated financial statements.

On January 1, 1999, the Company adopted the euro as its reporting currency. All amounts relating to prior periods previously stated in Deutsche Marks have been translated into euros at the official fixed conversion rate of € 1 = DM 1.95583. Our restated euro financial information depicts the same trends as would have been presented if we had continued to present our financial information in Deutsche Marks. Our consolidated financial information for periods prior to January 1, 1999 will not be comparable to euro financial information of other companies, however, that previously reported their financial information in a currency other than Deutsche Marks.

Overview

We are a globally operating, fast-growing company that develops, manufactures and markets innovative pharmaceutical and specialty chemical products for a range of targeted, highly specialized applications. In recent years, we have on average achieved double-digit revenue growth and even faster increases in our operating income. We believe that this development is a direct result of a reorganization that we implemented in 1995, which has enabled us to focus on our core competencies. Prior to 1995, our business was organized in four divisions: pharmaceuticals, dietetics, chemicals and computer software. In 1995, we divested our dietetics and computer software businesses and reorganized our business in two divisions, one for pharmaceuticals and one for specialty chemicals. The following table indicates the growth of our business in recent years in terms of our net sales and our operating income for each of the last four years:

	1997	1998	1999	2000	2001
	(€ in millions)				
Net sales	1,345	1,476	1,577	1,928	2,308
Operating income	146	155	205	309	424(1)

(1) Excludes a one-time gain in the amount of € 110 million resulting from the sale of our interest in a joint venture and a special donation of € 15 million to a charitable endowment.

The following discussion highlights the main factors driving the revenues and results of operations of each of our two divisions from 1999 to 2001.

Pharmaceuticals. The net sales of our pharmaceuticals division rose by 55.1%, from € 1,025 million in 1999 to € 1,591 million in 2001, while the division's operating income grew by 181.9%, from € 129 million to € 363 million during the same period, adjusted for a one-time gain in the amount of € 110 million resulting from the sale of our interest in a joint venture and a one-time expense due to our donation of € 15 million to a charitable endowment, of which we booked € 7.5 million in our pharmaceuticals division. The results of operations of our pharmaceuticals division are driven by:

- *Our ability to develop and launch new and innovative therapeutics.* Our pharmaceuticals division derives a substantial portion of its revenues from the sale of therapeutic drugs, and its ability to develop and launch new and innovative drugs materially influences its results of operations. The launch of new

drugs, however, requires the successful completion of a regulatory approval process that is complex and burdensome and whose outcome is uncertain. Currently, the main revenue driver of our pharmaceuticals division is our gastrointestinal therapeutic Pantoprazole, whose net sales rose by 157.6%, from € 264 million in 1999 to € 680 million in 2001, accounting for 42.8% of our pharmaceuticals net sales in 2001, compared with a contribution of 25.7% in 1999. In 2001, Pantoprazole contributed 81.8% to the division's overall growth. We are in the process of developing several respiratory tract drugs, including Ciclesonide and Roflumilast, which we plan to launch over the next several years and which we hope will become revenue drivers of our pharmaceuticals division in the future.

- *Price regulations and budgeting decisions of local governments and health care providers.* The sale of pharmaceuticals is subject to extensive price controls, which not only limit the amount of revenues that we can earn from our products but which also influence the purchasing patterns of hospitals, doctors and patients. For example, recent regulations affording health care providers in Germany greater flexibility in their budgeting decisions sparked a substantial growth of the German market for ethical therapeutics in 2001. This development has allowed us to increase our pharmaceuticals net sales in our home market.

- *The level of our investment in R&D in any given period.* The development of new and innovative therapeutics involves substantial investments in R&D. Thus, the level of our R&D spending in any given period has a material impact on the results of operations of our pharmaceuticals division in that period. To maintain our high level of innovation, we have decided to invest approximately 20% of the annual revenues of our therapeutics business in R&D. Basic research and the initial development, manufacture and launch of a new therapeutic typically require high levels of cash expenditures, whereas the marginal cost of producing additional units of the therapeutic is low. As a result, our ability to recover our R&D expenditures and to generate a profit from our drugs depends on our ability to obtain patent and other forms of intellectual property protection for these drugs to shield us from competition by manufacturers of generic equivalents.

- *The sales and marketing methods we use for our therapeutics.* The results of operations of our pharmaceuticals division depend substantially on the selling and distribution expenses that we incur in marketing our therapeutics. The amount of selling and distribution expenses incurred with respect to any given drug depends on a variety of factors. One principal factor is the stage of the drug's life cycle. When we launch a new therapeutic, we typically incur substantial selling and distribution expenses to support its introduction to the worldwide pharmaceuticals markets. As the drug becomes established in its markets, these costs decline.

  Another key factor influencing the level of selling and distribution expenses of our therapeutics and the revenues generated by them is the method that we use to distribute them. While we record selling and distribution expenses in markets where we sell our drugs directly, we at times use arrangements under which a local distributor purchases therapeutics from us at a price specified in the relevant distribution agreement and then assumes sole responsibility for selling and distributing these drugs in its local market. All expenses incurred in connection with the sale and distribution of the drugs are the distributor's responsibility. An example of this type of distribution arrangement is our contract with Wyeth to distribute Pantoprazole in the United States. See "Item 10: Additional Information — Material Contracts" for a summary of the material terms of our distribution arrangement with Wyeth.

- *The composition of our portfolio of pharmaceuticals.* The manufacturing costs of the various products sold by our pharmaceuticals division vary considerably relative to their prices. Therefore, the results of operations of our pharmaceuticals division depend in part on the mix of pharmaceuticals that we ship in any given period. For example, because Pantoprazole has lower manufacturing costs relative to its price than many other products in our portfolio, our cost of sales as a percentage of net sales are lower in periods in which we ship higher volumes of Pantoprazole.

Chemicals. The net sales of our chemicals division increased by 30.0%, from € 552 million in 1999 to € 717 million in 2001, while its operating income went down by 4.3%, from € 103 million to € 98 million in the same period. The results of operations of our chemicals division are driven by:

- *Our ability to consistently launch new and innovative products.* The longer a successful product is on the market, the more time competitors have to develop products with similar features, leading to increased competition and downward price pressure. As a result, a key driver of the revenues and results of operations of our chemicals division is our ability to consistently develop, manufacture and sell new and innovative specialty chemical products with advanced technical features and to ensure that such products account for a substantial share of our product portfolio.
- *Our ability to maintain close ties with our customers.* In the specialty chemicals industry, it is important to be able to offer customers complete solutions consisting not only of products but also of comprehensive technical advice and service in connection with these products. Because the relationship aspect is an integral part of our product offering, our ability to maintain close ties with our customers affects the prices that our customers are willing to pay us and ultimately our revenues and results of operations.
- *The business cycles experienced by our customers.* Although our products are targeted at specialized applications, our chemicals division is subject to the business cycles experienced by our customers. While we find it difficult to insulate our business from the impact of economic downturns that affect all of our customers, such as the global downturn that began in the fourth quarter of 2000 and lasted throughout 2001, we attempt to reduce our exposure to the business cycles of the industries that we serve by focusing on complementary industry segments and discrete geographic regions.
- *The level of raw material prices.* Another driver of the results of operations of our chemicals division is the level of raw material prices prevailing at any given point. Historically, we have at times found it difficult to pass such increases on to our customers, and we may experience similar difficulties in the future. For example, in both 2000 and 2001, the results of operations of our chemicals division were materially influenced by rising raw material prices, especially the prices of petroleum derivatives, which climbed substantially from the historical all-time low that they had reached during 1999.

The revenues of each of our two divisions may be materially influenced by acquisitions made by that division during any given period. This is particularly true of our chemicals division, whose growth strategy contemplates the acquisition of suitable targets. In addition, each division's results of operations have been and continue to be materially influenced by exchange rate movements, particularly between the euro and each of the U.S. dollar, the Brazilian real, the Mexican peso and the Japanese yen. To ensure comparability across reporting periods, the following discussion of our results of operations breaks out acquisition and foreign exchange rate effects.

We present segment information in accordance with IAS 14. The basis for our segment reporting is our two divisions: pharmaceuticals and specialty chemicals. This reporting system reflects the management structure of our organization, pursuant to which our holding company is responsible for making strategic decisions with respect to our two divisions, whereas the implementation of these decisions at the division level is the responsibility of the heads of the respective divisions, who manage them on a day-to-day basis. The reporting system also reflects our internal financial reporting and the predominant sources of risks and returns in our business. During the periods under review, there have not been significant sales between our pharmaceuticals and our chemicals segments.

Recent Developments

Group

The following table sets forth selected items of our consolidated income statement for the three months ended March 31, 2001 and 2002:

Results of Operations(1)

	Three months ended March 31,			
	2001		2002	
	(€ in millions, unaudited)	(% of net sales)	(€ in millions, unaudited)	(% of net sales)
Amounts in accordance with IAS				
Net sales	554	100	614	100
Cost of sales	(218)	(39.4)	(222)	(36.1)
Gross profit	335	60.6	392	63.9
Selling and distribution expenses	(133)	(24.1)	(148)	(24.0)
Research and development expenses	(64)	(11.5)	(79)	(13.0)
General administrative expenses	(26)	(4.6)	(26)	(4.2)
Other operating income	4	0.8	10	1.6
Other operating expenses	(13)	(2.3)	(20)	(3.3)
Gain on sale of Lundbeck	110	19.9	0	0.0
Operating income	214	38.6	129	21.0
Financial income	7	1.2	1	0.1
Income before taxes and minority interests	221	39.9	129	21.1
Income tax expense	(82)	(14.8)	(48)	(7.8)
Income before minority interests	139	25.1	81	13.3
Minority interests	0	0.0	0	0.0
Net income	139	25.0	81	13.2

(1) Columns may not add up due to rounding.

Net sales. Net sales increased by 10.9%, from € 554 million in the first quarter of 2001 to € 614 million in the first quarter of 2002, reflecting higher levels of sales in each of our two segments. As in 2001, the increase was driven mainly by our pharmaceuticals segment, whose net sales rose by 13.1%. The net sales of our chemicals segment rose by 6.2%. Acquisitions and exchange rate effects each contributed 1 percentage point to the overall growth of our net sales in the first quarter of 2002. Excluding these effects, our total net sales would have grown at a rate of approximately 9% during the period under review.

Cost of sales. Cost of sales comprises the manufacturing costs of products sold. In addition to directly attributable costs, such as material costs, staff costs and energy costs, the line item also covers indirect costs, including depreciation of facilities. Cost of sales increased by 1.6%, from € 218 million in the first quarter of 2001 to € 222 million in the first quarter of 2002. As a percentage of net sales, cost of sales decreased from 39.4% to 36.1% during the same period. This development was primarily driven by our pharmaceuticals segment.

Selling and distribution expenses. Selling and distribution expenses comprise the costs incurred by our sales and marketing organization as well as advertising and logistics costs. While selling and distribution expenses increased by 10.6%, from € 133 million in the first quarter of 2001 to € 148 million in the first quarter of 2002, as a percentage of net sales, they decreased slightly from 24.1% to 24.0% during the same period.

Research and development expenses. Research expenses are costs incurred for original and planned investigations undertaken to gain new scientific or technical knowledge and understanding. We expense all research costs that our two segments incur. Development expenses comprise costs incurred to achieve technical and commercial feasibility of products under development. The inherent unpredictability of the regulatory process governing the approval of pharmaceuticals and the risk that our pipeline drugs may never make it to market prevent us from capitalizing the development costs of our pharmaceuticals segment. Accordingly, we do not capitalize the costs incurred in connection with the conduct of pre-clinical and clinical trials as intangible assets but instead expense these items as incurred.

Research and development expenses increased by 24.6%, from € 64 million in the first quarter of 2001 to € 79 million in the first quarter of 2002, corresponding to an increase as a percentage of net sales from 11.5% to 13.0%. The increase was caused primarily by our pharmaceuticals segment, reflecting our growing investment in basic research and expenses that we incurred in connection with the conduct of trials in relation to Ciclesonide and Roflumilast.

General administrative expenses. General administrative expenses consist of overhead, administrative expenses and personnel and non-personnel costs incurred by management to the extent that they are not charged to other cost centers. Compared with the first quarter of 2001, general administrative expenses remained flat in the first quarter of 2002, amounting to € 26 million. As a percentage of net sales, they declined from 4.6% to 4.2%.

Other operating income. Other operating income mainly comprises income derived from fixed payments from licensees and co-marketing partners, the sale of assets and the release of provisions. Other operating income increased by 122.2%, from € 4 million in the first quarter of 2001 to € 10 million in the first quarter of 2002. The increase in our other operating income in the first quarter of 2002 primarily reflects our receipt of milestone payments from co-marketing and licensing partners.

Other operating expenses. Other operating expenses consist of goodwill amortization and expenses that are not allocable to any of the expense items discussed above. Other operating expenses increased by 55.6%, from € 13 million in the first quarter of 2001 to € 20 million in the first quarter of 2002. This development primarily reflects foreign currency losses incurred by us with respect to certain Latin American currencies, especially the Argentine peso.

Gain on sale of Lundbeck. Our operating income in the first quarter of 2001 reflects a one-time gain in the amount of € 110 million that we realized upon the sale of our interest in our joint venture with Lundbeck, a Danish company active in the treatment of diseases of the central nervous system.

Operating income. Our operating income decreased by 39.9%, from € 214 million in the first quarter of 2001 to € 129 million in the first quarter of 2002. Excluding the one-time gain we recognized in connection with the sale of our interest in our joint venture with Lundbeck, our operating income would have increased by 24.0%, from € 104 million in the first quarter of 2001 to € 129 million in the first quarter of 2002. As in 2001, this increase reflects the continued growth of our pharmaceuticals segment, which is driven by Pantoprazole.

Financial income. Financial income decreased by 87.6%, from € 7 million in the first quarter of 2001 to € 1 million in the first quarter of 2002. This development primarily reflects losses incurred in connection with the sale of a portion of our portfolio of marketable securities.

Income tax expense. Income tax expense consists of corporate income and trade taxes, similar foreign taxes and deferred taxes, each calculated on the basis of the income of our company and its subsidiaries. Income tax expense decreased by 41.2%, from € 82 million in the first quarter of 2001 to € 48 million in the first quarter of 2002. In 2001, our income tax expense included an amount of € 30 million attributable to a one-time gain that we recognized upon the sale of our interest in our joint venture with Lundbeck. Our effective tax rate increased slightly from 37.1% to 37.2%.

Minority interests. Minority interests consists of that portion of the earnings and losses of less-than-wholly-owned consolidated subsidiaries that is attributable to the other shareholders of these subsidiaries. In

the first quarter of 2002, the share of minority shareholders in the earnings of our consolidated subsidiaries had no significant effect on our net income.

Net income. Our net income decreased by 41.5%, from € 139 million in the first quarter of 2001 to € 81 million in the first quarter of 2002, reflecting the factors described above. Excluding the gain we recognized in connection with the sale of our interest in our joint venture with Lundbeck, our net income would have increased by 39.7%, from € 58 million in the first quarter of 2001 to € 81 million in the first quarter of 2002.

Pharmaceuticals

The following table sets forth selected information for our pharmaceuticals segment for the three months ended March 31, 2001 and 2002:

Pharmaceuticals Results of Operations

	Three months ended March 31,			
	2001		2002	
	(€ in millions, unaudited)	(% of net sales)	(€ in millions, unaudited)	% of net sales)
Net sales	378	100	427	100
Operating income	198(1)	52.5	109	25.6

(1) Includes a one-time gain in the amount of € 110 million resulting from the sale of our interest in our joint venture with Lundbeck.

Net sales

The overall sales of our pharmaceuticals segment increased by 13.1%, from € 378 million in the first quarter of 2001 to € 427 million in the first quarter of 2002. As in 2001, the development was once again due primarily to substantial increases in the net sales of Pantoprazole. Net sales of our pharmaceuticals segment also benefited from the continued overall growth of the worldwide pharmaceuticals markets.

The following table breaks down the net sales of our pharmaceuticals segment by geographic region for the three months ended March 31, 2001 and 2002:

Pharmaceuticals Net Sales By Geographic Region(1)(2)

	March 31,		Increase (decrease)
	2001	2002	
	(€ in millions, unaudited)		(%)
Germany	93	96	3.3
Europe (excl. Germany)	116	137	18.9
North America	96	119	25.0
Latin America	64	62	(4.4)
Other	9	13	35.9
Total	378	427	13.1

(1) By location of customers.

(2) Columns may not add up due to rounding.

In the first quarter of 2002, net sales of our pharmaceuticals segment increased in almost all geographic regions in which we are active. The growth of our net sales to customers located in North America reflects the continued success of Pantoprazole in that region. In Europe (excl. Germany), Pantoprazole was equally our main revenue driver. In Germany, the rise in net sales reflects both higher levels of sales of Pantoprazole and

the fact that we divested an OTC product line and sold our interest in our joint venture with Lundbeck in 2001. Our net sales in Latin America were adversely influenced by the weak demand situation in Argentina and the devaluation of the Argentine peso.

The following table breaks down the net sales of our pharmaceuticals segment by business area for the three months ended March 31, 2001 and 2002:

Pharmaceuticals Net Sales By Business Area(1)

	March 31,		Increase (decrease)
	2001	2002	
	(€ in millions, unaudited)		(%)
Therapeutics	300	351	17.3
OTC	34	29	(13.4)
Imaging	23	26	10.9
Diagnostics	11	12	5.3
Other	10	9	(10.1)
Total	378	427	13.1

(1) Columns may not add up due to rounding.

Our therapeutics net sales once again showed strong growth, mainly as a result of Pantoprazole. The reduction of the net sales of our OTC business reflects both our sale of a product line and the fact that we traditionally had a strong OTC business in Argentina, which in 2001 suffered from the deteriorating economic situation in that country. Our imaging sales experienced substantial growth, and our diagnostics sales grew at a satisfactory rate.

Operating income

The operating income of our pharmaceuticals segment decreased by 45.0%, from € 198 million in the first quarter of 2001 to € 109 million in the first quarter of 2002. Excluding the one-time gain we recognized in connection with the sale of our interest in our joint venture with Lundbeck, our operating income would have increased by 23.9%, from € 88 million in the first quarter of 2001 to € 109 million in the first quarter of 2002. This development was driven by lower levels of cost of sales. The decrease in cost of sales was due primarily to higher levels of net sales of Pantoprazole, which has lower manufacturing costs relative to its price than many of our other pharmaceuticals. It also reflects lower production costs in our Latin American operations due to the devaluation of the Argentine peso and the fact that the products manufactured by our joint venture with Lundbeck, which we divested in the first quarter of 2001, had higher cost of sales relative to their net sales.

Chemicals

The following table sets forth selected information for our chemicals segment for the three months ended March 31, 2001 and 2002:

Chemicals Results of Operations

	Three months ended March 31,			
	2001		2002	
	(€ in millions, unaudited)	(% of net sales)	(€ in millions, unaudited)	(% of net sales)
Net sales	176	100	187	100
Operating income	26	15.0	29	15.6

Net sales

Net sales of our chemicals segment increased by 6.2%, from € 176 million in the first quarter of 2001 to € 187 million in the first quarter of 2002. This development primarily reflects the net sales contributions of three acquired businesses and, to a lesser extent, exchange rate effects. Excluding acquisitions and exchange rate effects, our chemicals net sales would have remained flat in the period under review.

The following table breaks down the net sales of our chemicals segment by geographic region for the three months ended March 31, 2001 and 2002:

Chemicals Net Sales By Geographic Region(1)(2)

	March 31,		Increase (decrease)
	2001	2002	
	(€ in millions, unaudited)		(%)
Germany	26	25	(2.5)
Europe (excl. Germany)	67	72	7.8
North America	39	39	(1.8)
Asia	29	34	17.4
Other	15	17	14.9
Total	176	187	6.2

(1) By location of customers.

(2) Columns may not add up due to rounding.

The increase in our net sales to customers located in Europe (excl. Germany) reflects the sales contributions of two acquired businesses as well as the organic growth of our existing business. Our net sales to customers located in North America decreased, as the contribution of one acquisition was more than offset by the unfavorable demand situation in the region. Our net sales to customers located in Asia primarily reflect the organic growth of our business in this market.

The following table breaks down the net sales of our chemicals segment by business area for the three months ended March 31, 2001 and 2002:

Chemicals Net Sales By Business Area(1)

	March 31,		Increase (decrease)
	2001	2002	
	(€ in millions, unaudited)		(%)
Additives & Instruments	72	76	4.7
Coatings & Sealants	49	53	9.0
Wire Enamels	40	40	(0.2)
Varnish & Compounds	15	18	20.5
Total	176	187	6.2

(1) Columns may not add up due to rounding.

The substantial growth in net sales of our Coatings & Sealants, and Varnish & Compounds businesses mainly reflects the net sales contributions of acquired companies; the higher level of net sales generated by our Additives & Instruments business in the period under review was entirely due to the organic growth of our business.

Operating income

The operating income of our chemicals segment increased by 10.7%, from € 26 million in the first quarter of 2001 to € 29 million in the first quarter of 2002, mainly reflecting a decline in the level of raw material prices and the effect of cost containment measures.

Results of Operations

Group

The following table sets forth selected items of our consolidated income statement for the three years ended December 31, 2001 both in absolute terms and as percentages of net sales:

Results of Operations(1)

	Year ended December 31,					
	1999(2)		2000		2001	
	(€ in millions)	(% of net sales)	(€ in millions)	(% of net sales)	(€ in millions)	(% of net sales)
Amounts in accordance with IAS						
Net sales	1,577	100.0	1,928	100.0	2,308	100.0
Cost of sales	(650)	(41.2)	(784)	(40.7)	(894)	(38.7)
Gross profit	927	58.8	1,144	59.3	1,414	61.3
Selling and distribution expenses	(461)	(29.3)	(525)	(27.2)	(576)	(24.9)
Research and development expenses	(171)	(10.9)	(219)	(11.4)	(285)	(12.3)
General administrative expenses	(75)	(4.7)	(94)	(4.9)	(105)	(4.6)
Other operating income	29	1.8	56	2.9	39	1.7
Other operating expenses	(44)	(2.8)	(53)	(2.7)	(63)	(2.7)
Donation Herbert Quandt Foundation	0	0.0	0	0.0	(15)	(0.6)
Gain on sale of Lundbeck	0	0.0	0	0.0	110	4.8
Operating income	205	13.0	309	16.0	520	22.5
Financial income	18	1.1	21	1.1	24	1.0
Income before taxes and minority interests	223	14.1	329	17.1	544	23.6
Income tax expense	(101)	(6.4)	(150)	(7.8)	(216)	(9.4)
Income before minority interests	122	7.7	179	9.3	328	14.2
Minority interests	(3)	(0.2)	2	0.1	0	0.0
Net income	118	7.5	181	9.4	328	14.2
Amounts in accordance with U.S. GAAP						
Net income	130	8.2	166	8.6	314	13.6

(1) Columns may not add up due to rounding.

(2) Amounts have been restated from Deutsche Marks into euros using the official fixed conversion rate established on January 1, 1999, which is € 1.00 = DM 1.95583. The restated euro financial information depicts the same trends as would have been presented if we had continued to present our financial information in Deutsche Marks. The financial information will not, however, be comparable to the euro financial information of other companies that previously reported their financial information in a currency other than Deutsche Marks. See note 3 to our consolidated financial statements.

2001 compared with 2000

Net sales. Net sales increased by 19.7%, from € 1,928 million in 2000 to € 2,308 million in 2001, reflecting higher levels of sales in each of our two segments. The main growth driver was once again our pharmaceuticals segment, whose net sales rose by 26.0% due to revenue growth in virtually all of the segment's business areas but particularly as a result of the continued growth of Pantoprazole sales in Europe, Latin America, Canada and, especially, the United States. The net sales of our chemicals segment rose by 7.7% due to acquisitions and exchange rate effects. Excluding these effects, the net sales of our chemicals segment would have declined by 2%. On a group-wide basis, acquisitions contributed two percentage points to the growth of our company's net sales in 2001, whereas exchange rate effects were negligible. Leaving these effects aside, our net sales would have grown at a rate of approximately 18% during the period under review.

Cost of sales. Cost of sales increased by 14.0%, from € 784 million in 2000 to € 894 million in 2001. As a percentage of net sales, cost of sales decreased slightly from 40.7% to 38.7% during the same period. This development reflects a substantial relative decline in the cost of sales incurred by our pharmaceuticals segment that was mainly attributable to higher volumes of Pantoprazole, which has lower manufacturing costs relative to its price than many of our other pharmaceuticals. The positive trend in our pharmaceuticals segment more than offset a rise in cost of sales as a percentage of net sales in our chemicals segment that was principally caused by changes in the product mix of our chemicals segment and rising raw material prices.

Selling and distribution expenses. While selling and distribution expenses increased by 9.7%, from € 525 million in 2000 to € 576 million in 2001, they decreased as a percentage of net sales from 27.2% to 24.9% during the same period. This relative decline is due mainly to the fact that our pharmaceuticals segment does not incur selling and distribution expenses in respect of Pantoprazole sales in the United States. All expenses incurred in connection with the distribution of Pantoprazole in the U.S. market are instead recognized by Wyeth.

Research and development expenses. Research and development expenses increased by 29.8%, from € 219 million in 2000 to € 285 million in 2001, corresponding to an increase as a percentage of net sales from 11.4% to 12.3%. In both absolute and relative terms, the rise in research and development expenses was driven primarily by our pharmaceuticals segment, reflecting our increased investment in basic research and drug discovery and the conduct of trials in connection with the regulatory approval of our pipeline drugs Ciclesonide and Roflumilast.

General administrative expenses. General administrative expenses increased by 12.2%, from € 94 million in 2000 to € 105 million in 2001. As a percentage of net sales, however, they decreased slightly from 4.9% to 4.6%.

Other operating income. Other operating income declined by 29.8%, from € 56 million in 2000 to € 39 million in 2001. This decline reflects a substantial decrease in the other operating income of our pharmaceuticals segment, attributable primarily to the non-recurrence of a one-time payment we received in connection with the termination of a license agreement in the previous year and lower licensing fees. This decline was partially offset by an increase in the other operating income of our chemicals segment.

Other operating expenses. Other operating expenses rose by 19.5%, from € 53 million in 2000 to € 63 million in 2001. This growth reflects exchange rate losses and increased amortization of goodwill accounted for as a result of acquisitions.

Donation Herbert Quandt Foundation. In 2001, we made a special donation to the Herbert Quandt Foundation, a charitable endowment that we set up in 1980, whose objective is to promote scientific and cultural research activities and to support civic responsibility projects.

Gain on sale of Lundbeck. Our results of operations in 2001 also reflect a gain in the amount of € 110 million that we realized upon the sale of our interest in a joint venture with Lundbeck.

Operating income. Our operating income increased by 68.3%, from € 309 million in 2000 to € 520 million in 2001. This substantial increase reflects the continuing growth of our pharmaceuticals segment, primarily the growth of Pantoprazole sales in the United States. It also reflects a gain in the amount of € 110

million that we recognized in connection with the sale of our interest in our joint venture with Lundbeck and a special donation in the amount of € 15 million to the Herbert Quandt Foundation. Excluding these factors, our operating income would have increased by 37.4%, from € 309 million in 2000 to € 424 million in 2001.

Financial income. Financial income increased by 17.1%, from € 21 million in 2000 to € 24 million in 2001. This development primarily reflects gains achieved upon the sale of securities whose book value we had partially written off in 2000.

Income tax expense. Income tax expense increased by 43.6%, from € 150 million in 2000 to € 216 million in 2001. The effective tax rate, however, declined from 45.7% to 39.7%. This decline primarily reflects the impact of the German Tax Reduction Act, which took effect on January 1, 2001. This act, among others things, reduced the corporate tax rate applicable to our company in Germany from 40% on retained earnings and 30% on distributed earnings to a uniform level of 25%.

Minority interests. In 2001, the share of minority shareholders in the earnings of our consolidated subsidiaries increased our net income by € 0.3 million.

Net income. Our net income increased by 81.5%, from € 181 million in 2000 to € 328 million in 2001, reflecting the factors described above. Excluding the gain we recognized in connection with the sale of our interest in our joint venture with Lundbeck and the special donation to the Herbert Quandt Foundation, our net income would have increased by 41.9%, from € 181 million in 2000 to € 256 million in 2001.

2000 compared with 1999

Net sales. Net sales increased by 22.2%, from € 1,577 million in 1999 to € 1,928 million in 2000, reflecting higher levels of sales in each of our two segments. The main growth driver was our pharmaceuticals segment, whose net sales rose by 23.1% due to revenue growth in virtually all of the segment's various business areas but especially as a result of the continued growth of Pantoprazole sales in Europe, Latin America and Canada and the launch of the drug in the United States in May 2000. The net sales of our chemicals segment rose by 20.7%, reflecting a growth in demand, which consistently slowed down in the course of the year as a result of an economic downturn experienced by our customers. In addition, our net sales figure for 2000 reflects favorable exchange rate movements, particularly between the euro and the U.S. dollar, which augmented the revenues of both of our segments roughly equally and contributed approximately six percentage points to the overall growth of our company's net sales in 2000. Acquisitions accounted for approximately one percentage point. Excluding acquisitions and exchange rate effects, our net sales would have grown at a rate of approximately 15% during the period under review.

Cost of sales. Cost of sales increased by 20.7%, from € 650 million in 1999 to € 784 million in 2000. As a percentage of net sales, cost of sales decreased slightly from 41.2% to 40.7% during the same period. This development reflects a substantial relative decline in the cost of sales incurred by our pharmaceuticals segment that was mainly attributable to higher volumes of Pantoprazole, which has lower manufacturing costs relative to its price than many of our other pharmaceuticals. The positive trend in our pharmaceuticals segment more than offset a rise in cost of sales as a percentage of net sales in our chemicals segment that was principally caused by rising raw material prices.

Selling and distribution expenses. While selling and distribution expenses increased by 13.7%, from € 461 million in 1999 to € 525 million in 2000, they decreased as a percentage of net sales from 29.3% to 27.2% during the same period. This relative decline is due mainly to higher levels of net sales of Pantoprazole, for which our pharmaceuticals segment does not incur selling and distribution expenses, and the fact that we incurred lower levels of marketing expenditures for Pantoprazole in 2000, reflecting the fact that Pantoprazole has become established in all markets in which it is distributed.

Research and development expenses. Research and development expenses increased by 27.8%, from € 171 million in 1999 to € 219 million in 2000, corresponding to an increase as a percentage of net sales from 10.9% to 11.4%. Both in absolute and in relative terms, the rise in research and development expenses was driven almost exclusively by our pharmaceuticals segment, reflecting our increased investment in basic

research and drug discovery and the conduct of trials in connection with the regulatory approval of our pipeline drugs Ciclesonide and Roflumilast.

General administrative expenses. General administrative expenses, which increased by 26.0%, from € 75 million in 1999 to € 94 million in 2000, remained relatively constant as a percentage of net sales, increasing only slightly from 4.7% to 4.9%.

Other operating income. Other operating income mainly comprises income derived from fixed payments from licensees and co-marketing partners, the sale of assets and the release of provisions. Other operating income rose by 94.0%, from € 29 million in 1999 to € 56 million in 2000. This rise reflects an increase in the other operating income of our pharmaceuticals segment, which is attributable primarily to a € 18 million settlement with Daiichi Pharmaceutical Co., Ltd. for its termination of a license agreement with us relating to the development and commercialization of Pantoprazole in Japan. It also reflects the receipt by us of a payment from Wyeth in connection with the FDA's approval of Pantoprazole for commercial launch in the United States. This development was partially offset by a slight decrease in the other operating income of our chemicals segment.

Other operating expenses. Other operating expenses rose by 20.1%, from € 44 million in 1999 to € 53 million in 2000. This growth reflects € 7 million in legal provisions for the acquisition of treasury shares to be delivered to the shareholders of DAT following the conclusion of a pending litigation. See "Item 4: Information on the Company — Legal Proceedings" for more information on this litigation. The growth in other operating expenses also reflects amortization of goodwill, particularly goodwill accounted for as a result of acquisitions by our pharmaceuticals segment during 1999 and 2000.

Financial income. Financial income increased by 13.9%, from € 18 million in 1999 to € 21 million in 2000. This development reflects lower levels of unrealized losses of our portfolio of marketable securities, which more than offset a decrease in interest income resulting from lower interest rates and the maturation of several securities in our portfolio.

Income tax expense. Income tax expense increased by 48.6%, from € 101 million in 1999 to € 150 million in 2000. The effective tax rate, however, rose slightly from 45.4% to 45.7%. Our company's income tax expense in 2000 included a one-time charge stemming from a revaluation of our deferred tax assets. This revaluation reflects a decline in effective tax rates brought about by the German Tax Reduction Act.

Minority interests. Whereas the share of minority shareholders in the earnings of our consolidated subsidiaries resulted in a reduction of our net income by € 3.4 million in 1999, minority interests caused a gain of € 1.9 million in 2000, primarily due to our acquisition during the period under review of the outstanding shares not already owned by us of two consolidated subsidiaries.

Net income. Our net income increased by 52.8%, from € 118 million in 1999 to € 181 million in 2000, reflecting the factors described above. In addition, the net income figure reflects higher levels of wages and salaries in 2000, which primarily resulted from exchange rate effects, increased expenses under our various employee incentive plans and additional hirings.

Pharmaceuticals

The following table sets forth selected information for our pharmaceuticals segment for the three years ended December 31, 2001:

Pharmaceuticals Results of Operations(1)

	Year ended December 31,					
	1999		2000		2001	
	(€ in millions)	(% of net sales)	(€ in millions)	(% of net sales)	(€ in millions)	(% of net sales)
Net sales	1,025	100.0	1,262	100.0	1,591	100.0
Cost of sales	(340)	(33.2)	(397)	(31.5)	(458)	(28.8)
Gross profit	685	66.8	865	68.5	1,132	71.2
Selling and distribution expenses	(381)	(37.1)	(429)	(34.0)	(467)	(29.3)
Research and development expenses	(144)	(14.0)	(190)	(15.0)	(252)	(15.8)
General administrative expenses	(33)	(3.2)	(43)	(3.4)	(46)	(2.9)
Other operating income	21	2.0	49	3.9	33	2.1
Other operating expenses	(21)	(2.0)	(30)	(2.4)	(37)	(2.3)
Donation Herbert Quandt Foundation	0	0.0	0	0.0	(7.5)	(0.5)
Gain on sale of Lundbeck	0	0.0	0	0.0	110	6.9
Operating income	129	12.6	221	17.5	466	29.3

(1) Columns may not add up due to rounding.

2001 compared with 2000

Net sales

The overall sales of our pharmaceuticals segment increased by 26.0%, from € 1,262 million in 2000 to € 1,591 million in 2001. As in prior years, the development was again primarily driven by substantial increases in the net sales of Pantoprazole. In the period under review, net sales of Pantoprazole increased by 65.5%, from € 411 million in 2000 to € 680 million in 2001, which corresponds to a revenue contribution of 42.8% to the net sales of our pharmaceuticals segment in 2001, compared with a revenue contribution of 32.6% in 2000. Net sales of our pharmaceuticals segment also benefited from the overall growth of the worldwide pharmaceuticals markets, which remained largely unaffected by the economic downturn and the consequences of the terrorist attacks of September 11, 2001. Exchange rate effects did not materially influence the net sales of our pharmaceuticals segment in 2001, as positive effects of fluctuations of the U.S. dollar against the euro were offset by negative effects of fluctuations between certain Latin American currencies and the euro.

The following table breaks down the net sales of our pharmaceuticals segment by geographic region for the two years ended December 31, 2000 and 2001:

Net Sales By Geographic Region(1)(2)

	Year ended December 31,		Increase (decrease)
	2000	2001	
	(€ in millions)		(%)
Germany	340	377	10.9
Europe (excl. Germany)	402	483	20.2
North America	230	418	81.4
Latin America	254	260	2.4
Other	36	53	46.5
Total	1,262	1,591	26.0

(1) By location of customers.

(2) Columns may not add up due to rounding.

In 2001, net sales of our pharmaceuticals segment increased in all geographic regions in which we are active. This development was most pronounced in North America, where net sales increased particularly strongly as a result of the first full year of Pantoprazole sales in the United States and, to a lesser extent, two decisions by the FDA that have considerably enlarged the therapeutic profile of Pantoprazole in the U.S. market. In Germany, regulatory changes affording health care providers greater flexibility in their budgeting decisions and organizational changes in our German pharmaceuticals unit have enabled us to reverse the previous year's trend and achieve double-digit net sales growth. The relatively low growth rate of our pharmaceuticals business in Latin America primarily reflects the devaluation of the Brazilian real and the economic crisis in Argentina.

The following table breaks down the net sales of our pharmaceuticals segment by business area for the two years ended December 31, 2000 and 2001:

Net Sales By Business Area(1)

	Year ended December 31,		Increase (decrease)
	2000	2001	
	(€ in millions)		(%)
Therapeutics	980	1,275	30.1
OTC	126	129	2.9
Imaging	77	91	16.8
Diagnostics	43	43	—
Other	36	53	47.6
Total	1,262	1,591	26.0

(1) Columns may not add up due to rounding.

Our therapeutics business comprises four franchises: our gastrointestinal franchise, our cardiovascular franchise, our respiratory tract franchise and our other therapeutics franchise. Our therapeutics net sales increased substantially, mainly as a result of the continued expansion of our gastrointestinal franchise, which grew by 62.0% and accounted for 62.4% of our overall therapeutics revenues in 2001. The main growth driver within our gastrointestinal franchise was once again Pantoprazole, whose contribution to total therapeutics net sales rose by 65.5%, from € 411 million in 2000 to € 680 million, or 53.3% of therapeutics net sales, in 2001.

Our sales of Pantoprazole continued to benefit from the rapid growth of the markets for proton pump inhibitors ("PPIs") in the industrialized world generally and, as far as the United States is concerned, from the fact that the FDA has approved the drug for two new indications. Net sales of our cardiovascular franchise rose by 14.2%, whereas net sales of our respiratory tract franchise declined by 6.5%. Our other therapeutics business declined by 11.4% during the period under review, reflecting the divestiture of our CNS business. Net of this effect, our other therapeutics business would have expanded at a rate of 11.0%.

The relatively stable development of our OTC business reflects the fact that the various OTC markets in which we are active are fairly mature and characterized by a low level of innovation.

While our imaging net sales increased in 2001, primarily because of an increase in the level of our net sales of magnetic resonance imaging ("MRI") contrast media, the net sales of our diagnostics business remained flat.

The growth of our other pharmaceuticals net sales reflects higher volumes of contract manufacturing services provided by us to Bracco, S.p.A.

Operating income

Cost of sales. In our pharmaceuticals segment, cost of sales increased by 15.5%, from € 397 million in 2000 to € 458 million in 2001. As a percentage of net sales, cost of sales decreased from 31.5% to 28.8% over the same period. The relative decline in cost of sales was due primarily to the fact that we shipped higher volumes of Pantoprazole, which, as noted earlier, has lower manufacturing costs relative to its selling price than most products in our portfolio.

Selling and distribution expenses. Selling and distribution expenses of our pharmaceuticals segment increased by 8.7%, from € 429 million in 2000 to € 467 million in 2001. In contrast, as a percentage of net sales, selling and distribution expenses decreased significantly from 34.0% to 29.3% over the same period. The substantial relative decline in selling and distribution expenses is due to the fact that we do not incur selling and distribution expenses in connection with the distribution of Pantoprazole in the United States. All such expenses are instead incurred by Wyeth, our U.S. distribution partner for that drug. We expect this trend to reverse in the future, however, as we intend to incur substantial marketing expenses to support the proposed launch of our pipeline drugs Ciclesonide and Roflumilast.

Research and development expenses. Research and development expenses of our pharmaceuticals segment increased by 32.7%, from € 190 million in 2000 to € 252 million in 2001. As a percentage of pharmaceuticals net sales, research and development expenses increased from 15.0% to 15.8% during the period under review. Expressed as a percentage of therapeutics net sales, research and development expenses increased from 19.4% to 19.8% in the same period. The rising level of investment in R&D both in absolute and relative terms reflects our strategic decision to allocate approximately 20% of our therapeutics net sales in any given year to R&D projects. As in previous years, we invested the majority of our research and development expenses in 2001 in R&D related to therapeutics, especially the development of gastrointestinal and respiratory tract drugs. We allocated approximately 20% of our research and development expenses to basic research and drug discovery and spent approximately 80% on development, particularly on clinical trials that we conducted in order to obtain regulatory approval for the launch of our pipeline drugs Ciclesonide and Roflumilast.

General administrative expenses. General administrative expenses of our pharmaceuticals segment increased by 7.4%, from € 43 million in 2000 to € 46 million in 2001. As a percentage of net sales, general administrative expenses decreased from 3.4% to 2.9% over the same period.

Other operating income and expenses. Other operating income of our pharmaceuticals segment decreased by 31.6%, from € 49 million in 2000 to € 33 million in 2001. This reduction primarily reflects the absence in 2001 of a contract termination settlement in the amount of € 18 million and lower licensing fees in 2000, the effects of which were partially offset by a gain generated from the sale of parts of our OTC business in connection with an effort to streamline our product portfolio. Other operating expenses rose by 22.5%, from € 30 million in 2000 to € 37 million in 2001, primarily reflecting a payment in the amount of € 4 million that

we contributed to the German health insurance system as part of an industry-wide campaign and exchange rate losses resulting from the devaluation of the Brazilian real and the economic crisis in Argentina.

Donation Herbert Quandt Foundation. In 2001, our company made a special donation to the Herbert Quandt Foundation, of which we booked € 7.5 million in our pharmaceuticals segment.

Gain on the sale of Lundbeck. Also in 2001, our pharmaceuticals segment recognized a one-time gain in the amount of € 110 million in connection with the sale of our interest in our joint venture with Lundbeck.

Operating income. As a result of the factors described above, the operating income of our pharmaceuticals segment rose by 110.7%, from € 221 million in 2000 to € 466 million in 2001. Excluding the portion of our donation to the Herbert Quandt Foundation that we accounted for in our pharmaceuticals segment and the gain that we recognized in connection with the sale of our interest in our joint venture with Lundbeck, the operating income of our pharmaceuticals segment would have grown by 64.2%, from € 221 million in 2000 to € 363 million in 2001.

2000 compared with 1999

Net sales

The overall sales of our pharmaceuticals segment increased by 23.1%, from € 1,025 million in 1999 to € 1,262 million in 2000. This increase was due primarily to higher sales of Pantoprazole in all markets in which we are active. In the period under review, net sales of Pantoprazole increased by 55.7%, from € 264 million in 1999 to € 411 million in 2000, which corresponds to a revenue contribution of 32.6% to the net sales of our pharmaceuticals segment in 2000 compared with a revenue contribution of 25.7% in 1999. The rise in net sales also reflects growing sales of other product areas within our pharmaceuticals segment. In addition, the net sales figure benefited from positive exchange rate movements between the euro on the one hand and the U.S. dollar and various Latin American currencies linked to the U.S. dollar on the other, which contributed 6 percentage points to the segment's overall growth. On a constant currency basis, the net sales of our pharmaceuticals segment would have grown by 17% in 2000.

The following table breaks down the net sales of our pharmaceuticals segment by geographic region for the two years ended December 31, 1999 and 2000:

Net Sales By Geographic Region(1)(2)

	Year ended December 31,		Increase (decrease)
	1999	2000	
	(€ in millions)		(%)
Germany	345	340	(1.3)
Europe (excl. Germany)	353	402	13.8
North America	107	230	114.7
Latin America	192	254	32.3
Other	28	36	28.3
Total	1,025	1,262	23.1

(1) By location of customers.

(2) Columns may not add up due to rounding.

Net sales to customers located in Germany decreased slightly in 2000, whereas net sales to customers located in other parts of the world increased on average by 35.5%, from € 680 million to € 922 million during the same period. The decrease in net sales to customers located in Germany reflects a reduction in the net proceeds to us from one of our German licensing partners and intense price competition in the market for x-ray contrast media in Germany that was only partially offset by growing Pantoprazole sales. The increase in net sales to customers located in other parts of the world is the result of the dynamic development of our

international business, especially rising sales of Pantoprazole in all foreign markets in which we are active. Net sales to customers located in North America experienced especially strong growth as a result of the launch of Pantoprazole in the United States in May 2000.

The following table breaks down the net sales of our pharmaceuticals segment by business area for the two years ended December 31, 1999 and 2000:

Net Sales By Business Area(1)

	Year ended December 31,		Increase (decrease)
	1999	2000	
	(€ in millions)		(%)
Therapeutics	763	980	28.6
OTC	124	126	1.6
Imaging	79	77	(2.5)
Diagnostics	38	43	13.2
Other	21	36	67.5
Total	1,025	1,262	23.1

(1) Columns may not add up due to rounding.

Overall therapeutics net sales increased mainly as a result of the expansion of our gastrointestinal franchise, which grew by 51.4% during the period under review and accounted for 50.0% of our therapeutics revenues in 2000. The main growth driver within our gastrointestinal franchise was Pantoprazole, whose contribution to total therapeutics net sales rose by 55.7%, from € 264 million in 1999 to € 411 million in 2000, or 41.9% of therapeutics net sales, in 2000. Our sales of Pantoprazole benefited from the continued rapid growth of the worldwide markets for PPIs generally and from the successful introduction of the drug into new markets specifically, particularly the United States, where it was launched in May 2000. Net sales of our cardiovascular franchise rose by 14.3%, whereas net sales of our respiratory tract franchise remained flat. Our other therapeutics business experienced growth at a rate of 13.0% during the period under review as a result of higher volumes and exchange rate effects, as we derive a substantial portion of our other therapeutics revenues in foreign markets.

Our OTC business experienced modest growth.

The net sales figure of our imaging business decreased slightly as a result of fierce price competition in the market for x-ray imaging contrast media, the effects of which were only partially offset by increased volumes of MRI contrast media, which we sell in a relatively more stable pricing environment. Net sales posted by our diagnostics business rose as a result of, among other things, acquisition effects.

Our other pharmaceuticals net sales grew substantially, reflecting mainly our provision of contract manufacturing services to Bracco, S.p.A. in relation to a new x-ray contrast medium.

Operating income

Cost of sales. Cost of sales of our pharmaceuticals segment increased by 16.8%, from € 340 million in 1999 to € 397 million in 2000. As a percentage of net sales, cost of sales decreased from 33.2% to 31.5% over the same period. The relative decline in cost of sales was due primarily to the fact that we shipped higher volumes of Pantoprazole, which, as noted earlier, has lower manufacturing costs relative to its selling price than most products in our portfolio. This development was amplified by exchange rate effects, as we manufacture Pantoprazole almost exclusively at our Singen and Oranienburg facilities in Germany and therefore incur the majority of our production costs for Pantoprazole in euro, whereas a substantial portion of our net sales of the therapeutic is denominated in U.S. dollars and other foreign currencies.

Selling and distribution expenses. Selling and distribution expenses of our pharmaceuticals segment increased by 12.8%, from € 381 million in 1999 to € 429 million in 2000. In contrast, as a percentage of net sales, selling and distribution expenses decreased significantly from 37.1% to 34.0% over the same period, reflecting the fact that we do not incur selling and distribution expenses in connection with the distribution of Pantoprazole in the United States. In addition, the relative decrease in selling and distribution expenses also reflects the fact that Pantoprazole has become an established drug in all important markets around the world, which has enabled us to reduce our marketing support for the drug.

Research and development expenses. Research and development expenses of our pharmaceuticals segment increased by 32.1%, from € 144 million in 1999 to € 190 million in 2000. As a percentage of pharmaceuticals net sales, research and development expenses increased from 14.0% to 15.0% during the period under review. Expressed as a percentage of therapeutics net sales, research and development expenses increased from 18.8% to 19.4% in the same period. During the period under review, we invested the majority of our research and development expenses in R&D related to therapeutics, especially the development of gastrointestinal and respiratory tract drugs. We allocated approximately 20% of our research and development expenses to basic research and drug discovery and spent approximately 80% on development, particularly on clinical trials that we conducted in order to obtain regulatory approval for the launch of our pipeline drugs Ciclesonide and Roflumilast.

General administrative expenses. General administrative expenses of our pharmaceuticals segment increased by 31.7%, from € 33 million in 1999 to € 43 million in 2000. As a percentage of net sales, general administrative expenses increased slightly from 3.2% to 3.4% over the same period.

Other operating income and expenses. Other operating income of our pharmaceuticals segment increased by 132.7%, from € 21 million in 1999 to € 49 million in 2000. This development primarily reflects a one-time settlement payment from Daiichi in the amount of € 18 million, payable to us in three equal installments on October 1, 2000, 2001 and 2002, as compensation for its termination of a licensing agreement with us before Pantoprazole received regulatory approval for the Japanese market. We recorded the entire payment in 2000. The figure also reflects the receipt by us of a milestone payment from Wyeth following the FDA's approval of Pantoprazole for commercial launch in the U.S. market. Other operating expenses rose by 48.6%, from € 21 million in 1999 to € 30 million in 2000. The step-up in other operating expenses mainly reflects the amortization of goodwill resulting from acquisitions made in 1999 and 2000.

Chemicals

The following table sets forth selected information for our chemicals segment for the three years ended December 31, 2001:

Chemicals Results of Operations(1)

	Year ended December 31,					
	1999		2000		2001	
	(€ in millions)	(% of net sales)	(€ in millions)	(% of net sales)	(€ in millions)	(% of net sales)
Net sales	552	100.0	666	100.0	717	100%
Cost of sales	(310)	(56.1)	(387)	(58.2)	(436)	(60.7)
Gross profit	242	43.9	279	41.8	282	39.3
Selling and distribution expenses	(81)	(14.7)	(96)	(14.3)	(109)	(15.2)
Research and development expenses	(28)	(5.0)	(29)	(4.4)	(33)	(4.6)
General administrative expenses	(26)	(4.7)	(31)	(4.7)	(34)	(4.8)
Other operating income	6	1.1	5	0.7	5	0.7
Other operating expenses	(11)	(2.0)	(12)	(1.7)	(13)	(1.8)
Operating income	103	18.6	115	17.3	98	13.7

(1) Columns may not add up due to rounding.

2001 compared with 2000

Net sales

Net sales of our chemicals segment increased by 7.7%, from € 666 million in 2000 to € 717 million in 2001. This development is exclusively the result of acquisitions that we made in 2000 and 2001, which contributed 9 percentage points to the segment's growth in the period under review, and favorable exchange rate movements between the euro on the one hand and the U.S. dollar on the other, which contributed another one percentage point. Excluding acquisitions and foreign currency effects, the net sales of our chemicals segment would have decreased by 2% over the course of 2001. This development, which affected the entire specialty chemicals industry, reflects the difficulties of our downstream customers, especially those in the United States.

The following table breaks down the net sales of our chemicals segment by geographic region for the two years ended December 31, 2000 and 2001:

Net Sales By Geographic Region(1)(2)

	Year ended December 31,		Increase (decrease)
	2000	2001	
	(€ in millions)		(%)
Germany	93	101	8.7
Europe (excl. Germany)	235	274	16.4
North America	165	152	(8.2)
Asia	112	124	11.3
Other	61	66	8.4
Total	666	717	7.7

(1) By location of customers.

(2) Columns may not add up due to rounding.

The increase in net sales to customers located in Germany predominantly reflects the revenue contribution of a recently acquired company. Outside Germany, our chemicals business experienced growth at a rate of 7.5%, from € 573 million in 2000 to € 616 million in 2001. The strongest growth was accounted for by net sales to customers located in European countries excluding Germany, which primarily increased as a result of acquisitions. Net sales to customers located in North America decreased as a result of the economic slowdown affecting that region. Net sales to customers located in Asia developed favorably, almost exclusively due to the organic growth of our Asian business. Higher sales in most Asian countries, especially China and South Korea, more than offset lower sales in Japan.

The following table sets forth the net sales of our chemicals segment by business area for the two years ended December 31, 2000 and 2001:

Net Sales By Business Area(1)

	Year ended December 31,		Increase (decrease)
	2000	2001	
	(€ in millions)		(%)
Additives & Instruments	283	283	0.3
Coatings & Sealants	179	218	21.2
Wire Enamels	145	151	3.9
Varnish & Compounds	59	65	11.2
Total	666	717	7.7

(1) Columns may not add up due to rounding.

While net sales of our Additives & Instruments business remained level in 2001, net sales of our Coatings & Sealants business experienced substantial growth, reflecting primarily the net sales contribution of acquired businesses. Net sales of our Wire Enamels business rose modestly as a result of an acquisition. The growth of net sales of our varnish compounds business was equally due mainly to acquisitions.

Operating income

Cost of sales. Cost of sales of our chemicals segment increased by 12.5%, from € 387 million in 2000 to € 436 million in 2001. As a percentage of net sales, cost of sales experienced an increase from 58.2% to 60.7% during the same period. A substantial portion of the absolute increase in cost of sales was due to companies that we recently acquired. The relative increase in cost of sales reflects changes in the product mix of our chemicals segment as well as a rise in the level of raw material prices, especially for petroleum derivatives, which are an important ingredient of specialty coatings.

Selling and distribution expenses. Selling and distribution expenses of our chemicals segment increased by 14.0%, from € 96 million in 2000 to € 109 million in 2001. The absolute growth of selling and distribution expenses was caused by recent acquisitions. In relative terms, these factors have led to a modest increase in selling and distribution expenses as a percentage of net sales from 14.3% to 15.2%, reflecting our amortization of intangible assets acquired in connection with the aforesaid acquisitions.

Research and development expenses. The level of research and development expenses incurred by our chemicals segment is determined by the requirements of our customers and is typically around 5% of the segment's net sales. During the period under review, research and development expenses rose by 11.5%, from € 29 million in 2000 to € 33 million in 2001, reflecting expenses incurred in connection with the expansion of our R&D facilities for additives and the creation of a central R&D facility for Wire Enamels. As a percentage of net sales, research and development expenses grew from 4.4% to 4.6% in the same period.

General administrative expenses. General administrative expenses of our chemicals segment increased by 9.2%, from € 31 million in 2000 to € 34 million in 2001. As a percentage of net sales, however, general administrative expenses experienced only a modest increase from 4.7% to 4.8% during the period under review.

Other operating income and expenses. Other operating income of our chemicals segment remained virtually level at € 5 million in 2001, whereas other operating expenses rose from € 12 million in 2000 to € 13 million in 2001, mainly as a result of higher levels of goodwill amortization.

2000 compared with 1999

Net sales

Net sales of our chemicals segment increased by 20.7%, from € 552 million in 1999 to € 666 million in 2000. Approximately 3 percentage points of the growth resulted from acquisitions of specialty chemicals companies during 1999 and 2000. Favorable exchange rate movements between the euro on the one hand and the U.S. dollar and the Japanese yen on the other contributed another six percentage points to the development. Excluding acquisitions and currency effects, the net sales of our chemicals segment would have grown at a rate of 12%, reflecting an industry-wide upsurge in demand that tapered off in the course of the year as a result of a global economic downturn.

The following table breaks down the net sales of our chemicals segment by geographic region for the two years ended December 31, 1999 and 2000:

Net Sales By Geographic Region(1)(2)

	Year ended December 31,		Increase (decrease)
	1999	2000	
	(€ in millions)		(%)
Germany	76	93	21.4
Europe (excl. Germany)	210	235	12.2
North America	138	165	20.2
Asia	86	112	30.5
Other	42	61	42.9
Total	552	666	20.7

(1) By location of customers.

(2) Columns may not add up due to rounding.

Net sales to customers located outside of Germany experienced an average increase of 20.4%, from € 476 million in 1999 to € 573 million in 2000. Net sales to customers located in European countries excluding Germany grew mainly as a result of acquisitions made by our chemicals segment, which contributed eight percentage points, but also as a result of the organic growth of our European chemicals business. Net sales to customers located in North America rose, reflecting, among other things, favorable exchange rate effects. The region showing the strongest growth was Asia, where we were able to substantially expand our business, particularly in China, but also in Japan and other markets of the region.

The following table sets forth the net sales of our chemicals segment by business area for the two years ended December 31, 1999 and 2000:

Net Sales By Business Area(1)

	Year ended December 31,		Increase (decrease)
	1999	2000	
	(€ in millions)		(%)
Additives & Instruments	242	283	16.9
Coatings & Sealants	151	179	18.5
Wire Enamels	110	145	31.8
Varnish & Compounds	49	59	20.4
Total	552	666	20.7

(1) Columns may not add up due to rounding.

While net sales of our Additives & Instruments and Varnish & Compounds businesses increased as a result of organic growth during the period under review, as we manufactured and shipped greater volumes of all our products, net sales of our Coatings & Sealants and Wire Enamels businesses increased mainly due to acquisitions made during 2000.

Operating income

Cost of sales. Cost of sales of our chemicals segment increased by 25.1%, from € 310 million in 1999 to € 387 million in 2000. As a percentage of net sales, cost of sales experienced an increase from 56.1% to 58.2%

during the same period. The absolute growth of cost of sales was due primarily to higher volumes shipped during the period under review, but also reflects rising raw material prices. Raw material prices rose substantially during 2000 from their all-time low in 1999. This rise is also the principal reason behind the relative growth of cost of sales as a percentage of net sales.

Selling and distribution expenses. Selling and distribution expenses of our chemicals segment increased by 18.1%, from € 81 million in 1999 to € 96 million in 2000. As a percentage of net sales, however, selling and distribution expenses remained substantially the same, decreasing only slightly from 14.7% to 14.3%.

Research and development expenses. During the period under review, research and development expenses increased by 5.8%, from € 28 million in 1999 to € 29 million in 2000. As a percentage of net sales, however, research and development expenses decreased from 5.0% to 4.4% during the same period.

General administrative expenses. General administrative expenses of our chemicals segment increased by 21.3%, from € 26 million in 1999 to € 31 million in 2000. As a percentage of net sales, however, general administrative expenses remained virtually at the same level of 4.7% over the period under review.

Other operating income and expenses. Other operating income of our chemicals segment decreased by 21.1% from € 6 million in 1999 to € 5 million in 2000, whereas other operating expenses increased by 6.8%, from € 11 million in 1999 to € 12 million in 2000, mainly reflecting an increase in goodwill amortization.

Shareholders' Equity

As of January 1, 2001, we adopted IAS 39 and in connection therewith classified our marketable securities and derivatives as available for sale and therefore now carry these securities at market value. In connection with the revaluation of our marketable securities portfolio, we recorded a revaluation reserve in the amount of € 5.2 million, net of tax of € 3.2 million. At December 31, 2001, the revaluation reserve amounted to € 5.6 million, reflecting changes in the fair value of our marketable securities portfolio through December 31, 2001.

In adopting IAS 39 we further revalued fair value hedges and recognized € 3.7 million in assets and € 0.2 million in liabilities. As a result of this change, retained earnings increased at the beginning of the year by € 2.1 million, net of tax in the amount of € 1.4 million. Over the course of the year, as the relevant forward foreign currency contracts matured, we released an appropriate portion of retained earnings and recognized a gain.

At the annual general meeting of our shareholders held on May 3, 2001, our shareholders approved the following transactions proposed to them by our management board.

- The transfer of an amount equal to € 19,968,000 from our retained earnings to our stated share capital and in connection therewith the issuance to each of our shareholders of one additional share for every five shares held by them, resulting in the issuance of a total of 7,800,000 shares and an increase of our share capital to € 119,808,000, or 46,800,000 shares;
- The transfer of an amount equal to € 20,592,000 from our additional paid-in capital to our stated share capital, resulting in a further increase of our share capital to € 140,400,000; and
- A share split at a ratio of one to three.

We repurchased 1,536,950 shares in 2001 and plan to distribute these shares to eligible employees under our various stock option and employee share ownership plans. In 2001, we delivered 762,372 shares to our employees. In May 2001, we purchased an additional 154,800 shares in connection with the DAT litigation. See "Item 4: Information on the Company-Legal Proceedings" for more information on this litigation.

U.S. GAAP Reconciliation

Our financial statements have been prepared in accordance with IAS, which differ in certain respects from U.S. GAAP. See note 32 to our consolidated financial statements for a reconciliation of our net income

for the years ended December 31, 2000 and December 31, 2001 and shareholders' equity as of December 31, 2000 and 2001 from IAS to U.S. GAAP.

The following table sets forth our net income and shareholders' equity under IAS and provides a reconciliation to U.S. GAAP for the periods presented:

IAS to U.S. GAAP Reconciliation

	Year ended December 31,	
	2000	2001
	(€ in millions)	
Net income		
IAS	181	328
U.S. GAAP	166	314
Shareholders' equity (at year-end)		
IAS	984	1,170
U.S. GAAP	973	1,159

The reconciliation of our net income for 2001 primarily reflects: (i) the different treatment under IAS and U.S. GAAP of employee incentive plans, which gave rise to a negative reconciliation item in the amount of € 35 million; and (ii) the different valuation under IAS and U.S. GAAP of our portfolio of marketable securities, which in 2001 caused a negative reconciliation in the amount of € 8 million in connection with the sales of some of these securities. The reconciliation of our net income for 2000 primarily reflects: (i) the different treatment under IAS and U.S. GAAP of employee incentive plans, which gave rise to a negative reconciliation item in the amount of € 24 million as a result of differences in the way in which our compensation expense for these plans is calculated under IAS and U.S. GAAP, (ii) different revenue recognition principles under IAS and U.S. GAAP, contributing a negative reconciliation item of € 7 million, and (iii) differences in the treatment under IAS and U.S. GAAP of voluntary termination benefits, which led to a positive reconciliation item in the amount of € 6 million.

The reconciliation of our shareholders' equity as of December 31, 2001 is principally the result of the different treatment under IAS and U.S. GAAP of: (i) employee incentive plans, which gave rise to a negative reconciliation item in the amount of € 37 million; (ii) revenue recognition, which led to a negative reconciliation item in the amount of € 18 million; (iii) differences concerning the assumption of deferred tax liabilities in connection with the acquisition of intangible assets, which resulted in a positive reconciliation item in the amount of € 12 million; and (iv) voluntary termination benefits, which resulted in a positive reconciliation item in the amount of € 11 million. The reconciliation of our shareholders' equity as of December 31, 2000 is principally the result of the different treatment under IAS and U.S. GAAP of: (i) employee incentive plans, which gave rise to a negative reconciliation item in the amount of € 25 million; (ii) revenue recognition, which led to a negative reconciliation item in the amount of € 20 million; and (iii) voluntary termination benefits, which resulted in a positive reconciliation item in the amount of € 10 million.

Liquidity and Capital Resources

Cash Flow

The following table highlights selected cash flow data for each of the three years ended December 31, 2001:

Cash Flow(1)

	Year ended December 31,		
	1999	2000	2001
	(€ in millions)		
Net cash flow provided by operating activities	164	282	309
Net cash flow used in investing activities	(111)	(156)	(113)
Net cash flow used in financing activities	(65)	(118)	(116)
Cash and cash equivalents, year end	163	172	254
Net financial position(2)	421	387	426

(1) Columns may not add due to rounding.

(2) Net financial position is calculated as cash and cash equivalents plus marketable securities less total debt.

2001 compared with 2000

Net cash flow provided by operating activities. Net cash flow provided by operating activities increased by 9.8%, from € 282 million in 2000 to € 309 million in 2001, mainly reflecting a higher net income but also the cash effect of increased levels of depreciation and amortization. In addition, operating cash flow rose in 2001 reflect the cash effect of, among other items:

- A € 76 million cash decrease caused by an increase in trade accounts receivable and prepaid expenses attributable to higher levels of sales.
- A € 73 million cash increase resulting from higher levels of provisions.
- A € 27 million cash decrease attributable to higher levels of inventories to support our increased business activity.

Net cash flow used in investing activities. Net cash used in investing activities decreased by 27.3%, from € 156 million in 2000 to € 113 million in 2001. The 2001 figure primarily reflects the net cash effect of:

- A € 206 million cash decrease caused primarily by investments in property, plant and equipment, mainly reflecting the construction of new production facilities by our pharmaceuticals segment and the extension of an existing production facility by our chemicals segment.
- A € 111 million cash increase reflecting the sale of our interest in a joint venture.
- A € 34 million use of cash associated with acquisitions mainly by our chemicals segment.
- A € 26 million cash increase reflecting the net effect of € 188 million in sales of marketable securities and € 162 million cash in purchases of marketable securities.

The following table sets forth our capital expenditures for the years ended December 31, 2000 and 2001.

Capital Expenditures

	Year ended December 31,	
	2000	2001
	(€ in millions)	
Pharmaceuticals	117	150
Chemicals	40	49
Holding Company	6	7
Total	163	206

Net cash flow used in financing activities. Net cash used in financing activities decreased slightly by 1.2%, from € 118 million in 2000 to € 116 million in 2001. This development reflects the net cash effect of, among other things:

- A € 84 million cash decrease reflecting the payment of a dividend in respect of 2000 in the amount of € 0.61 per share.
- A € 76 million cash decrease resulting from our purchase of treasury shares, primarily in connection with our stock option plans, which was partially offset by subsequent issuances of treasury shares of € 19 million.

Net financial position. We had a net financial position — that is, cash and cash equivalents plus marketable securities less total debt — of € 426 million at December 31, 2001, compared with € 387 million at December 31, 2000, amounting to an increase of € 39 million. This development reflects higher levels of cash and cash equivalents, as discussed below.

We had cash and cash equivalents — that is, cash on hand and in bank accounts as well as highly liquid investments with original maturities of three months or less — in the amount of € 254 million at December 31, 2001, compared with cash and cash equivalents of € 172 million at December 31, 2000, corresponding to an increase of € 82 million during the period under review. The increase in cash and cash equivalents at December 31, 2001 compared with December 31, 2000 reflects primarily an increase in cash generated from operating activities during the period under review and proceeds of € 111 million from the sale of our interest in a joint venture.

We had marketable securities in the amount of € 298 million at December 31, 2001, compared with marketable securities of € 316 million at December 31, 2000, amounting to a decrease of € 18 million during the period under review. The decrease in marketable securities at December 31, 2001 compared with December 31, 2000 primarily reflects the fact that we did not replace some of our German fixed-interest securities that matured during the period under review.

We had debt in the amount of € 127 million at December 31, 2001, compared with debt of € 100 million at December 31, 2000, corresponding to an increase of € 27 million during the period under review.

2000 compared with 1999

Net cash flow provided by operating activities. Net cash flow provided by operating activities increased by 71.9%, from € 164 million in 1999 to € 282 million in 2000, mainly reflecting a higher net income. The higher operating cash flow also reflects the cash effect of increased levels of depreciation and increased provisions, especially for pensions and similar obligations, the effects of which were partly offset by higher income tax payments and decreased provisions for taxes. In addition, operating cash flow rose in 2000 as a

result of changes in working capital items. These changes in the level of our working capital reflect, among other items, the cash effect of:

- A € 56 million cash decrease caused by an increase in trade accounts receivables.
- A € 31 million cash increase due to an increase in accounts payable and other liabilities.
- A € 28 million cash increase resulting from higher levels of provisions.

Net cash flow used in investing activities. Net cash used in investing activities increased by 39.9%, from € 111 million in 1999 to € 156 million in 2000. The 2000 figure primarily reflects the net cash effect of:

- A € 163 million cash decrease caused primarily by investments in property, plant and equipment, particularly the expansion of our existing facilities in Constance, Singen and Wesel, Germany, and the construction of new facilities in Lyskowice, Poland, which we completed in 2001, Jaguariuna, Brazil, and Bombay, India, to support the international expansion of our pharmaceuticals segment. To a lesser extent, the decrease in cash also reflects investments in intangible assets, among other things, of a PCR license from F. Hoffmann-La Roche Ltd.
- A € 71 million cash increase reflecting the net effect of € 280 million in sales of marketable securities and € 209 million in purchases of marketable securities.
- A € 64 million cash decrease reflecting acquisitions made by our the chemicals segment.

The following table sets forth our capital expenditures for the years ended December 31, 1999 and 2000.

Capital Expenditures

	Year ended December 31,	
	1999	2000
	(€ in millions)	
Pharmaceuticals	79	117
Chemicals	30	40
Holding Company	0	6
Total	109	163

Net cash flow used in financing activities. Net cash used in financing activities increased by 80.4%, from € 65 million in 1999 to € 118 million in 2000. This development reflects the net cash effect of, among other things:

- A € 58 million cash decrease reflecting scheduled repayments of long-term debt.
- A € 48 million cash decrease resulting from the payment of a dividend for 1999 in the amount of € 0.35 per share.
- A € 35 million cash decrease owing to the purchase by us of 1,364,407 treasury shares, primarily in connection with our stock option plan.

Net financial position. We had a net financial position — that is, cash and cash equivalents plus marketable securities less total debt — of € 387 million at December 31, 2000, compared with € 421 million at December 31, 1999, amounting to a decline of € 34 million over the period under review. This development reflects the changes in our portfolio of marketable securities discussed below, the effects of which more than offset higher levels of cash and cash equivalents and lower levels of financial debt.

We had cash and cash equivalents in the amount of € 172 million at December 31, 2000, compared with cash and cash equivalents of € 163 million at December 31, 1999, corresponding to an increase of € 9 million during the period under review. The increase in cash and cash equivalents at December 31, 2000 compared with December 31, 1999 reflects primarily cash generated from operating activities during the period under review.

We had marketable securities in the amount of € 316 million at December 31, 2000, compared with marketable securities of € 384 million at December 31, 1999, amounting to a decrease of € 68 million during the period under review. The decrease in marketable securities at December 31, 2000 compared with December 31, 1999, primarily reflects the fact that we did not replace some of our German fixed-interest securities that matured during the period under review.

We had debt in the amount of € 100 million at December 31, 2000, compared with debt of € 126 million at December 31, 1999, corresponding to a decrease of € 26 million during the period under review. The decrease in debt at December 31, 2000 compared with December 31, 1999, primarily reflects our repayment of a bond issued by our Netherlands subsidiary, which we repaid completely in 2000, the effects of which were only partially offset by increased bank debt.

Liquidity commitments and capital requirements

The following table provides a maturity analysis of our contractual obligations as of December 31, 2001:

Contractual Obligations(1)

	As of December 31, 2001				
		Payments due by period			
	Total	<1 year	1-3 years	4-5 years	>5 years
		(€ in millions)			
Total debt(2)	127	69	16	10	32
Operating leases	37	14	15	7	2
R&D obligations(3)	207	48	84	28	49

(1) Columns may not add due to rounding.

(2) Includes capital lease obligations in a total amount of € 4 million.

(3) Does not include payments that we may be required to make under our various R&D agreements upon the achievement of certain milestones or royalty payments that we may be required to make in the future.

As of December 31, 2001, we also had commitments for investments in property, plant and equipment in the amount of € 77 million, most of which expire in the short term, guarantees for pension commitments in the amount of € 16 million, lines of credit in the amount of € 127 million and other commercial commitments in the amount of € 4 million.

We typically fund our capital expenditures with our cash flow from operations and, if such funds are not sufficient, liquid funds, including cash, cash equivalents and marketable securities.

See note 27 to our consolidated financial statements for additional information on our commitments and contingencies as of December 31, 2001.

Our management board and our supervisory board plan to propose to the shareholders' meeting to distribute a dividend of € 0.60 as well as a bonus dividend of € 0.10 per no-par value share in respect of 2001, with the amount attributable to treasury shares to be allocated to retained earnings.

We believe that cash flows from operating activities along with available cash and cash equivalents and marketable securities will be sufficient to fund all of our anticipated operating needs in the 2002 financial year, including capital expenditures, research and development projects and dividends.

Changes in Accounting Policies

Under IAS 8, changes in accounting policies may be performed either using the benchmark treatment or the allowed alternative treatment, unless one method is prohibited by a new accounting standard. We use the allowed alternative treatment unless otherwise required by the specific accounting standard.

Under the previous version of IAS 12 (revised 1996), "Income Taxes", we calculated deferred tax assets and liabilities using the distributed earnings rate in countries that apply different rates for retained earnings and distributed earnings. Previously, a deferred tax asset of € 9.7 million was recognized for the tax implications of future tax credits that would be realized upon the distribution of retained earnings. Additionally, a current tax receivable of € 13.5 million had been recorded as of December 31, 2000 for the dividend declared in 2001. With the adoption of IAS 12 (revised 2000) as of January 1, 2001 deferred and current tax assets on undistributed earnings are not recognized until the dividend is declared. This change resulted in an increase in income tax expense of approximately € 23.2 million. The dividend declared in 2001 resulted in a € 13.5 million current tax benefit during 2001. The net impact of adoption and application of revised IAS 12 for 2001 was € 9.7 million, or € 0.07 basic and diluted earning per share.

As of January 1, 2001, we also adopted IAS 39 and recognized € 3.7 million assets and € 0.2 million liabilities. Retained earnings were adjusted by € 2.1 million, net of tax of € 1.4 million. A revaluation reserve was recorded totaling € 5.2 million, net of tax of € 3.2 million.

In 2000, we changed our accounting policy for computing pension expense to adopt the corridor approach. Previously, we immediately recognized all actuarial gains and losses. In accordance with IAS 19.92, we have chosen the option to defer actuarial gains and losses exceeding a corridor of 10% of the present value of our pension obligation and amortize the excess over the average remaining working lives of the employees participating in the plan. As of December 31, 2000, the defined benefit obligation and unrecognized actuarial gains approximated € 234.7 million and € 39.1 million, respectively. Had we applied this method retroactively, the effect on net income for the year ended December 31, 1999 would have increased by € 8.5 million, or € 0.06 earnings per share.

New Accounting Standards

The following new accounting standards will effect our IAS reporting and our US GAAP reconciliation as follows:

- SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets". These standards, which were issued by the FASB in July 2001, significantly change the accounting for business combinations, goodwill and intangible assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet so they can be recognized and reported apart from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment annually (or more frequently if impairment indicators arise) in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 144 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". We adopted the provisions of SFAS No. 141 as of July 1, 2001 and are required to adopt SFAS No. 142 as of January 1, 2002. Any goodwill that is acquired in a business combination completed after June 30, 2001, and any intangible asset determined to have an indefinite useful life that was acquired after June 30, 2001 were not amortized. Goodwill acquired in a business combination completed before July 1, 2002, and intangible assets with indefinite useful lives acquired before July 1, 2001 were amortized until December 31, 2001. SFAS No. 142 requires us to evaluate our existing intangible assets and goodwill and to make any required reclassifications in order to conform with the new separation requirements at the date of adoption. We are also required to reassess the useful lives and residual values of all intangible assets and make any required adjustments by March 31, 2002. In connection with the transitional impairment evaluation, SFAS No. 142 requires us to perform an assessment of whether there is an indication that goodwill is impaired as of January 1, 2002. To accomplish this, we are currently (i) identifying the reporting, (ii) determining the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets to those reporting units, and (iii) determining the fair value of each reporting unit. This first step

of the transitional assessment is required to be completed by June 30, 2002. If the carrying value of any reporting unit exceeds its fair value, then detailed fair values for each of the assigned assets (excluding goodwill) and liabilities will be determined to calculate the amount of goodwill impairment, if any. This second step is required to be completed as soon as possible, but no later than December 31, 2002. Any transitional impairment loss resulting from the adoption will be recognized as the effect of a change in accounting principle in the consolidated income statements. Because of the extensiveness of the efforts needed to comply with the adoption of these statements, it is not practicable to reasonably estimate the impact on our financial statements.

- SFAS No. 143, "Accounting for Assets Retirement Obligations". This standard was issued by the FASB in August 2001. It addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated assets retirement costs. SFAS No. 143 requires an enterprise to record the fair value of an assets retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset. SFAS No. 143 also requires the enterprise to record the contra to the initial obligation and an increase to the carrying amount of the related long-lived asset (i.e. the associated asset retirement cost) and to depreciated that cost over the remaining useful life of the asset. The liability is adjusted at the end of each period to reflect the passage of time (i.e. accretion expense) and changes in the estimated future cash flows underlying the initial fair value measurement. Enterprises are required to adopt SFAS No. 143 for fiscal years beginning after June 15, 2002. We expect to adopt SFAS No. 143 on January 1, 2003 and are currently determining its impact on our financial statements.
- SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This standard was approved for issuance by the FASB in August 2001. It addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121 and the accounting and reporting provisions of APB No. 30. SFAS No. 144 also amends ARB No. 51 "Consolidated Financial Statements" to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. We do not expect the adoption of SFAS No. 144 to have a material impact on our financial statements.

Item 6: *Directors, Senior Management & Employees*

Directors and Management

Overview

As required by the German Stock Corporation Act (*Aktiengesetz*), we have a supervisory board (*Aufsichtsrat*) and a management board (*Vorstand*). The two boards are entirely separate, and no individual may simultaneously be a member of both boards. Our management board is responsible for managing our business in accordance with applicable laws, our Articles of Association and its rules of procedure. In addition, it represents us in our dealings with third parties. Our supervisory board appoints and removes the members of our management board and oversees their management of our company but does not make management decisions itself.

In carrying out their duties, the members of our management and our supervisory boards are required to exercise the standard of care of a prudent and diligent businessman. If they fail to observe the appropriate standard of care, they may become liable to us. In carrying out their duties, both boards have to take into account a broad range of considerations, including our company's interests as well as the interests of our shareholders, employees and creditors. Our management board is also required to respect the rights of our shareholders to be treated on an equal basis. In addition, it is responsible for implementing a risk management scheme and an internal monitoring system.

Our supervisory board has comprehensive oversight responsibilities. To ensure that our supervisory board can carry out these functions properly, our management board must, among other things, regularly submit reports to our supervisory board in relation to the current state of our company's business and future business planning. In addition, our supervisory board is entitled to request special reports at any time.

Under German law, our shareholders have a direct recourse against neither the members of our management board nor the members of our supervisory board in the event of a breach of duty. Apart from insolvency and other special circumstances, only we have the right to claim damages from the members of our two boards. We may waive or settle claims only if at least three years have passed since any violation of a duty occurred and only if our shareholders approve the waiver or settlement at a shareholders' meeting with a simple majority of the votes cast, provided that no shareholders who in the aggregate hold one tenth or more of our share capital oppose the waiver and have their opposition formally noted in the minutes.

Supervisory Board

As required by applicable German law and our Articles of Association, our supervisory board consists of twelve members. Six of these members were elected by our shareholders and six were elected by our German employees.

Our shareholders may remove any member of our supervisory board whom they have elected by adopting a resolution at a general meeting with a simple majority of the votes cast. Our German employees may remove any supervisory board member whom they have elected by adopting a resolution with a majority of three quarters of the votes cast. Our supervisory board elects a chairman and at least one deputy chairman from among its members. The election of the chairman and the first deputy chairman requires a two-thirds majority vote of the full supervisory board. If no candidate for chairman or first deputy chairman receives the required two-thirds majority, the shareholder representatives elect the chairman and the employee representatives elect the first deputy chairman. If our supervisory board chooses to elect a second deputy chairman, it does so by a simple majority of the votes cast.Resolutions of our supervisory board require a simple majority of the votes cast unless the law requires otherwise, with the chairman having a deciding vote in the event of a deadlock.

Our supervisory board meets at least twice every half year. Its main functions are:

- To oversee the management of our company;
- To appoint and dismiss members of our management board;
- To represent our company in matters concerning our management board; and

• To approve certain types of matters in accordance with German law.

Each member of our supervisory board is elected for a maximum term of five years. A supervisory board member's term of office expires at the end of the general meeting of our shareholders at which our shareholders discharge the respective member for the fourth financial year following the financial year in which that member was elected.

Our supervisory board has established a number of committees, including a remuneration committee (*Personalausschuss*) and an audit committee (*Finanzausschuss*). The remuneration committee is responsible for reviewing and approving the terms of contracts between us and the members of our management board. The responsibility of the audit committee is to review the financial statements of our company before they are presented to the plenary supervisory board and recommends areas on which the independent auditors should put the emphasis when auditing the financial statements of our company.

The following table sets forth the names and functions of the current members of our supervisory board, their ages at May 8, 2002, the year in which their current terms expire and their principal business activities outside of our company.

Supervisory Board Members

Name	Age	Term expires	Principal business activities outside of our company
Shareholder Representatives:(1)			
Justus Mische(2)(3) ..... *Chairman*	64	2004	Member of the supervisory boards of B. Braun Melsungen AG (chairman), Dragoco AG, Hoechst AG (chairman), MG Technologies AG
Susanne Klatten(3) ..... *Deputy chairwoman*	40	2003	Member of the supervisory boards of Bayerische Motoren Werke AG, Byk Gulden Lomberg Chemische Fabrik GmbH
Dr. Uwe-Ernst Bufe	57	2006	Member of the supervisory boards of AirLiquide AG, Frankfurter Versicherungs-Aktiengesellschaft, Rütgers AG, UBS Warburg AG (chairman)
Prof. Dr. Heinz Riesenhuber	66	2003	Member of the supervisory boards of Evotec BioSystems AG (chairman), Frankfurter Allgemeine Zeitung GmbH, HBM BioVentures AG, Henkel KGaA, Osram GmbH, Portum AG, Vodafone AG
Dr. Klaus-Jürgen Schmieder(2)	53	2006	Chairman of the management board of Messer Griesheim GmbH; member of the supervisory boards of Rheinhyp Rheinische Hypothekenbank AG, Messer Nippon Sanso GmbH & Co. KG (chairman); chairman of the boards of directors of Messer Griesheim Industries, Inc., Messer Group, Inc.

Name	Age	Term expires	Principal business activities outside of our company
Employee Representatives:			
Marcel Becker(3) ..... *Deputy chairman*	53	2003	Full time member of works council; chairman of Groups Works Council
Yvonne D'Alpaos-Götz(2)	48	2003	Full-time member of works council; member of the supervisory board of Byk Gulden Lomberg Chemische Fabrik GmbH
Rolf Jaeger(2)	54	2003	Trade union secretary of IG Bergbau, Chemie, Energie; member of the Supervisory Board of Agfa-Gevaert AG
Dr. Uwe Krüger	63	2003	Chemist
Renate Schmid(3)	61	2003	Full-time member of the works council
Dr. Jörg Senn-Bilfinger	54	2003	Chemist

(1) One shareholder representative died and has not been replaced.

(2) Member of the audit committee.

(3) Member of the remuneration committee.

The business address of the members of our supervisory board is the same as our business address: Seedammweg 55, D-61352 Bad Homburg v. d. Höhe, Germany.

Management Board

Pursuant to our Articles of Association, our supervisory board determines the size of our management board, subject to the condition that our management board have at least two members. Our management board currently consists of four members. Under German law, our management board is responsible for the management of our company, including the following matters, which are specifically reserved for our management board:

- The preparation of the annual financial statements;
- The calling of shareholders' meetings and the preparation and execution of shareholders resolutions; and
- The submission of reports to our supervisory board on specific matters.

Our management board has adopted rules of procedure that govern the conduct of its affairs. Pursuant to the currently applicable rules of procedure of our management board, while each board member is responsible for a discrete business area, certain matters enumerated in the rules of procedure, have to be managed jointly. In the event of a deadlock, the chairman of our management board casts the deciding vote. The rules of procedure also provide that our management board should make all decisions by consensus.

Our supervisory board appoints the members of our management board for a maximum term of five years. Members may be re-appointed. Our supervisory board may remove any member of our management board prior to the expiration of his or her term for cause.

The table below gives an overview of the present members of our management board, their ages at May 8, 2002, the year in which their current terms expire and their positions within our company:

Management Board Members

Name	Age	Term expires	Position
Nikolaus Schweickart	58	2005	Chairman and Chief Executive Officer
Dr. Hermann Küllmer	58	2003	Chief Financial Officer
Dr. Hans-Joachim Lohrisch	53	2007	Head of Pharmaceuticals
Dr. Klaus Oehmichen(1)	64	2002	Head of Chemicals

(1) Dr. Klaus Oehmichen will retire from our management board on October 1, 2002. He will be replaced by Dr. Matthias Wolfsgruber, who will become a member of our management board on July 1, 2002 and assume Dr. Oehmichen's role as Head of Chemicals effective October 1, 2002.

The business address of the members of our management board is the same as our business address: Seedammweg 55, D-61352 Bad Homburg v. d. Höhe, Germany.

Nikolaus Schweickart has been a member of our management board since 1987. In 1990, he was appointed chairman of our management board and chief executive officer of our company. Prior to serving on our management board, Mr. Schweickart worked as a personal assistant to Dr. Herbert Quandt and as a general representative of our company. Mr. Schweickart holds a law degree.

Dr. Hermann Küllmer has been a member of our management board and the chief financial officer of our company since 1990. Until 1990, he served in various finance and general management positions within our company and its predecessor entity, where he began to work in 1975. Dr. Küllmer holds a Ph.D. in economics.

Dr. Hans-Joachim Lohrisch has been a member of our management board since 1999 and also serves as the head of our pharmaceuticals division. Before joining our company, Dr. Lohrisch held various executive positions in the areas of therapeutics and generic drugs within Merck KGaA, where he became the head of the company's worldwide ethical pharmaceuticals business in 1998. Dr. Lohrisch holds a Ph.D. in chemistry.

Dr. Klaus Oehmichen has been a member of our management board since 1990. Since 1986, he also serves as the head of our chemicals division. Prior to 1986, Dr. Oehmichen held various sales and marketing and general management positions within this division. Dr. Oehmichen holds a Ph.D. in chemistry.

Compensation

The members of our supervisory board receive annual compensation in an amount that is determined by our Articles of Association and that is currently equal to € 5,000 plus a variable portion that is calculated with reference to the amount of our annual dividend relative to our share capital. In 2001, compensation that we paid to our supervisory board members equaled € 1.7 million, of which € 1.6 million accounted for the variable portion of the compensation. In addition, the members of our supervisory boards are entitled to be reimbursed for their out-of-pocket expenses.

In 2001, the four members of our management board received aggregate compensation in the amount of € 5.7 million from us and our subsidiaries. Of this amount, € 1.1 million was fixed, and € 4.6 million was variable. The amount of the variable compensation paid in respect of any given year depends on the amount of the dividend paid to our shareholders and our net income in respect of that year. In addition, as participants in our stock option plans, the members of our management board received options to subscribe for our shares. In 2001, we granted our management board members a total of 106,500 options under these plans, each option being exercisable for one share at an exercise price of € 42.41. For more information on our stock option plans, see "— Stock Option Plans" below.

At December 31, 2001, the total amount that we accrued for the payment of pensions to the members of our management board equaled € 3.1 million.

Employees

At December 31, 2001, we employed 9,122 people, compared with 8,556 employees in 2000 and 8,218 employees in 1999.

The following table provides a breakdown of the number of our employees by main category of activity and location for each of the three years ended December 31, 2001:

Employees by Main Category of Activity and Location

	As of the year ended December 31,		
	1999	2000	2001
By division			
Pharmaceuticals	6,308	6,489	6,867
Chemicals	1,883	2,036	2,217
Holding company	27	31	38
By main category of activity			
R&D	1,145	1,305	1,484
Production and logistics	3,010	3,060	3,269
Marketing and distribution	2,896	2,985	3,059
Administration	1,167	1,206	1,310
By location			
Germany	3,642	3,862	4,080
Europe (excl. Germany)	1,986	2,033	2,224
North America	1,021	1,019	1,068
Latin America	1,344	1,401	1,432
Other	225	241	318
Total	8,218	8,556	9,122

A significant percentage of our employees, especially those located in Germany, are covered by collective bargaining agreements that determine such matters as compensation, working hours and other conditions of employment, and some of our employees are represented by works councils. Works councils are employee-elected bodies, which exist in our company both at the group level for our German employees (*Konzernbetriebsrat*) and in certain of our subsidiaries. Works councils have a number of notification and codetermination rights in personnel, social and economic matters. Under the German Works Constitution Act (*Betriebsverfassungsgesetz*), they are entitled to receive advance notification of any proposed termination of an employee, to confirm hirings, relocations and similar matters, and to codetermine a variety of so-called "social" matters, such as work schedules and rules of conduct. Our management considers itself to be on good terms with the works councils of our company.

During the last three years, we have not experienced any material labor disputes resulting in work stoppages.

Share Ownership

At May 8, 2002, Ms. Klatten owned 70,332,012 shares or 50.1% of our issued share capital. The shares and options held by the other members of our supervisory board and our management board members represent less than 1% of our issued share capital. See "Item 7: Major Shareholders and Related Party Transactions".

In order to better align the interests of our employees and our management board members with those of our shareholders, we have implemented a number of plans to involve our employees and the members of our

management board in the capital of our company. These plans include various stock option plans, first introduced in 1999, in which our management board members, senior executives and certain other key employees may participate, and the Altana Investment Program, an annual share ownership plan that we launched for the first time in 2000 in which all our employees are eligible to participate.

To be able to meet our obligations under our various stock option plans, we maintain approximately the same number of shares in treasury as we grant in options under our plans, including the Altana Investment Program. Each year, we determine the number of additional treasury shares required to be purchased and make the necessary adjustments.

In connection with the acquisition of treasury shares for delivery upon exercise of options under our various employee incentive plans, we recognize compensation expense over the vesting period in an amount equal to the difference between the exercise price of the options and the average price of the treasury shares purchased. See note 14 to our consolidated financial statements for additional information.

Stock Option Plans

In 1999, we launched for the first time a stock option plan, which was open to the members of our management board, senior executives and certain other key employees. In July 2000 and July 2001, we launched similar plans. For the 2001 plan, we extended the eligibility criteria to include other employees that we consider to have high potential. In total, approximately 150 of our employees were eligible to participate in the 2001 plan.

In order to participate in the various stock option plans that we launched in the past, our employees were required to make an initial investment in the share capital of our company. The minimum investment required of an employee depends on his or her position in our company. Our management board members, for example, were required to make an initial investment in the amount of € 150,000. Once an employee has made the initial investment for one plan, he or she is not required to purchase additional shares to participate in plans launched subsequently.

Under our various stock option plans launched in the past, each option granted is exercisable for one share of our company at an exercise price that we determined on the basis of the average market price of our shares on the Frankfurt stock exchange during a reference period prior to the date on which each plan was launched. Options granted cannot be exercised until the expiry of a two-year lockup period from the date of the grant.

Any options granted may be exercised only if we attain certain performance goals. Options granted under the 1999 and 2000 plans are exercisable only if the average of our earnings per share in both the year when the options were granted and the succeeding year exceed the average of our earnings per share during the two years preceding the date of grant by at least 20%. This condition was satisfied with respect to both the 1999 and the 2000 plans. The corresponding condition under the 2001 plan is that our earnings per share in 2002 exceed our earnings per share in 2000 by at least 20%.

Under the 1999 and 2000 plans, upon exercise of any options granted, participants have the right to receive either shares or cash in an amount equal to the difference between the market price of the shares that they are entitled to receive and the exercise price of the options. Options granted under the 2001 plan are exercisable for shares.

Options under the 1999 and 2000 plans expire four years after the date of grant, whereas options granted under the 2001 plan expire five years after the date on which they were granted.

Under the 2001 plan, the members of our management board and executive officers are entitled to receive additional options if they make an additional investment in our shares. The plan also envisages the grant of additional options in recognition of outstanding performance. Our supervisory board is responsible for making such grants with respect to members of our management board, and our management board is responsible for making such grants to other eligible participants.

We plan to launch a new stock option plan in 2002.

For more information on the options outstanding under each of our stock option plans, see "Item 10: Additional Information — Share Capital — Equity-linked Securities".

Altana Investment Program

The Altana Investment Program is an employee share ownership plan that we first launched in 2000. In 2001, we launched a new edition of the plan, and we expect to offer similar plans in the future. Participation in the plan is open to employees who are not eligible to participate in any of our other stock option plans, subject to certain conditions. Each plan consists of two components. The first component entitles participants to purchase a specific number of shares based on their salary or wages at a fixed price per share that corresponds to the lowest market price of our shares on the Frankfurt Stock Exchange on the date at which our management board approves the relevant plan edition. Plan participants are entitled to a discount on a portion of the shares that they acquire. Employees who are unable to receive shares for statutory reasons are paid the cash equivalent of the benefit that they would otherwise have received. Under the second component, participants receive one option for each share that they purchase. The options become exercisable two years after the date of grant and entitle their holders to receive cash in an amount equal to the difference between a predetermined exercise price and the market price of our shares on the date on which the options are exercised. The options expire two years after the date they first become exercisable and, if not previously exercised and in the money, are deemed exercised on such date. If a participant sells shares acquired under the plan during the lock-up period, he or she must repay the subsidy and forfeits the options received.

Under our 2000 and 2001 plans, our employees have purchased a total of 471,695 shares.

Profit-sharing Certificates

From 1980 to 2000, we issued profit-sharing certificates to our German employees. Holders of these certificates are entitled to receive interest at a rate equal to the higher of the dividend rate on our shares in any given year and 7% of the certificates' face value. At December 31, 2001, the aggregate value of all outstanding profit sharing certificates was € 8.7 million.

Item 7: *Major Shareholders and Related Party Transactions*

Major Shareholders

The table below identifies all persons who, to our knowledge, beneficially owned more than 5% of our shares as of May 8, 2002. Under German law, our shareholders are required to notify us in case their holdings reach or fall below certain thresholds, and the information presented in the table is based on notifications that we have received. Since our shares are in bearer form, however, we are unable to determine with precision how many shareholders we have at any given point and how many shares a particular shareholder owns. For more information on these notification requirements, see "Item 10: Additional Information — Articles of Incorporation and Relevant Provisions of German Law".

Name	Number of shares owned	Ownership interest (%)
Susanne Klatten	70,332,012	50.1%

Except as set forth in the table, we are not aware of any holders of more than 5% of our shares. Nor are we aware of any significant changes in the percentage ownership of our major shareholder over the course of the past three years. To our knowledge, no arrangements are currently in place that could lead to a change of control of our company.

Ms. Klatten is the beneficial owner of the majority of our share capital. Ms. Klatten's share ownership could discourage third parties from initiating merger, takeover or other change of control transactions. As the owner of the majority of our shares, Ms. Klatten has the ability to control the outcome of all matters requiring the approval of a majority of our shareholders, including the election and removal of members of our supervisory board.

Related Party Transactions

The Herbert Quandt Foundation is a not-for-profit charitable endowment established in 1980 that promotes scientific and cultural research activities and supports civic responsibility projects. Mrs. Klatten, the deputy chairwoman of our supervisory board, is chairwoman of the board of counselors of the endowment, and Nikolaus Schweickart, the chairman of our management board and chief executive officer of our company, serves as the chairman of the endowment's management board. In 2001, we made a special contribution in the amount of € 15 million to the capital of the endowment. The endowment in turn invested the funds by extending interest-bearing loans to our company.

For information on loans between us and our affiliated and associated companies and participating interests as of December 31, 2001, see note 28 to our consolidated financial statements.

Item 8: ***Financial Information***

Consolidated Financial Statements and Other Financial Information

See "Item 18: Financial Statements."

Legal Proceedings

See "Item 4: Information on The Company — Legal Proceedings".

Dividend Policy

Our management and supervisory boards may, based on our annual financial statements, propose the payment of dividends to our shareholders. Our shareholders vote on these proposals at the annual shareholders' meeting, which is usually convened during the second quarter of each year. See "Item 10. Additional Information — Dividend Rights" for further information. We expect to continue to pay dividends in the future, although there can be no assurance as to the exact amounts that we may pay in any given period. The payment of future dividends will depend on our results of operations and financial condition. See "Item 5. Operating and Financial Review and Prospects."

Item 9: *The Offer and Listing*

Our shares are in bearer form and have no par value. Each of our shares has a notional value of € 1.00. The principal trading market for our shares is the Frankfurt Stock Exchange. In addition, our shares are traded on the stock exchanges of Berlin, Bremen, Düsseldorf, Hamburg, Hannover, Munich and Stuttgart. The securities that we have applied to be listed on the New York Stock Exchange ("NYSE") are American Depositary Shares ("ADSs"), each of which represents one share. We will seek to have the ADSs listed on the NYSE by May 22, 2002. For more information on our shares, see "Item 10: Additional Information — Share Capital". Our ADSs are described in greater detail under "Item 12: Description of Securities Other Than Equity Securities".

Based on turnover statistics supplied by Bloomberg, the average daily volume of our shares traded on the Frankfurt Stock Exchange was 149,387 in 1999, 242,397 in 2000 and 301,542 in 2001. In the first quarter of 2002, the average daily volume of our shares traded on the Frankfurt Stock Exchange was 266,580.

Market Price Information

The tables below set forth, for the periods indicated, the high and low closing sales prices for our shares on the Frankfurt Stock Exchange. Starting on January 4, 1999, all shares traded on stock exchanges in Germany began trading in euros. Market prices for periods prior to 1999 have been converted to euros at the official exchange rate of €1.00 = DM1.95583.

Trading on the Frankfurt Stock Exchange

Year	High	Low
	(€)	
1997	27.35	16.19
1998	22.14	12.92
1999	20.36	14.30
2000	46.69	15.97
2001	58.99	34.33

Year	High	Low
	(€)	
2000		
January through March	21.94	15.97
April through June	23.54	20.42
July through September	35.56	23.47
October through December	46.69	31.39
2001		
January through March	47.08	34.33
April through June	46.60	34.94
July through September	54.48	40.70
October through December	58.99	50.15
2002		
January through March	61.75	52.60

Month	High	Low
	(€)	
November 2001	58.99	53.29
December 2001	58.65	51.07
January 2002	59.76	52.60
February 2002	61.09	56.80
March 2002	61.75	56.48
April 2002	64.60	59.88

Trading On The Frankfurt Stock Exchange

The Frankfurt Stock Exchange, which is operated by the Deutsche Börse AG, is the most significant of the eight German stock exchanges. The Frankfurt Stock Exchange, including the Xetra trading system described below, accounted for approximately 96% of the turnover in exchange-traded shares in Germany in 2001. As of December 31, 2001, the shares of 5,777 companies traded on the official, regulated and unregulated markets and the Neuer Markt segment of the Frankfurt Stock Exchange. Of these, 912 were German companies and 4,865 were foreign companies.

Trading on the floor of the Frankfurt Stock Exchange begins every business day at 9:00 a.m. and ends at 8:00 p.m., Central European Time. Securities listed on the Frankfurt Stock Exchange are generally traded in the auction market, but also change hands in interbank dealer markets. Prices, which are determined by outcry, are noted by publicly commissioned stockbrokers who are members of the Frankfurt Stock Exchange but who do not as a rule deal with the public. The prices of actively traded securities, including the shares of large corporations, are continuously quoted during trading hours. For all securities, a fixed price is established around midday on each day on which the Frankfurt Stock Exchange is open for business. Deutsche Börse publishes an official daily list of quotations (*Amtliches Kursblatt*) containing the fixed prices (*Einheitskurse*) as well as the yearly high and low prices for all traded securities. The list is available on the Internet at http://www.exchange.de under the heading "Market Data".

Our shares are traded on Xetra (Exchange Electronic Trading) in addition to being traded on the auction market. Xetra is available daily from 9:00 a.m. to 8:00 p.m. Central European Time to brokers and banks that have been admitted to Xetra by the Frankfurt Stock Exchange. Securities traded by this system include liquid stocks, warrants and bonds traded on the floor of the Frankfurt Stock Exchange. There have been no significant trading suspensions with respect to our shares in the past three years.

Transactions on the Frankfurt Stock Exchange (including transactions through the Xetra system) are settled on the second business day following the day on which the trade takes place. Transactions off the Frankfurt Stock Exchange (which may occur for large trades or if one of the parties is foreign) are generally also settled on the second business day following the trade, although a different period may be agreed by the parties. Under standard terms and conditions for securities transactions employed by German banks, customers' orders for listed securities must be executed on a stock exchange unless the customer gives specific instructions to the contrary.

Trading activities on the German stock exchanges are monitored by the Federal Supervisory Authority for Securities Trading (*Bundesaufsichtsamt für den Wertpapierhandel*). A quotation can be suspended by the Frankfurt Stock Exchange if orderly trading is temporarily endangered or a suspension is deemed to be necessary to protect the public.

Item 10: ***Additional Information***

Share Capital

Issued And Authorized Share Capital

We have only one class of share capital, consisting of bearer shares with no par value. Under German law, no par value shares are considered to have a "notional" value that is determined by dividing the total share capital issued at any given point by the number of shares then issued.

At December 31, 2001, our share capital was € 140,400,000, represented by 140,400,000 shares, corresponding to a notional value of € 1 per share.

As of the same date, our authorized but unissued share capital was € 67.5 million, represented by 67.5 million shares. Our management board may use this authorization to increase our share capital at any time through April 30, 2004:

- By up to € 27 million through the issuance of up to 27 million shares against cash payments (Authorized Capital I);
- By up to € 27 million through the issuance of up to 27 million shares against contribution in kind (Authorized Capital II); and
- By up to € 13.5 million through the issuance of up to 13.5 million shares against cash payments (Authorized Capital III).

Our management board is authorized to exclude preemptive rights for shares issued against cash payments in capital increases from Authorized Capital I to the extent necessary to avoid balancing fractional residual amounts. In addition, our existing shareholders have waived their preemptive rights with respect to shares issued against in-kind contribution in capital increases from Authorized Capital II. Finally, preemptive rights may be excluded regarding shares issued against cash if they are issued from Authorized Capital III at a price not significantly lower than the prevailing market price. For more information on our management board's ability to exclude preemptive rights in this context, see "— Articles of Association and Relevant Provisions of German Law — Preemptive Rights" below.

We have not issued any shares that do not represent capital.

Treasury Shares

At December 31, 2001, we held 3,218,985 shares in treasury.

Equity-linked Securities

We have not issued any warrants, convertible obligations or similar securities.

Pursuant to resolutions adopted by our shareholders' meeting, we have introduced stock option plans for members of our management board, executive officers and certain other eligible employees.

The following table provides details regarding the options outstanding under our various stock option plans:

Stock Option Plans

Name	Title of securities issuable upon exercise of options	Number of options outstanding as of December 31, 2001(1)	Date on which options become exercisable	Date on which options expire	Exercise price
1999 plan	Shares	260,600	July 1, 2001	June 30, 2003	€ 15.03
2000 plan	Shares	950,400	July 1, 2002	June 30, 2004	€ 22.97
2001 plan	Shares	1,065,750	July 1, 2003	June 30, 2006	€ 42.41

See "Item 6: Directors, Senior Management and Employees — Share Ownership — Stock Option Plans" for additional information on our stock option plans and the Altana Investment program, our employee share ownership plan.

History Of Share Capital

For a history of our share capital since 1999, see the Statement of Changes in Shareholders' Equity in our consolidated financial statements included in "Item 18: Financial Statements".

Articles of Association and Relevant Provisions of German Law

This section summarizes the material provisions of our Articles of Association and German law to the extent that they affect the rights of our shareholders. The information set forth below is only a summary and does not provide a complete description of all relevant provisions.

Organization

We are a stock corporation organized in the Federal Republic of Germany under the German Stock Corporation Act (*Aktiengesetz*). We are registered in the Commercial Register (*Handelsregister*) maintained by the local courts in Bad Homburg, Germany, under the entry number 1933. Copies of our Articles of Association may obtained from the Commercial Register. In addition, an English translation is available from the U.S. Securities and Exchange Commission.

Corporate Governance

In contrast to corporations organized under the laws of the United States, German stock corporations are governed by three separate bodies: the shareholders' meeting, the supervisory board and the management board. Their respective roles and responsibilities are defined by German law and the corporation's Articles of Association (*Satzung*) and may be summarized as follows:

A corporation's shareholders' meeting discharges the actions of the corporation's supervisory and management boards. It decides the amount of the annual dividend, the appointment of an independent auditor and certain significant corporate transactions. It also elects the members of the supervisory board. In corporations with more than 2,000 German employees, the shareholders and German employees elect an equal number of members of the supervisory board. The law requires that an annual general meeting of shareholders be held during the first eight months of a financial year.

The supervisory board appoints and removes the members of the management board and oversees the management of the corporation. Although prior approval by the supervisory board may be required in connection with certain corporate matters, the law normally does not entitle the supervisory board to make management decisions.

The management board manages the business of the corporation and represents it in dealings with third parties. The management board regularly submits reports to the supervisory board about the corporation's operations and business strategies, and prepares special reports upon request. Nobody may serve concurrently on the management and supervisory boards of the same corporation.

Objects and Purposes

The objects and purposes of our company are to found or to acquire and to hold directly or indirectly equity participations in commercial enterprises, particularly enterprises that are active in the manufacture and marketing of pharmaceutical, dietetic or chemical products and reagents as well as testing and measuring instruments. Our Articles of Association authorize us to take all measures incident to these purposes.

Directors

The members of our management and supervisory boards owe duties of loyalty and care to our company. Pursuant to these duties, each of our board members is required to act in our company's best interest. In fulfilling their duties, our board members are required to exercise the standard of care of a prudent and diligent businessman and, if their actions are contested, bear the burden of proof that they have done so. The relevant standard is not "customary" but "necessary" diligence, which is an objective test that does not depend on the subjective knowledge and abilities of any particular board member. In fulfilling their duties, both boards are required to observe the interests of our shareholders and employees and, to some extent, the public interest. Board members who violate their duties are jointly and severally liable to our company for any monetary damage that their violations have caused unless they acted pursuant to a lawful resolution of our shareholders' meeting passed with a simple majority of the votes cast. As a rule, only we, but not individual shareholders, may bring an action against a board member who defaults on his or her fiduciary duties. In special circumstances, however, our shareholders may appeal to the court for assistance. See "— Rights, Preferences And Restrictions Attaching To Our Shares" for more information on individual shareholders' ability to institute a legal action against our board members.

Board members may typically not vote on matters in which they have an interest, and no member of either our management or our supervisory board may receive loans from us unless these loans are approved by our supervisory board.

There is no mandatory retirement age and no share ownership requirement for the members of either of our boards.

See "Item 6: Directors, Senior Management and Employees" for additional information about the members of our supervisory and management boards.

Rights, Preferences And Restrictions Attaching To Our Shares

Information rights

The principal means by which our shareholders may obtain information on our company is through our audited annual financial statements (*Jahresabschluss*), a report prepared by our management board discussing these financial statements (*Lagebericht*), a report by our supervisory board and a recommendation by our management board regarding the distribution of our earnings. We are required to make these materials available for inspection at our principal offices starting on the date when the annual shareholders' meeting is convened. In addition, each shareholder is entitled to receive a copy of the aforesaid materials upon request.

Furthermore, each shareholder attending a shareholders' meeting is entitled to ask questions, which members of our management board, who are required to attend the meeting, are obliged to answer. The questions may cover any economic or financial matters necessary to properly evaluate the items on the agenda of the relevant shareholders' meeting. By contrast, our shareholders have no right to inspect the books and records of our company.

Voting rights

Our shareholders vote at shareholders' meetings. By contrast, German corporate law does not allow shareholders to approve matters by written consent. A shareholders' meeting may be called by either our management board or our supervisory board. The annual general meeting of our shareholders is required to take place within the first eight months of each financial year. In addition, shareholders who in the aggregate hold 5% or more of our share capital may require our management board to call a special meeting. Shareholders holding shares with an aggregate nominal value of at least € 500,000 may require that particular items be placed on the agenda of the meeting.

Under German law, we are required to publish a notice of each ordinary or extraordinary meeting of our shareholders in the Federal Gazette at least one month prior to the deadline set by the notice. In order to be entitled to participate in, and to vote at, shareholder meetings, shareholders have to deposit their shares no

later than the seventh day prior to the date of the meeting with a securities clearing or other bank. The shares have to remain at the depositary until the conclusion of the meeting. Our Articles of Association provide that our shareholders are no longer entitled to receive share certificates.

At our shareholders' meetings, each share carries one vote. In certain cases, a shareholder's right to cast a vote is excluded. This rule applies, for example, to waivers or if we assert claims against one of our shareholders. Resolutions are normally passed with a simple majority of the votes cast at the meeting. Under the German Stock Corporation Act, a number of significant resolutions requires a vote with a majority of at least 75% of the share capital present at the meeting. This 75% majority requirement applies in the following instances:

- Amendments to our Articles of Association (except amendments that would change the rights and obligations attaching to our shares, which in addition require the approval of all shareholders concerned);
- Capital increases and decreases;
- Exclusion of preemptive rights in connection with a capital increase;
- The creation of authorized or conditional capital and the issue of convertible bonds and bonds with warrants attached;
- The dissolution of our company;
- Merger or consolidations of our company with another company and certain other corporate transformations;
- Transfers of all or virtually all of our assets; and
- The approval of direct control, profit and loss pooling or similar intercompany agreements.

Dividend rights

We may declare and pay dividends only from our annual net income, as they are shown on our balance sheet. Our shareholders participate in profit distributions in proportion to the number of shares that they hold. The payment of dividends requires a proposal by our management board and the approval of that proposal by our supervisory board and our shareholders' meeting. We may not allocate more than half of our company's annual surplus to reserves. In determining the amount of profit to be distributed as dividends, however, our shareholders may allocate additional amounts to reserves and may even decide to carry forward our annual net income in part or in full.

Liquidation rights

In case we are liquidated, any liquidation proceeds remaining after our liabilities have been paid off are distributed among our shareholders in proportion to the number of shares held by them.

Preemptive rights

Under the German Stock Corporation Act, our shareholders have preemptive rights. Preemptive rights are preferential rights to subscribe for issues of new shares in proportion to the number of shares already held by them. These rights do not apply to shares issued out of our conditional capital or if a capital increase has occurred and our shareholders have waived their preemptive rights in connection with that increase. Preemptive rights also apply to securities other than shares if they may be converted into shares, such as options, securities with warrants, profit-sharing certificates and securities with dividend rights. The German Stock Corporation Act allows exclusions or restrictions of preemptive rights in connection with capital increases only in limited circumstances and only in the same shareholders resolution that authorizes the capital increase: At least 75% of the share capital represented at the shareholders' meeting that is to approve a capital increase has to vote for the exclusion or restriction of preemptive rights in connection with that increase. In addition to being approved by the shareholders, any exclusion or restriction of preemptive rights

requires a justification, which our management board has to set forth in a written report to our shareholders. The justification requires a showing that our interest in excluding or restricting preemptive rights has to outweigh the shareholders' interest in exercising these rights. If our management board increases our share capital in accordance with our Articles of Association, it may, for example, exclude preemptive rights:

- If the newly issued shares are issued against a contribution in kind;
- If the newly issued shares represent 10% or less of our existing share capital at the time we register the authorized capital or issue the new shares, and the issue price of the new shares is not substantially less than the stock exchange price as defined under German law; or
- To the extent necessary to avoid fractional amounts that may arise in the case of share issuances upon the exercise of preemptive rights.

Under German law, preemptive rights may be transferred separately from the underlying shares and may be traded on any of the German stock exchanges on which our shares are traded until a certain number of days prior to the last date on which the preemptive rights may be exercised.

Derivative suits

Under German corporate law, individual shareholders are generally not entitled to bring derivative actions on behalf of or in the interest of our company in case a member of our management or supervisory board violates his or her fiduciary duties. A majority of the votes represented at a shareholders' meeting or a minority of 10% of our company's share capital, however, may demand that an action against a defaulting member be brought by the management or the supervisory board. In addition, the shareholders' meeting may, with a simple majority of the votes cast, appoint special representatives to bring an action. In special cases, such as when a board member allegedly has acted with gross negligence, the court, at the request of shareholders representing 5% of our company's share capital or shares with a nominal value of € 500,000, can appoint special representatives even if the shareholders' meeting has not demanded that an action be brought.

Disclosure Requirements

Under Section 21 of the German Securities Trading Act (*Wertpapierhandelsgesetz*), which took effect on January 1, 1995, holders of voting securities of German corporations admitted to official trading on a stock exchange within the European Union or the European Economic Area are obliged to notify promptly and in writing the company in which they hold these securities as well as the German Federal Supervisory Authority for Securities Trading (*Bundesaufsichtsamt fur den Wertpapierhandel*) of the level of their holdings whenever such holdings reach, exceed or fall below certain thresholds. These thresholds are set at 5%, 10%, 25%, 50% and 75% of a company's outstanding voting rights. If a shareholder fails to notify the company as required, he or she is disqualified from exercising the voting rights associated with the shares held by him or her for so long as the default continues.

Share Repurchases

We may not acquire our own shares unless so authorized by a resolution duly adopted by our shareholders at a general meeting or in other very limited circumstances set forth in the German Stock Corporation Act. Any shareholders' resolution that authorizes us to repurchase shares may not be in effect for a period longer than 18 months. On May 8, 2002, our shareholders authorized our management board to repurchase 14,040,000 shares on or before October 31, 2003. The German Stock Corporation Act limits share repurchases to 10% of our share capital. Any resale of repurchased shares has to be effected via a stock exchange in a manner that treats all shareholders in an equal manner, unless otherwise approved by the shareholders' meeting that authorized the repurchase of the shares.

Anti-takeover Defenses

On January 1, 2002, a new German Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) regulating tender offers took effect. The Act provides that, while a tender offer for the shares of a company is

underway, the company's management board may not take any action that may have the effect of thwarting the success of the tender offer. Certain defenses, however, are permitted. In particular, the company's management board may: (i) search for a "white knight" (i.e., a third party that is willing to make a tender offer for the shares); (ii) perform any acts that a diligent and conscientious manager would perform in the absence of a tender offer; (iii) perform any acts that have been approved by the company's supervisory board. In addition, the Act permits the shareholders' meeting of the company, provided no tender offer is currently underway, to authorize the company's management board to take any actions that may have the effect of frustrating the success of a future tender offer, so long as the authorization is sufficiently specific and falls within the competence of the shareholders' meeting. Any such authorization may remain in effect for a maximum of 18 months. At the date of this registration statement, our shareholders have not authorized our management board to take any actions that could delay or prevent a tender offer for the shares of our company.

Material Contracts

On January 22, 1997, Byk Gulden Lomberg Chemische Fabrik GmbH ("BGL"), a wholly owned subsidiary of ours, entered into a License Agreement with Wyeth, Inc., which was then called American Home Products, acting through its pharmaceutical division, which was then called Wyeth-Ayerst Laboratories ("WA"). For a copy of the full text of the agreement, see Exhibit 4.1 to this Registration Statement.

Under the terms of the agreement, WA and BGL originally collaborated in obtaining regulatory approval for Pantoprazole from the FDA, the costs of which were borne by WA.

The agreement also provided for the grant by BGL to WA of an exclusive license under its patents and know-how relating to Pantoprazole, which includes the right to carry out certain manufacturing tasks with respect to semi-finished Pantoprazole-based products supplied by BGL and to distribute the resulting drugs, either alone or in combination with other active ingredients, in the U.S. market as ethical therapeutics. In addition, it granted WA an option to license Pantoprazole for non-prescription purposes once the period of exclusivity has expired. In return, WA agreed to use commercially reasonable efforts to market the finished products and to pay BGL a fixed percentage of WA's net sales of these products, subject to a minimum price specified in the agreement. The agreement defines net sales as the amount billed by WA to third parties for sales of the products less customary cash discounts, trade discounts, sales and other excise taxes as well as allowances or credits to customers on account of settlements of complaints and returns. The parties further agreed that in September of each year, the consideration payable from WA to BGL in the following year would be adjusted in light of exchange rate movements between the Deutsche mark and the U.S. dollar. The amount of the consideration is subject to adjustments in certain other cases as well, for example, upon expiration of the substance patent for Pantoprazole in the United States. In addition, WA undertook not to compete with BGL during the term of the agreement. WA is free, however, to market generic omeprazole in the United States after the expiry of the U.S. substance patent for omeprazole.

The agreement initially runs for a term of 15 years from the first commercial sale by WA of Protonix or the expiration of the substance patent covering Pantoprazole, whichever occurs later. Both parties may mutually agree to extend the initial term of the agreement for successive three-year periods. Each party has the right to terminate the agreement, among other things, upon insolvency or non-performance by the other party. In addition, WA has the right to terminate the agreement, among other things, if there is a final decision by the FDA preventing the use of Pantoprazole in humans, if third parties initiate a patent infringement suit against WA or BGL and, following the fifth anniversary of the date of approval of the first product based on Pantoprazole, upon one year's prior written notice. BGL in turn is entitled to terminate the agreement, among other things, if WA fails to achieve certain sales targets. If WA terminates the contract other than because BGL becomes insolvent or commits a material breach of the agreement, it is required to transfer all of its rights pertaining to Pantoprazole and to products based on this substance, including any regulatory approvals that it has obtained, to BGL.

Exchange Controls

At present, Germany does not restrict the movement of capital between Germany and other countries except Iraq. These restrictions were established in accordance with resolutions adopted by the United States and the European Union. The restrictions relating to Libya have been partially suspended.

For statistical purposes, with some exceptions, every corporation or individual residing in Germany must report to the German Central Bank any payment received from or made to a non-resident, corporation or individual if the payment exceeds € 12,500 (or the equivalent in a foreign currency). Additionally, corporations and individuals residing in Germany must report to the German Central Bank any claims of a resident corporation or individual against, or liabilities payable to, a non-resident corporation or individual exceeding in the aggregate € 1.5 million (or the equivalent in a foreign currency) in any calendar month.

Neither German law nor our Articles of Association restricts the right of non-resident or foreign shareholders to hold or vote their shares.

Taxation

Taxation

German Taxation

The following discussion is a summary of the material German tax consequences for beneficial owners of shares or ADSs who are (i) not German residents for German income tax purposes (*i.e.*, persons whose residence, habitual abode, statutory seat or place of effective management and control is not located in Germany) and (ii) whose shares do not form part of the business property of a permanent establishment or fixed base in Germany. Throughout this section we refer to these owners as "Non-German Holders".

This summary is based on German tax laws and typical tax treaties to which Germany is a party as they are in effect on the date hereof and is subject to changes in German tax laws or such treaties. This summary also reflects changes resulting from the German Tax Reduction Act (which we refer to as the "German Tax Reform") enacted into law in October 2000. Most changes resulting from the German Tax Reform will be applicable to us in our fiscal year beginning January 1, 2002. The following discussion does not purport to be a comprehensive discussion of all German tax consequences that may be relevant for Non-German Holders. You should consult your tax advisor regarding the German federal, state and local tax consequences of the purchase, ownership and disposition of shares or ADSs and the procedures to follow for the refund of German taxes withheld from dividends.

Taxation of the Company in Germany

Before the effective date for German Tax Reform, German corporations, in general, were subject to corporate income tax at a rate of 40% on retained earnings and 30% on distributed earnings. In addition, a solidarity surcharge was levied at a rate of 5.5% on the net assessed corporate income tax charge. Corporate income tax and the solidarity surcharge, in the aggregate, amounted to 42.2% for retained earnings and 31.65% for distributed earnings.

As a result of the German Tax Reform, German corporations become subject to a corporate income tax rate of 25%. The solidarity surcharge of 5.5% on the net assessed corporate income tax has been retained, so that the corporate income tax and the solidarity surcharge, in the aggregate, amount to 26.375%.

In addition, German corporations are subject to profit-related trade tax on income, the exact amount of which depends on the municipality in which the corporation maintains its business establishment(s). Trade tax on income is a deductible item in computing the corporation's tax base for corporate income tax purposes.

Taxation of Dividends

Under the corporate income tax credit system in effect prior to changes enacted under the German Tax Reform, German taxpayers (*i.e.*, individual and corporate shareholders resident in Germany and shareholders

whose shares or ADSs form part of the business property of a permanent establishment or fixed base in Germany) who receive a dividend are entitled to a tax credit for the underlying German corporate income taxes paid by the distributing German corporation. This credit is not available to Non-German Holders.

One major change resulting from the German Tax Reform is the abolition of the corporate income tax credit system. Dividend distributions paid by us in 2001 attributable to 2000 or earlier years, however, remain subject to the corporate income tax credit system. The new system applies to dividend distributions paid by us in 2002 attributable to 2001 and subsequent years. Under the new system, a tax credit will no longer be available to German tax payers with respect to the dividends. To avoid multiple levels of taxation in a corporate chain, the new law provides for an exemption comparable to a full dividend-received deduction for inter-corporate dividends received by a German corporate shareholder, irrespective of ownership percentage. German resident individuals must recognize 50% of the dividends received as taxable income. Certain transition rules apply in connection with the change from the corporate income tax credit system to the new system.

Imposition of Withholding Tax

Dividend distributions made by a German corporation prior to the German Tax Reform effective date are subject to a 25% withholding tax. In addition, a solidarity surcharge at a rate of 5.5% on the withholding tax is levied such that the aggregate withholding from dividends is 26.375% of the declared dividend.

For dividend distributions made by us attributable to 2001 and subsequent years, the withholding tax will be reduced to 20% as a result of the German Tax Reform. The solidarity surcharge of 5.5% on the withholding tax will be retained, resulting in a total withholding from dividends of 21.1%.

For many Non-German Holders, the withholding tax rate is reduced under applicable income tax treaties. Under most income tax treaties to which Germany is a party, the rate of dividend withholding tax is reduced to 15%. To reduce the withholding to the applicable treaty rate of 15%, a Non-German Holder may apply for a refund of withholding taxes paid. The refund amounts to 11.375% of the declared dividend for dividend distributions withheld at an aggregate 26.375% rate prior to the German Tax Reform effective date and 6.1% of the declared dividend for dividend distributions withheld thereafter at the new rate of 21.1%. The application for refund must be filed with the German Federal Tax Office (Bundesamt für Finanzen, Friedhofstrasse 1, D-53221 Bonn, Germany). The relevant forms can be obtained from the German Federal Tax Office or from German embassies and consulates.

Special Tax Rules for U.S. Shareholders

Under the U.S.-German Income Tax Treaty (the "Treaty"), the withholding tax rate is reduced to 15% of the gross amount of the dividends. As long as the corporate income tax credit system is applicable to dividends paid by us to individual German shareholders, eligible U.S. holders, as defined below under "United States Taxation," are entitled to an additional reduction in German dividend withholding tax equal to 5% of the declared dividend. The corporate income tax credit system applies to German shareholders for dividends paid in respect of 2001. Therefore, dividend payments to an eligible U.S. holder made in 2001 by us attributable to 2000 will be subject to the additional 5% withholding tax reduction, whereas dividends paid attributable to 2001 and subsequent years will be subject to a 15% general withholding tax rate under the Treaty.

For dividend distributions made by us in 2001 attributable to 2000 or prior years, the following procedure will apply. The dividend will be subject to a 25% withholding tax plus a solidarity surcharge of 5.5% on the withholding tax, resulting in an aggregate withholding of 26.375% of the declared dividend. Under the Treaty, an eligible U.S. holder is entitled to receive a payment from the German tax authorities equal to 16.375% of the declared dividend. A portion of this payment, 11.375% of the declared dividend, is treated for U.S. tax purposes as a reduction in German withholding tax to the generally applicable treaty rate of 15%. The remainder of the payment 5% of the declared dividend represents the net amount of an additional dividend of 5.88% that has been subject to a 15% German withholding tax. Accordingly, if we declared a dividend of 100, an eligible U.S. holder would initially receive 73.625 (100 minus the 26.375% withholding tax). The eligible

U.S. holder would then claim a refund from the German tax authorities of 16.375 thereby receiving a total of 90. The eligible U.S. holder's deemed gross dividend for United States Federal income tax purposes would be 105.88, consisting of the declared dividend of 100 plus the additional deemed dividend of 5.88 associated with the Treaty refund. Withholding of 15% on the gross dividend of 105.88 results in a net cash dividend of 90.

For dividend distributions made by us in 2002 attributable to 2001 and subsequent years, the dividend will be subject to a 20% withholding tax plus a solidarity surcharge of 5.5% on the withholding tax, resulting in an aggregate withholding of 21.1% of the declared dividend. Eligible U.S. holders will be entitled to receive a payment from the German tax authorities equal to 6.1% of the declared dividend. Accordingly, for a declared dividend of 100, an eligible U.S. holder initially will receive 78.9 (100 minus the 21.1% withholding tax). The eligible U.S. holder is then entitled to a refund from the German tax authorities of 6.1 and will, as a result, effectively receive a total of 85 (*i.e.*, 85% of the declared dividend). Thus, the eligible U.S. holder will be deemed to have received a dividend of 100, subject to German withholding tax of 15.

Refund Procedure for U.S. Shareholders

For shares and ADSs kept in custody with The Depository Trust Company in New York or one of its participating banks, the German tax authorities have introduced a collective procedure for the refund of German dividend withholding tax and the solidarity surcharge thereon on a trial basis. Under this procedure, The Depository Trust Company may submit claims for refunds payable to eligible U.S. holders under the Treaty collectively to the German tax authorities on behalf of these eligible U.S. holders. The German Federal Tax Office will pay the refund amounts on a preliminary basis to The Depository Trust Company, which will redistribute these amounts to the eligible U.S. holders according to the regulations governing the procedure. The German Federal Tax Office may review whether the refund was made in accordance with the law within four years after making the payment to The Depository Trust Company. Details of this collective procedure are available from The Depository Trust Company.

Individual claims for refunds may be made on a special German form which must be filed with the German Federal Tax Office at the address noted above. Copies of this form may be obtained from the German Federal Tax Office at the same address or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, N.W., Washington, D.C. 20007-1998. Claims must be filed within a four-year period from the end of the calendar year in which the dividend was received. Holders who are entitled to a refund in excess of DM300 for the calendar year generally must file their refund claims on an individual basis. However, the custodian bank may be in a position to make refund claims on behalf of such holders.

As part of the individual refund claim, an eligible U.S. holder must submit to the German tax authorities the original bank voucher (or a certified copy thereof) issued by the paying agent documenting the tax withheld, and an official certification on IRS Form 6166 of its last United States federal income tax return. IRS Form 6166 may be obtained by filing a request with the Internal Revenue Service Center in Philadelphia, Pennsylvania, Foreign Certification Request, P.O. Box 16347, Philadelphia, PA 19114-0447. Requests for certification must include the eligible U.S. holder's name, Social Security or Employer Identification Number, tax return form number, and tax period for which the certification is requested. Requests for certifications can include a request to the Internal Revenue Service to send the certification directly to the German tax authorities. If no such request is made, the Internal Revenue Service will send a certification on IRS Form 6166 to the eligible U.S. holder, who then must submit this document with his refund claim.

Capital Gains

Under German domestic tax law as currently in effect, capital gains derived by a Non-German Holder from the sale or other disposition of shares or ADSs are subject to tax in Germany only if such Non-German Holder has held, directly or indirectly, shares or ADSs representing 10% or more of the registered share capital of the company at any time during the 5-year period immediately preceding the disposition. This participation threshold will be reduced to 1% pursuant to the German Tax Reform in relation to capital gains derived on or after January 1, 2002. In computing the relevant size of a Non-German Holder's shareholding, shareholdings

already existing prior to the effective date of the German Tax Reform will also be taken into account. Pursuant to the German Tax Reform, corporate Non-German Holders will be fully exempt from German tax on capital gains derived on or after January 1, 2002 from the sale or other disposition of shares or ADSs.

U.S. holders that qualify for benefits under the Treaty are exempt from taxation in Germany on capital gains derived from the sale or disposition of shares or ADSs.

Inheritance and Gift Tax

Under German law, German gift or inheritance tax will be imposed only on transfers of shares or ADSs by a Non-German Holder at death or by way of gift, if

1. the decedent or donor, or the heir, donee or other transferee has his residence in Germany at the time of the transfer;

2. the decedent or donor, or the heir, donee or other transferee is a citizen of Germany, is not a resident in Germany, but has not been continuously outside of Germany for a period of more than five years; or

3. the shares or ADSs subject to such transfer form part of a portfolio that represents 10% or more of the registered share capital of the company and has been held, directly or indirectly, by the decedent or donor, respectively, actually or constructively together with related parties.

The right of the German government to impose inheritance or gift tax on a Non-German Holder may be further limited by an applicable estate tax treaty (such as the U.S.-German Inheritances and Gifts Tax Treaty of December 3, 1980).

Other Taxes

No. German transfer, stamp or similar taxes apply to the purchase, sale or other disposition of shares or ADSs by a Non-German Holder. Currently, net worth tax is not levied in Germany.

Tax Reform

In October 2000, the Tax Reduction Law, which significantly revised taxation of German corporations and their shareholders, was enacted. The provisions of the Tax Reduction Law will apply to us and our shareholders beginning in 2001. The following is a brief summary of the significant changes to the tax structure:

- The corporate income tax imputation system has been abolished and shareholders are no longer entitled to receive a credit or refund of corporate income tax paid by our company;
- Profits, irrespective of whether they are distributed as dividends, are taxed at a single corporate income tax rate of 25% (not including solidarity surcharge), without regard to whether the earnings are retained or paid as dividends, and an additional solidarity surcharge of 5.5% of income is levied on the corporation's tax payable;
- Only 50% of dividends received by a shareholder resident in Germany would be subject to personal income tax; dividends received by shareholders subject to corporate income tax would not be taxable;
- Earnings that are paid out as dividends continue to be subject to withholding tax, which has been reduced to 20%, and shareholders may offset the full amount of the withholding tax paid against their income or corporation tax liability; and
- Capital gains derived by a Non-German Holder from the sale of other disposition of shares or ADSs shall only be subject to tax in Germany if such Non-German Holder has held 1% or more of the registered share capital of a company at any time during the 5-year period immediately preceding the disposition.

U.S. Taxation

This section describes the material United States federal income tax consequences of owning shares or ADSs. It applies to you only if you hold your shares or ADSs as capital assets for tax purposes. This section does not address all material tax consequences of owning shares or ADSs. It does not address special classes of holders, some of whom may be subject to other rules, including:

- tax-exempt entities,
- certain insurance companies,
- broker-dealers,
- traders in securities that elect to mark to market,
- investors liable for alternative minimum tax,
- investors that actually or constructively own 10% or more of our voting stock,
- investors that hold shares or ADSs as part of a straddle or a hedging or conversion transaction, or
- investors whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, and published rulings and court decisions, as currently in effect, as well as on the Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of Bank of New York, Inc., the depositary for the American Depositary Receipt (or ADR) program, and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

You are a "U.S. holder" if you are a beneficial owner of shares or ADSs and you are:

- a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

An "eligible U.S holder" is a U.S. holder that:

- is a resident of the United States for purposes of the Treaty,
- does not maintain a permanent establishment or fixed base in Germany to which shares or ADSs are attributable and through which the U.S. holder carries on or has carried on business (or, in the case of an individual, performs or has performed independent personal services), and
- is otherwise eligible for benefits under the Treaty with respect to income and gain from the shares or ADSs.

You are a "non-U.S. holder" if you are a beneficial owner of shares or ADSs that is not a United States person for United States federal income tax purposes. You should consult your own tax advisor regarding the United States federal, state, local and other tax consequences of owning and disposing of shares and ADSs in your particular circumstances. In particular, you should confirm that you are eligible for the benefits under the Treaty with respect to income and gain from the shares or ADSs.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADSs. Exchanges of shares for ADSs, and ADSs for shares, generally will not be subject to United States federal income tax.

Taxation of Dividends

U.S. Holders. Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, you must include in your gross income the gross amount of any dividend paid by us out of our current or accumulated earnings and profits, as these amounts are determined for United States federal income tax purposes. You must include any German tax withheld from the dividend payment and any additional dividend associated with the Treaty refund in this gross amount even though you do not in fact receive it. See the last paragraph under "German Taxation — Dividends" for an example of how you compute the amount of dividends received. The dividend is ordinary income that you must include in income when you, in the case of shares, or the depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the euro payments made, determined at the spot euro/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the shares or ADSs and thereafter as capital gain.

Subject to certain limitations, the German tax withheld in accordance with the Treaty and paid over to Germany will be creditable against your United States federal income tax liability. To the extent a refund of the tax withheld is available to you under German law or under the Treaty, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability. See "German Taxation — Dividend Refund Procedure for U.S. Holders", above, for the procedures for obtaining a tax refund.

Dividends constitute income from sources outside the United States, but generally will be "passive income" or "financial services income" which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Non-U.S. Holders. If you are a non-U.S. holder, dividends paid to you in respect of shares or ADSs will not be subject to United States federal income tax unless the dividends are effectively connected with your conduct of a trade or business within the United States. The dividends must also be attributable to a permanent establishment that you maintain in the United States, if that is required by an applicable income tax treaty as a condition for subjecting you to United States taxation on a net income basis. In such cases you generally will be taxed in the same manner as a U.S. holder. If you are a corporate non-U.S. holder, effectively connected dividends may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

Taxation of Capital Gains

U.S. Holders. Subject to the PFIC rules discussed below, if you are a U.S. holder and sell or otherwise dispose of your shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your shares or ADSs. Capital gain of a noncorporate U.S. holder is generally taxed at a maximum rate of 20% where the property is held more than one year and 18% where property purchased after December 31, 2000 is held for more than five years. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Non-U.S. Holders. If you are a non-U.S. holder, you will not be subject to United States federal income tax on gain recognized on the sale or other disposition of your shares or ADSs unless:

- the gain is effectively connected with your conduct of a trade or business in the United States; the gain must also be attributable to a permanent establishment that you maintain in the United States, if that is required by an applicable income tax treaty as a condition for subjecting you to United States taxation on a net income basis; or
- you are an individual, you are present in the United States for 183 or more days in the taxable year of the sale and certain other conditions exist.

If you are a corporate non-U.S. holder, effectively connected gains that you recognize may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

PFIC Rules

We believe that shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change.

In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held our ADSs or shares:

- at least 75% of our gross income for the taxable year is passive income or
- at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If we are treated as a PFIC, and you are a U.S. holder that did not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

- any gain you realize on the sale or other disposition of your shares or ADSs and
- any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the shares or ADSs).

Under these rules:

- the gain or excess distribution will be allocated ratably over your holding period for the shares or ADSs,
- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income,
- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year, and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

If you own shares or ADSs in a PFIC that are treated as marketable stock, you may also make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your

shares or ADSs at the end of the taxable year over your adjusted basis in your shares or ADSs. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the shares or ADSs will be adjusted to reflect any such income or loss amounts.

If you own shares or ADSs during any year that we are a PFIC, you must file Internal Revenue Service Form 8621.

Backup Withholding and Information Reporting.

U.S. Holders. If you are a noncorporate U.S. holder, information reporting requirements, on Internal Revenue Service Form 1099, generally will apply to:

- dividend payments or other taxable distributions made to you within the United States, and
- the payment of proceeds to you from the sale of shares or ADSs effected at a United States office of a broker.

Additionally, backup withholding may apply to such payments if you are a noncorporate U.S. holder that:

- fails to provide an accurate taxpayer identification number,
- is notified by the Internal Revenue Service that you have failed to report all interest and dividends required to be shown on your federal income tax returns, or
- in certain circumstances, fails to comply with applicable certification requirements.

Non-U.S. holders. If you are a non-U.S. holder, you are generally exempt from backup withholding and information reporting requirements with respect to:

- dividend payments made to you outside the United States by us or another non-United States payor, and
- other dividend payments and the payment of the proceeds from the sale of shares or ADSs effected at a United States office of a broker, as long as the income associated with such payments is otherwise exempt from United States federal income tax, and:
  - the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished the payor or broker:
    - an Internal Revenue Service Form W-8BEN or an acceptable substitute form upon which you certify, under penalties of perjury, that you are a non-United States person, or
    - other documentation upon which it may rely to treat the payments as made to a non-United States person in accordance with U.S. Treasury regulations, or
- you otherwise establish an exemption.

Payment of the proceeds from the sale of shares or ADSs effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale of shares or ADSs that is effected at a foreign office of a broker will be subject to information reporting and backup withholding if:

- the proceeds are transferred to an account maintained by you in the United States,
- the payment of proceeds or the confirmation of the sale is mailed to you at a United States address, or
- the sale has some other specified connection with the United States as provided in U.S. Treasury regulations,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption.

In addition, a sale of shares or ADSs effected at a foreign office of a broker will be subject to information reporting if the broker is:

- a United States person,
- a foreign person 50% or more of whose gross income is effectively connected with the conduct of a trade or business in the United States for a specified three-year period,
- a controlled foreign corporation or United States tax purposes,
- a foreign partnership, if at any time during its tax year,
  - one or more of its partners are "U.S. persons", as defined in U.S. Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership, or
  - such foreign partnership is engaged in the conduct of a United States trade or business,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met, or you otherwise establish an exemption. Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that you are a United States person.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the United States Internal Revenue Service.

Statements by Experts

The consolidated financial statements as of December 31, 2000 and 2001, and for each of the years in the three-year period ended December 31, 2001, have been included herein in reliance upon the report of KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

Documents on Display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information with the Securities and Exchange Commission. These materials, including this Registration Statement and the exhibits thereto, may be inspected and copied at the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the materials may be obtained from the Public Reference Room of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. In addition, material filed by us may be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Item 11: ***Quantitative and Qualitative Disclosure About Market Risk***

We are exposed to market risks resulting from changes in foreign exchange rates, interest rates and equity prices that may adversely affect our results of operations and financial condition. We seek to minimize these risks within the framework of our regular operating and financial activities and, to the extent we consider it appropriate, by using derivative instruments. We do not, however, use financial instruments for trading or other speculative purposes.

Each of our subsidiaries is responsible for managing its own risks. Within each subsidiary, the responsibility is centralized within a committee that determines that subsidiary's general hedging strategy. Decisions taken by this committee are implemented by the respective subsidiary's corporate treasury department. Corporate treasury is responsible for assessing, consolidating and managing the risk exposure through transactions with banks and other international financial institutions. The management board of each of our subsidiaries regularly receives updates on decisions taken by the respective subsidiary's committee as well as on the actions taken by corporate treasury to implement these decisions. In most of our subsidiaries, brief liquidity reports are prepared on a daily basis, and risk reports are made available monthly. Consolidated risk reports for each of our pharmaceuticals and chemicals divisions are compiled monthly.

Guidelines for risk assessment procedures and controls for the use of derivative financial instruments are established group-wide. These guidelines provide for a clear segregation of duties with regard to execution on the one hand and administration, accounting and controlling on the other.

Transaction Risk and Currency Risk Management

As a result of the global nature of our business, our operations, our reported financial results and our cash flows are exposed to risks associated with fluctuations in the exchange rates between the euro, the U.S. dollar and other major currencies. We are exposed to transaction risks whenever we achieve revenues that are denominated in a currency other than the currency in which we incur the costs associated with these revenues. This risk exposure affects both our pharmaceuticals and chemicals divisions. Each of our divisions' revenues are typically denominated in the currencies of the countries in which these divisions sell their products, whereas their manufacturing costs are primarily denominated in euros. Cash inflows and outflows of transactions are netted if they are denominated in the same currency. Therefore, only the unmatched amounts are subject to transaction risks. Our exposure to transaction and currency risks is essentially confined to our overseas business, as transaction risks with respect to currencies of participating EU member states was eliminated following the introduction of the euro on January 1, 1999.

The principal derivative financial instruments that we use in order to hedge foreign currency denominated assets, liabilities and firm commitments are forward foreign exchange contracts. We determine the maturity dates of these forwards contracts in light of our anticipated cash flows.

As of December 31, 1999, 2000 and 2001, we were party to forward foreign exchange contracts with nominal values of € 72.8 million, € 93.1 million and € 75.4 million, respectively.

We enter into derivative financial instruments denominated in the currencies of the markets with respect to which we are subject to transaction risk. The following table sets forth information relating to our forward foreign exchange contracts entered into in 1999, 2000 and 2001. For the reasons stated above, only the risks arising from the exchange rates of the major currencies are listed.

1999	Effective hedge rate(1)	Change (2)	Market average (3)	Change (2)	Year end spot rate(3)	Change (2)
		(%)		(%)		(%)
U.S. dollar	1.04	14.0	1.06	4.1	1.00	14.5
British pound	0.631	10.7	0.66	1.8	0.62	11.2
Canadian dollar	1.44	20.0	1.58	3.7	1.45	19.8
Japanese yen	101.00	24.2	121.00	16.3	102.00	22.2

2000	Effective hedge rate(1)	Change (2)	Market average (3)	Change (2)	Year end spot rate(3)	Change (2)
		(%)		(%)		(%)
U.S. dollar	0.87	16.4	0.924	13.3	0.931	7.4
British pound	0.65	3.0	0.609	7.5	0.624	0.4
Canadian dollar	1.43	0.7	1.371	13.5	1.397	4.4
Japanese yen	99.00	2.0	99.06	18.0	106.9	4.1

2001	Effective hedge rate(1)	Change (2)	Market average (3)	Change (2)	Year end spot rate(3)	Change (2)
		(%)		(%)		(%)
U.S. dollar	0.897	3.1	0.896	3.0	0.881	5.3
British pound	0.638	1.9	0.622	2.0	0.609	2.5
Canadian dollar	1.504	5.2	1.387	1.2	1.408	0.8
Japanese yen	107.6	8.7	108.7	9.7	115.3	7.9

(1) The effective rates set forth in the table represent the average of all hedging transactions that matured during the periods indicated.

(2) The percentage changes indicate the differences between the figures set forth in the respective column of each table and the figures stated in the corresponding columns of the previous year's table.

(3) The rates for the foreign currencies shown are calculated based on the official rates fixed by the European Central Bank (ECB).

Until December 31, 2000 we recognized in income the unrealized losses on financial instruments to the extent that we did not qualify for hedge accounting and we deferred gains until realized. Since January 1, 2001 we apply IAS 39 "Financial Instruments" and accordingly recognize both unrealized gains and losses on financial instruments in income. In cases where we qualify for hedge accounting, hedges are normally qualified as fair value hedges. Unrealized gains and losses on hedged items and hedging items are therefore recognised in income. The application of IAS 39 in accounting for such foreign currency derivatives therefore results in greater volatility in current periods earnings relating to our foreign currency risk management in periods of significant changes in exchange rates.

The tables below provide information concerning our principal financial instruments that are sensitive to changes in interest rates and equity price risk. They do not include information on short-term liabilities. Furthermore, unlike the presentation in the financial statements, in which the individual assets of the special funds have been consolidated, these funds are presented below on a net basis since the fund management is outsourced. The table below presents notional amounts and the principal cash flows by expected maturity dates as of December 31, 1999, 2000 and 2001, respectively. Since the euro is our reporting currency, the numbers are presented in euro equivalents.

Foreign Currency Risk

Derivative financial instruments (foreign currency forwards)	Year ended December 31, 1999	2000	2001
Purchases of currencies against euro			
	(—)	(—)	(—)
Sales of currencies against euro			
U.S. dollar			
Notional amount(1)	52.473	74.943	64.763
Average contract rate (currency/euro)(2)	1.02	0.89	0.89
Fair value as of December 31(1)	(0.072)	3.371	(0.752)
Canadian dollar			
Notional amount(1)	11.901	13.055	3.268
Average contract rate (currency/euro)(2)	1.46	1.40	1.43
Fair value as of December 31(1)	0.195	(0.177)	(0.011)
Japanese yen			
Notional amount(1)	7.093	4.089	2.462
Average contract rate (currency/euro)(2)	103.00	97.00	109.00
Fair value as of December 31(1)	0.006	0.319	0.127
British pound			
Notional amount(1)	1.367	0.993	0.986
Average contract rate (currency/euro)(2)	0.63	0.63	0.60
Fair value as of December 31(1)	0.033	(0.017)	(0.017)

(1) Euro equivalent in millions of euro.

(2) The effective rates shown represent the average of all hedging transactions for each specific currency entered into in the year shown.

Exchange Rate Sensitivity

Because we enter into derivative foreign exchange transactions for our contracted and forecasted foreign exchange exposure, fluctuations in the exchange rates of the euro relative to other major currencies should not, in the short term, materially affect our cash flows. However, if we are unable to reflect the effect of exchange rate movements in the pricing of our products, our cash flows could be materially affected in the long term. An appreciation of the euro relative to other currencies would have an adverse effect on our reported revenues and results, whereas a depreciation of the euro should have a positive effect.

Effects of Currency Translation

Since our financial reporting currency is the euro, we translate the income statements of those of our subsidiaries that are located outside the euro zone before including them in our consolidated financial

statements. Thus, period-to-period changes in average exchange rates can significantly affect the translation into euro of both revenue and operating income denominated in foreign currencies. Unlike the effect of exchange rate fluctuations on transaction exposure, the effect of exchange rate translation exposure does not affect our local currency cash flows.

While we have assets and operations outside of Germany, which are denominated in local currencies, the foreign currency risk arising from foreign investments is partially offset by related liabilities denominated in the same local currency.

Interest Rate Exposure and Equity Price Risk

We hold a variety of interest rate-sensitive financial instruments, mainly as financial investments, some of which we use to manage the liquidity and cash needs of our daily business. Responsibility for assessing, consolidating and managing our financial investments is centralized within a committee at the holding company level. We manage the interest rate risk arising from these financial instruments through risk management and controlling functions in cooperation with banks and other financial institutions. The reporting process that we use for this purpose functions independently of our corporate treasury department.

The tables below provide information about our principal financial instruments that are sensitive to changes in interest rates and equity price risk. They do not include information about short-term liabilities. Unlike their presentation in the financial statements, in which assets and liabilities have been consolidated, the following table presents the value of these funds on an aggregate basis. The table presents notional amounts and the principal cash flows by expected maturity dates as of December 31, 1999, 2000 and 2001, respectively. Since the euro is our reporting currency, the numbers are presented in euro equivalents.

Interest Rate and Equity Price Risk	As of December 31, 1999					There-after	Total	Fair Value
	2000	2001	2002	2003	2004			
Assets								
Fixed interest securities(1)	46.016	35.790	24.542	25.226	17.782		149.356	150.893
Floating rate notes(1)	5.113		10.225	5.000		10.112	30.451	30.184
Equity(1)							1.942	1.942
Special funds(1)							219.856	232.069
Liabilities								
Bond (1)	51.129						51.129	51.129
Fixed interest rate (%)	7.125							
Employees profit-sharing certificates(1)							8.064	8.064
Receiver swap(1)	51.129						51.129	0.671
Pay Rate (%)(2)							(2.990)	
Receiver Rate (%)	4.73							
Payer Swap(1)	51.129						51.129	(0.566)
Pay Rate (%)	4.52							
Receiver Rate (%)(2)							(2.990)	

(1) Euro equivalent in millions of euro.

(2) The interest rates shown represent the average of the interest received or paid in the year shown.

As of December 31, 2000

Interest Rate and Equity Price Risk	2001	2002	2003	2004	2005	There-after	Total	Fair Value
Assets								
Fixed interest securities(1)	20.777	15.338	17.956	6.113	5.350	6.200	71.734	70.879
Floating rate notes(1)		10.226	5.000		5.112	5.000	25.338	25.117
Equity(1)							5.042	5.042
Special funds(1)							219.856	231.228
Liabilities								
Employee profit-sharing certificates(1)							9.005	9.005

(1) Euro equivalent in millions of euro.

As of December 31, 2001

Interest Rate and Equity Price Risk	2002	2003	2004	2005	2006	There-after	Total	Fair Value
Assets								
Fixed interest securities(1)	5.113	22.956	5.613	0.350	0.801	11.337	46.170	45.929
Fixed interest rate (%)	4.10	4.11	4.17	4.90	4.50	6.42	4.70	
Floating rate notes(1)	10.226					10.000	20.226	20.256
Equity(1)							17.707	17.707
Special funds(1)							219.855	221.274
Liabilities								
Loans(1)	22.737	14.645				23.207	60.589	60.589
Fixed interest rate (%)	0.68	5.28				4.94	3.42	
Employees profit-sharing certificates(1)							8.672	8.672

(1) Euro equivalent in millions of euro.

(2) The interest rates shown represent the average of the interest received or paid in the year shown.

For 1999, 2000 and 2001 the fair value of all liabilities to banks and other financial institutions arising from normal business, excluding the employees profit-sharing certificates, aggregated to € 66.2 million, € 91.4 million and € 118.0 million, respectively. The sum of all liabilities in 1999, 2000 and 2001 was € 125.5 million, € 100.4 million and € 126.7 million, respectively. Financial instruments denominated in currencies of the highly-inflationary economies of Brazil and Mexico are not shown. The amount of instruments denominated in these currencies is not material to our operations.

The fair value risk to our portfolio of interest and equity-sensitive financial instruments in 1999, 2000 and 2001 was on average € 414.8 million, € 332.1 million and € 304.6 million, respectively. The fair value of interest rate-sensitive financial instruments decreased from € 95.9 million in 2000 to € 66.1 million in 2001. The fair value risk to our portfolio of equity securities as of December 31, 1999, 2000 and 2001 was nearly constant at € 233.9 million, € 236.2 million, and € 238.5 million, respectively.

For our primary financial instruments, the weighted average interest rates in 1999, 2000 and 2001 were 5.20%, 4.78% and 4.16%, respectively.

Commodity Price Risk

We do not use derivatives in order to hedge ourselves against movements in the value of commodities that we use in our chemicals division. Therefore, rising commodity prices would have an adverse effect on our reported revenues and results, while falling prices should have a positive effect.

Item 12: ***Description of Securities Other Than Equity Securities***

American Depositary Receipts

Bank of New York, as depositary, will issue the ADSs that will represent ownership interest in shares deposited with the custodian under the Deposit Agreement among ourselves, the depositary and yourself as an ADR holder (the "agreement"). In the future, each ADS will also represent any securities, cash or other property deposited with the depositary but not distributed by them directly to you. Your ADSs will be evidenced by ADRs. An ADR may be issued in either book-entry or certificated form by the depositary. If an ADR is issued in book-entry form, you will receive periodic statements from the depositary showing your ownership interest in ADSs.

The depositary's office is located in 620 Avenue of the Americas, New York, N.Y. 10286.

You may hold ADSs either directly or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADR holder. This description assumes you hold your ADSs directly. If you hold the ADSs through your broker or financial institution nominee, you must rely on the procedures of such broker or financial institution to assert the rights of ADR holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Because the depositary's nominee will actually be the registered owner of the shares, you must rely on it to exercise the rights of a shareholder on your behalf. The obligations of the depositary and its agents are set out in the agreement. The agreement and the ADSs are generally governed by New York law.

The following is a summary of the material terms of the agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire agreement and the form of ADR, which contains the terms of your ADSs. You can read a copy of the agreement, which is filed as an exhibit to this registration statement. You may also copy the agreement, which is located at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330.

Share Splits and Other Distributions

How will I receive dividends and other distributions on the shares underlying my ADSs?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its expenses. You will receive these distributions in proportion to the number of underlying shares your ADSs represent.

We may make various types of distributions with respect to its securities. Except as stated below, to the extent the depositary is legally permitted, it will deliver such distributions to ADR holders in proportion to their interests in the following manner:

Cash. The depositary shall convert cash distributions from foreign currency to U.S. dollar if this is permissible and can be done on a reasonable basis. The depositary will endeavor to distribute such cash in a practicable manner, and may deduct any taxes required to be withheld, any expenses of converting foreign currency and transferring funds to the United States, and certain other expenses and adjustments. In addition, before making a distribution the depositary will deduct any taxes withheld. If the exchange rates fluctuate during a time when the depositary cannot convert the currency, you may lose some or all of the value of the distribution.

Shares. In the case of a distribution in shares, the depositary will issue additional ADRs to evidence the number of ADSs representing such shares. Only whole ADSs will be issued. Any shares which would result in fractional ADSs will be sold and the net proceeds will be distributed to the ADR holders entitled thereto.

Rights to receive additional shares. In the case of a distribution of rights to subscribe for additional shares or other rights, if we provide satisfactory evidence that the depositary may lawfully distribute such rights, the depositary may arrange for ADR holders to instruct the depositary as to the exercise of such rights. However, if we do not furnish such evidence, the depositary may

- sell such rights if practicable and distribute the net proceeds as cash, or
- allow such rights to lapse, whereupon ADR holders will receive nothing.

We have no obligation to file a registration statement under the Securities Act in order to make any rights available to ADR holders.

Other Distributions. In the case of a distribution of securities or property other than those described above, the depositary may either

- distribute such securities or property in any manner it deems fair and equitable, or
- sell such securities or property and distribute any net proceeds in the same way it distributes cash.

Fractional cents will be withheld without liability for interest and added to future cash distributions.

To the extent the depositary determines that any distribution is not lawful or practicable with respect to any holder, the depositary may, after consultation with us, make the distribution in a method that it deems equitable and practicable, including the distribution of foreign currency or securities. The Depositary may also retain such items, without paying interest on or investing them, on behalf of the ADR holder as deposited securities.

There can be no assurances that the depositary will be able to convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price, nor that any of such transactions can be completed within a specified time period.

Deposit, Withdrawal and Cancellation

How does the depositary issue ADSs?

The depositary will issue ADSs if you or your broker deposit shares or evidence of rights to receive shares with the custodian. Shares deposited with the custodian must be accompanied by certain documents, including instruments showing that such shares have been properly transferred or endorsed to the person on whose behalf the deposit is being made.

The custodian will hold all deposited shares for the account of the depositary. ADR holders thus have no direct ownership interest in the shares and only have such rights as are contained in the agreement. The custodian will also hold any additional securities, property and cash received on or in substitution for the deposited shares. The deposited shares and any such additional items are referred to as "deposited securities".

Upon each deposit of shares, receipt of related delivery documentation and compliance with the other provisions of the agreement, including the payment of the fees and charges of the depositary, the depositary will issue an ADR or ADRs in the name of the person entitled thereto evidencing the number of ADSs to which such person is entitled. Certificated ADRs will be delivered at the depositary's principal New York office or any other location that it may designate as its transfer office. If ADRs are in book-entry form, a statement setting forth such ownership interest will be mailed to holders by the depositary. All of the ADSs issued outside of this offering will, unless specifically requested to the contrary, be part of the depositary's book-entry direct registration system and registered holders will receive periodic statements from the depositary which will show the number of ADSs registered in such holder's name. An ADR holder can always request that the ADSs not be held through the depositary's direct registration system and that a certificated ADR be issued.

How do ADR holders cancel an ADS and obtain deposited securities?

When you turn in your ADS at the depositary's office and upon (a) surrender of the ADR, (b) payment of certain applicable fees, charges and taxes, and (c) in the case of ADRs held through the depositary's direct registration system, appropriate instructions, the depositary will deliver the underlying shares to an account with Deutsche Börse Clearing AG that the holder specifies.

The depositary may only restrict the withdrawal of deposited securities in connection with:

- temporary delays caused by the depositary's or our closing transfer books or the deposit of shares in connection with voting at a shareholders' meeting, or the payment of dividends,
- the payment of fees, taxes and similar charges, or
- compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs.

This right of withdrawal may not be limited by any other provision of the agreement.

Voting Rights

How do I vote?

We will notify the depositary of any meetings of our shareholders, and the depositary will in turn give notice to you. The notice that you will receive from the depositary will explain how you may instruct the depositary to vote the shares that underlie your ADSs at the meeting and how you may request that the depositary provide you with the documentation necessary to enable you to attend the meeting. The materials you will receive from the depositary will also contain a voting recommendation of the custodian, which will act as a proxy bank and may exercise voting rights on behalf of shareholders in accordance with applicable German law. For instructions to be valid, the depositary must receive them on or before a specified date. If you provide the depositary with voting instructions, the depositary will try, as far as practical and permitted under applicable German law, our Articles of Association and the agreement, to vote or to have its agents vote the shares or other deposited securities as you instruct and, if you have so requested in writing, provide you with the documentation necessary to enable you to attend the meeting, subject to any requirements established by the depositary. The depositary will only vote or attempt to vote as you instruct. The depositary will not itself exercise any voting discretion. Furthermore, neither the depositary nor its agents are responsible for any failure to carry out any voting instructions, for the manner in which any vote is cast or for the effect of any vote.

If the proxy bank has provided its voting recommendation to the depositary at least 21 days in advance of any shareholders' meeting, and the depositary has provided you with voting materials and the proxy bank's recommendation, and you do not instruct the depositary on or before the date specified how to exercise the voting rights of the shares which underlie your ADSs, you will be deemed to have instructed the depositary to give a proxy to the proxy bank to exercise your voting rights in accordance with the proxy bank's voting recommendation and applicable German law.

If the proxy bank does not provide its voting recommendation to the depositary at least 21 days in advance of any shareholders' meeting, the depositary's notice to you will not include the proxy bank's voting recommendation, and if you do not provide valid instructions to the depositary how to exercise the voting rights of the shares which underlie your ADSs, your voting rights will not be exercised.

Because there is no guarantee that you will receive voting materials in time to instruct the depositary to vote, it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

Fees and Expenses

What fees and expenses will I be responsible for paying?

ADR holders will be charged a fee for each issuance of ADSs, including issuances resulting from distributions of shares, rights and other property, and for each surrender of ADSs in exchange for deposited securities. The fee in each case is $5.00 or less per 100 ADSs, or any portion thereof, issued or surrendered. ADR holders or persons depositing shares may also be charged the following expenses:

- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges;

- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;
- expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars;
- fees for distributions of cash, securities and other property;
- fees for other depositary services; and
- any other charges payable by the depositary.

The fees described above may be amended from time to time.

Payment of Taxes

ADR holders must pay any tax or other governmental charge payable by the custodian or the depositary on any ADS or ADR, deposited security or distribution. If an ADR holder owes any tax or other governmental charge, the depositary may (1) deduct the amount thereof from any cash distributions, or (2) sell deposited securities and deduct the amount owing from the net proceeds of such sale. In either case the ADR holder remains liable for any shortfall. Additionally, if any tax or governmental charge is unpaid, the depositary may also refuse to effect any registration, or withdrawal of deposited securities, each except under limited circumstances mandated by securities regulations. If any tax or governmental charge is required to be withheld on any non-cash distribution, the depositary may sell the distributed property or securities to pay such taxes and distribute any remaining net proceeds to the ADR holders entitled thereto.

Reclassifications, Recapitalizations and Mergers

If we take certain actions that affect the deposited securities, including (a) any change in par value, split-up, or consolidation or other reclassification of deposited securities, (b) any dividend or free distribution on deposited securities consisting of shares or any other distribution other than of cash or rights to obtain shares, and (c) any recapitalization, reorganization, merger, liquidation, or similar corporate event or sale of all or substantially all our assets, then any of the cash or securities the depositary receives shall constitute part of the deposited securities and each ADS will then represent a proportionate interest in such property or, the depositary may, if we so request:

- distribute any part of the cash or securities so received,
- execute and deliver additional ADSs, or
- call for the surrender of outstanding ADSs to be exchanged for new ADSs.

Amendment and Termination

How may the agreement be amended?

We may agree with the depositary to amend the agreement and the ADSs without your consent for any reason. ADR holders must be given at least 30 days' notice of any amendment that imposes or increases any fees or charges or affects any substantial existing right of ADR holders. The imposition or increase of taxes or charges specifically payable by ADR holders under the agreement does not require 30 days' notice. If an ADR holder continues to hold ADRs after being so notified, such ADR holder is deemed to agree to such amendment. An amendment can become effective before notice is given if this is necessary to ensure compliance with a new law, rule or regulation.

No amendment will impair your right to surrender your ADSs and receive the underlying securities. If a governmental body adopts new laws or rules which require the agreement or ADS to be amended, we and the depositary may make the necessary amendments, which could take effect before you receive notice thereof.

How may the agreement be terminated?

The depositary may, at any time at our direction, terminate the agreement by giving the ADR holders at least 75 days' prior notice. The depositary may also terminate the agreement by giving us and the ADR holders at least 30 days' prior notice, if at any time 90 days have expired after the depositary has delivered to us a written notice of its election to resign and a successor depositary has not been appointed and accepted its appointment. After termination, the depositary's only responsibility is (a) to deliver deposited securities to ADR holders who surrender their ADRs, and (b) to hold or sell distributions received on deposited securities. As soon as practicable after the expiration of one year from the termination date, the depositary will sell the deposited securities which remain and hold the net proceeds of such sales, without liability for interest, in trust for the ADR holders who have not yet surrendered their ADRs. After making such sale, the depositary shall have no obligations except to account for such proceeds and other cash.

Limitations on Obligations and Liability to ADR Holders

Limits on our obligations and the obligations of the depositary; limits on liability to ADR holders and holders of ADSs

The agreement expressly limits the obligations and liability of the depositary, ourselves and our respective agents. Neither we nor the depositary will be liable:

- if we or they are prevented, delayed or subject to any civil or criminal penalty in performing any obligation by law, regulation, the provisions of or governing the deposited securities and acts of God, war or other circumstances beyond our or their control;
- for exercising or failing to exercise discretion under the agreement;
- if we or they perform their obligations without gross negligence or bad faith; or
- for any action based on advice or information from legal counsel, accountants, any person presenting shares for deposit, any holder, or other person believed in good faith to be competent to give such advice.

Neither the depositary nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs.

The depositary will not be responsible for failing to carry out instructions to vote the ADSs or for the manner in which the ADSs are voted or the effect of the vote.

The depositary may own and deal in securities and in ADSs.

Requirements for Depositary Actions

We, the depositary or the custodian may refuse to

- issue, register or transfer an ADR or ADRs;
- effect a split-up or combination of ADRs;
- deliver distributions on any such ADRs; or
- permit the withdrawal of deposited securities, unless the agreement provides otherwise, until the following conditions have been met:
- the holder has paid all taxes, governmental charges, and fees and expenses as required in the agreement;
- the holder has provided the depositary with any information it may deem necessary or proper, including, without limitation, proof of identity and the genuineness of any signature; and
- the holder has complied with such regulations as the depositary may establish under the agreement.

The depositary may also suspend the issuance of ADSs, the deposit of shares, the registration, transfer, split-up or combination of ADRs, or the withdrawal of deposited securities, unless the agreement provides otherwise, if the register for ADRs or any deposited securities is closed or if the depositary or we decide any such action is advisable.

By holding an ADR or an interest in an ADS, you will be agreeing to comply with all applicable provisions of German law and our corporate documents regarding the notification of your interest in shares, including Sections 21 and 22 of the German Securities Trading Act and Section 20 of the German Stock Corporation Act. As of the date hereof, the statutory notification obligations of the German Securities Trading Act apply to anyone whose holding, either directly or by way of imputation pursuant to the provisions of Section 22 of the German Securities Trading Act, of voting rights in our company reaches or exceeds 5%, 10%, 25%, 50% or 75% or, after having reached or exceeded any such threshold, falls below that threshold.

By holding an ADR or an interest in an ADS you

- will be deemed to acknowledge that failure to provide on a timely basis any required notification of an interest in shares may result in withholding of certain rights, including voting and dividend rights, in respect of the shares in which you have an interest; and
- agree to comply with all such disclosure requirements and ownership limitations and to cooperate with the depositary in its compliance with any instructions from us in respect thereof.

Pre-release of ADSs

The depositary may also issue ADRs prior to the deposit with the custodian of shares or rights to receive shares. This is called a pre-release of the ADS. A pre-release is closed out as soon as the underlying shares are delivered to the depositary. The depositary may pre-release ADSs only if:

- the depositary has received collateral for the full market value of the Pre-released ADRs; and
- each recipient of Pre-released ADRs agrees in writing that he or she:
  - beneficially owns the underlying shares,
  - transfers all rights in such shares to the depositary,
  - holds such shares for the account of the depositary,
  - will deliver such shares to the custodian as soon as practicable, and promptly but in no event more than five business days after a demand therefore, and
  - will not take any action that is inconsistent with the transfer of beneficial ownership of the shares or ADSs other than in satisfaction of the pre-release.

In general, the number of pre-released ADSs will not evidence more than 30% of all ADSs outstanding at any given time excluding those evidenced by pre-released ADRs. However, the depositary may change or disregard such limit from time to time under certain circumstances.

PART II

Item 13: ***Defaults, Dividend Arrearages and Delinquencies***

Not applicable.

Item 14: ***Material Modifications to the Rights of Security Holders and Use of Proceeds***

Not applicable.

PART III

Item 17: ***Financial Statements***

We are furnishing our financial statements pursuant to the instructions of Item 18 of Form 20-F. See "Item 18: Financial Statements".

Item 18: ***Financial Statements***

See our consolidated financial statements beginning at page F-1.

Item 19: ***Exhibits***

Exhibit	Description
1.1	English translation of Articles of Association of ALTANA Aktiengesellschaft, as in effect on May 8, 2002
2.1	Deposit Agreement between ALTANA Aktiengesellschaft, Bank of New York and owners and holders of American Depositary Receipts
2.2	Form of American Depositary Receipt (included in Exhibit 2.1)
4.1	License Agreement between Byk Gulden Lomberg Chemische Fabrik GmbH and Wyeth Corporation, dated January 22, 1997 and amendments thereto
8.1	List of Significant Subsidiaries (see Item 4: "Information on the Company — Significant Subsidiaries")
10	Consent of KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this registration statement on its behalf.

ALTANA Aktiengesellschaft

By: /s/ Nikolaus Schweickart

Nikolaus Schweickart
Chairman of the management board and
Chief Executive Officer

/s/ Dr. Hermann Küllmer

Dr. Hermann Küllmer
Member of the management board and
Chief Financial Officer

UNAUDITED INTERIM FINANCIAL INFORMATION AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2002

We prepare and publish unaudited interim condensed consolidated financial statements in Germany. We recently published unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2002. These financial statements are set forth below. We prepared our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2002 and the corresponding period of the prior year on the basis of IAS, the same set of accounting principles on the basis of which we prepared our audited consolidated financial statements as of and for each of the three years ended December 31, 2001 set forth beginning on page F-1. For purposes of this presentation, certain information and footnote disclosures normally included in financial statements prepared in accordance with IAS have been condensed or omitted pursuant to applicable rules and regulations. We believe, however, that the disclosures provided below are adequate to make the information presented not misleading. In the opinion of our management, our unaudited interim condensed consolidated financial statements include all adjustments necessary to fairly present our financial position as of March 2002 and our results of operations, changes in shareholders' equity and cash flows for the three months ended March 31, 2001 and 2002. You should read the financial information set forth below in conjunction with our consolidated financial statements as of and for each of the three years ended December 31, 2001 and the notes thereto set forth beginning on page F-1.

Balances as of and for the period ended March 31, 2001 have been restated in accordance with IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies", paragraphs 31 to 40. For more information, see note 2 to our consolidated financial statements.

As our unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS, they differ in certain respects from what they would look like if they had been prepared on the basis of U.S. GAAP. As in prior periods, reconciling items would arise in connection with the treatment of employee incentive plans, revenue recognition methods and the assumption of deferred tax liabilities in connection with the acquisition of intangible assets and voluntary termination benefits. Effective January 1, 2002, we adopted SFAS No. 142 "Goodwill and Other Intangible Assets", which requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment annually (or more frequently if impairment indicators arise). In the first quarter of 2002, amortization of goodwill and intangible assets with indefinite useful lives amounted to EUR 5 million. In addition, we adopted SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". Our adoption of this standard has not given rise to a material reconciling item in the first quarter of 2002. See note 32 to our consolidated financial statements for a reconciliation of our net income for the years ended December 31, 2000 and December 31, 2001 and shareholders' equity as of December 31, 2000 and 2001 from IAS to U.S. GAAP. See note 33 to our consolidated financial statements for more information on new accounting standards.

The following table sets forth our condensed consolidated balance sheets as of December 31, 2001 and March 31, 2002:

Condensed Consolidated Balance Sheets(1)

	December 31, 2001	March 31, 2002(2)
	(€ in millions)	
Assets		
Intangible assets, net	179	172
Property, plant and equipment, net	579	600
Long-term investments	25	24
Total fixed assets	783	796
Inventories	277	289
Trade accounts receivable, net	378	432

	December 31, 2001	March 31, 2002(2)
	(€ in millions)	
Marketable securities	298	292
Cash and cash equivalents	254	264
Deferred tax assets	41	43
Other assets and prepaid expenses	95	102
Total assets	2,127	2,218
Liabilities and shareholders' equity		
Share capital	140	140
Additional paid-in capital	139	139
Retained earnings	1,003	1,084
Revaluation reserve	(6)	(8)
Translation adjustment	3	4
Treasury stock, at cost	(110)	(109)
Total shareholders' equity	1,170	1,250
Minority interest	9	9
Employee benefit obligations	245	248
Accrued income taxes	64	74
Accrued liabilities	213	239
Total provisions	522	561
Debt	127	138
Trade accounts payable	174	143
Other liabilities	74	72
Deferred income	31	26
Deferred tax liabilities	20	18
Total liabilities	426	397
Total liabilities and shareholders' equity	2,127	2,218

(1) Columns may not add up due to rounding.

(2) Unaudited.

The following table sets forth our condensed consolidated income statements for the three months ended March 31, 2001 and 2002:

Condensed Consolidated Income Statements(1)

	Three months ended March 31,	
	2001	2002
	(€ in millions, unaudited)	
Net sales	554	614
Cost of sales	(218)	(222)
Gross profit	335	392
Selling and distribution expenses	(133)	(148)
Research and development expenses	(64)	(79)
General administrative expenses	(26)	(26)
Other operating income	4	10
Other operating expenses	(13)	(20)
Gain on sale of Lundbeck	110	0
Operating income	214	129
Financial income	7	1
Income before taxes and minority interests	221	129
Income tax expense	(82)	(48)
Income before minority interests	139	81
Minority interests	0	0
Net income	139	81
Basic earnings per share/ADS	1.00	0.59
Diluted earnings per share/ADS	1.00	0.59

(1) Columns may not add up due to rounding.

The following table shows changes in our shareholders' equity for each of the three months ended March 31, 2001 and 2002:

Condensed Consolidated Statement Of Changes In Shareholders' Equity(1) (2)

	Three months ended March 31,	
	2001	2002
	(€ in millions, unaudited)	
Shareholders' equity as of January 1	984	1,170
Net income	139	81
Translation adjustment	10	1
Sale of treasury stock	0	1
Revaluation reserve	(3)	(3)
Shareholders' equity as of March 31	1,130	1,250

(1) Our shareholders' equity as of March 31 of each year includes the dividend proposed to be paid to our shareholders in respect of the previous year. In 2001, we paid € 84 million in dividends in respect of 2000, and in 2002, we paid € 98 million in dividends in respect of 2001.

(2) Columns may not add due to rounding.

The following table highlights selected cash flow data for each of the three months ended March 31, 2001 and 2002:

Condensed Cash Flow Statement(1)

	Three months ended March 31,	
	2001	2002
	(€ in millions, unaudited)	
Net cash flow provided by operating activities	48	34
Net cash flow provided by/used in investing activities	45	(39)
Net cash flow provided by financing activities	1	13
Effect of exchange rate changes	3	2
Cash and cash equivalents as of January 1	172	254
Cash and cash equivalents as of March 31	269	264

(1) Columns may not add up due to rounding.

The following table provides a reconciliation of selected interim segment financial information to the corresponding line items of our unaudited consolidated financial statements:

Reconciliation Of Segments To Group(1)

		Pharma-ceuticals	Chemicals	Holding company	Group
		(Except employees, € in millions, unaudited)			
Net sales	March 31, 2002	427	187	0	614
	March 31, 2001	378	176	0	554
Operating income (loss)	March 31, 2002	109	29	(10)	129
	March 31, 2001	198(2)	26	(11)	214
Income before taxes and minority interests	March 31, 2002	110	27	(8)	129
	March 31, 2001	199(2)	24	(3)	221
Capital expenditures	March 31, 2002	28	11	3	42
	March 31, 2001	26	20	0	46
Employees	March 31, 2002	7,055	2,250	45	9,350
	March 31, 2001	6,521	2,099	34	8,654

(1) Columns may not add up due to rounding.

(2) Includes a one-time gain in the amount of € 110 million resulting from the sale of our interest in a joint venture.

The following table breaks down the net sales of our pharmaceuticals segment by geographic region for the three months ended March 31, 2001 and 2002:

Pharmaceuticals Net Sales By Geographic Region(1)(2)

	March 31,		Increase (decrease)
	2001	2002	
	(€ in millions, unaudited)		(%)
Germany	93	96	3.3
Europe (excl. Germany)	116	137	18.9
North America	96	119	25.0
Latin America	64	62	(4.4)
Other	9	13	35.9
Total	378	427	13.1

(1) By location of customers.

(2) Columns may not add up due to rounding.

The following table breaks down the net sales of our pharmaceuticals segment by business area for the three months ended March 31, 2001 and 2002:

Pharmaceuticals Net Sales By Business Area(1)

	March 31,		Increase (decrease)
	2001	2002	
	(€ in millions, unaudited)		(%)
Therapeutics	300	351	17.3
OTC	34	29	(13.4)
Imaging	23	26	10.9
Diagnostics	11	12	5.3
Other	10	9	(10.1)
Total	378	427	13.1

(1) Columns may not add up due to rounding.

The following table breaks down the net sales of our chemicals segment by geographic region for the three months ended March 31, 2001 and 2002:

Chemicals Net Sales By Geographic Region(1)(2)

	March 31,		Increase (decrease)
	2001	2002	
	(€ in millions, unaudited)		(%)
Germany	26	25	(2.5)
Europe (excl. Germany)	67	72	7.8
North America	39	39	(1.8)
Asia	29	34	17.4
Other	15	17	14.9
Total	176	187	6.2

(1) By location of customers.

(2) Columns may not add up due to rounding.

The following table breaks down the net sales of our chemicals segment by business area for the three months ended March 31, 2001 and 2002:

Chemicals Net Sales By Business Area(1)

	March 31,		Increase (decrease)
	2001	2002	
	(€ in millions, unaudited)		(%)
Additives & Instruments	72	76	4.7
Coatings & Sealants	49	53	9.0
Wire Enamels	40	40	(0.2)
Varnish & Compounds	15	18	20.5
Total	176	187	6.2

(1) Columns may not add up due to rounding.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Management Board of
ALTANA Aktiengesellschaft:

We have audited the accompanying consolidated balance sheets of ALTANA Aktiengesellschaft and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years ended December 31, 2001, 2000 and 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ALTANA Aktiengesellschaft and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the years ended December 31, 2001, 2000 and 1999, in conformity with International Accounting Standards as promulgated by the International Accounting Standards Committee.

As discussed in Note 2, the financial statements as of and for the year ended December 31, 2001 have been restated in connection with the DAT litigation to reflect the fair value of the shares to be issued in the settlement. In addition, the financial statements as of and for the years ended December 31, 2000 and 1999 have been restated. In accordance with IAS 27 "Consolidated Financial Statements of Accounting for Investments in Subsidiaries", special funds are considered special purpose entities subject to consolidation. The Company restated its financial statements to consolidate all special funds as of and for the period ended December 31, 2000 and 1999. In addition, the financial statements for the year ended December 31, 2000, have been restated in connection with the adjustment of certain licensing agreements, whereby a reduction of revenue totaling € 15.1 million and an increase in other income totaling € 12.3 million was recorded. Additionally, the financial statements for 2000 and 1999 have been restated to reflect certain revenues previously recognized in 1999 in 2000 as the significant risks and rewards of ownership were not transferred until 2000. Additionally, certain items previously shown in "other changes" in retained earnings have been reclassified into foreign currency translation adjustments.

As discussed in Note 3 to the consolidated financial statements, effective January 1, 2001, the Company adopted IAS 12 (revised 2000) "Income Taxes", which stipulates that deferred and current tax assets on undistributed earnings are not recognized until the dividend is declared; and IAS 39 (revised 2000), "Financial Instruments: Recognition and Measurement", which requires fair value accounting for certain financial instruments, establishes specific criteria relating to hedge accounting and required the Company to classify all marketable securities as available-for-sale and, therefore, carry these securities at fair value with unrealized gains and losses recorded in equity (revaluation reserve), net of tax. In addition, in 2000, the Company changed its accounting policy for computing pension expense to adopt the corridor approach.

International Accounting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Application of accounting principles generally accepted in the United States of America would have affected net income for the years ended December 31, 2001 and 2000 and shareholders' equity as of December 31, 2001 and 2000, to the extent summarized in Note 32 to the consolidated financial statements.

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Frankfurt am Main,
Germany
March 1, 2002, except Note 2 and Note 31, which are dated May 9, 2002

ALTANA AG

CONSOLIDATED BALANCE SHEETS

(amounts in € thousands, except share and per share data)

	Notes	December 31, 2001	2000
ASSETS			
Intangible assets, net	6	178,669	144,532
Property, plant and equipment, net	7	579,039	477,524
Long-term Investments	8	25,063	5,113
Total Fixed Assets		782,771	627,169
Inventories	9	277,345	251,705
Trade accounts receivable, net	10	377,829	314,893
Marketable securities	11	297,972	315,646
Cash and cash equivalents		254,453	171,795
Deferred tax assets	25	41,276	45,646
Other assets and prepaid expenses	12	94,920	84,817
Total Assets		2,126,566	1,811,671
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital, no par value shares, 207,900,000 shares authorized, 140,400,000 issued and 137,181,015 outstanding		140,400	99,840
Additional paid-in capital		139,264	158,615
Retained earnings		1,002,630	779,062
Revaluation reserve		(5,617)	0
Translation adjustment		2,959	(607)
Treasury stock, at cost		(110,062)	(52,553)
Total Shareholders' Equity	13	1,169,574	984,357
Minority Interests		9,134	7,005
Employee benefit obligations	15	244,787	242,322
Accrued income taxes	25	63,828	50,535
Accrued liabilities	16	213,336	143,017
Total Provisions		521,951	435,874
Debt	17	126,715	100,449
Trade accounts payable		174,393	171,388
Other liabilities	18	74,062	60,160
Deferred income	18	30,910	26,601
Deferred tax liabilities	25	19,827	25,837
Total Liabilities		425,907	384,435
Total Liabilities and Shareholders' Equity		2,126,566	1,811,671

See accompanying notes to consolidated financial statements.

ALTANA AG

CONSOLIDATED INCOME STATEMENTS

(amounts in € thousands, except share and per share data)

	Notes	For the years ended December 31, 2001	2000	1999
Net sales		2,307,658	1,927,915	1,577,106
Cost of sales		(894,131)	(784,303)	(649,671)
Gross profit		1,413,527	1,143,612	927,435
Operating expenses				
Selling and distribution expenses		(575,528)	(524,840)	(461,481)
Research and development expenses		(284,648)	(219,245)	(171,487)
General administrative expenses		(105,293)	(93,839)	(74,501)
Other operating income(1)	20	39,064	55,626	28,675
Other operating expenses(1)	21	(62,915)	(52,666)	(43,858)
Donation Herbert Quandt Foundation		(14,774)	0	0
Gain of sale of Lundbeck	4	110,137	0	0
Operating income(1)		519,570	308,648	204,783
Financial income				
Net income from investments in associated companies	22	897	67	1,552
Interest income, net(1)	23	19,801	19,542	23,298
Other financial income (expenses), net(1)	24	3,490	1,046	(6,717)
Financial income		24,188	20,655	18,133
Income before taxes and minority interests(1)		543,758	329,303	222,916
Income tax expense(1)	25	(216,099)	(150,475)	(101,288)
Income before minority interests		327,659	178,828	121,628
Minority interests		278	1,870	(3,400)
Net income		327,937	180,698	118,228
Basic earnings per share		2.38	1.30	0.84
Diluted earnings per share		2.37	1.30	0.84

(1) including changes in accounting principles (see note 3)

See accompanying notes to consolidated financial statements

ALTANA AG

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in € thousands)

	For the years ended December 31,		
	2001	2000	1999
Net income	327,937	180,698	118,228
Depreciation and amortization	120,185	87,012	71,021
Unrealized losses on marketable securities	0	1,570	6,780
Net gain from disposals of fixed assets	(112,788)	(838)	(2,086)
Net gain from sales of marketable securities	(5,129)	(3,637)	(4,553)
Increase/decrease in operating assets and liabilities, net of acquisitions and dispositions			
Inventories	(26,536)	(16,095)	(25,591)
Trade accounts receivable, other assets and prepaid expenses	(76,125)	(56,467)	(26,737)
Income taxes	2,728	955	(29,285)
Provisions	72,998	28,098	10,131
Accounts payable and other liabilities	11,288	31,071	34,489
Deferred income	4,309	26,601	0
Minortity interest	(278)	(1,870)	3,400
Other	(9,407)	4,444	7,982
Net cash flow provided from operating activities	309,182	281,542	163,779
Capital expenditures	(206,005)	(163,132)	(109,454)
Purchases of financial assets	(20,247)	(5,482)	(1,093)
Proceeds from sale of fixed assets	9,679	5,693	10,532
Proceeds from sale of Lundbeck	110,823	0	0
Acquisitions, net of cash acquired	(33,942)	(63,722)	(17,826)
Proceeds from sales of marketable securities	188,450	279,594	215,691
Purchase of marketable securities	(162,076)	(208,731)	(209,196)
Net cash flow used in investing activities	(113,318)	(155,780)	(111,346)
Dividends paid	(84,401)	(48,429)	(39,881)
Purchase of treasury shares	(75,699)	(35,349)	(17,204)
Proceeds from sale of treasury shares	19,431	0	0
Distributions to minority shareholders	0	0	(2,990)
Proceeds from long-term debt	26,697	22,661	282
Repayment of long-term debt	(17,924)	(58,462)	(13,751)
Net increase in short-term debt	15,474	1,721	8,197
Net cash flow used in financing activities	(116,422)	(117,858)	(65,347)
Effect of exchange rate changes	3,216	647	4,165
Net increase (decrease) in cash and cash equivalents	82,658	8,551	(8,749)
Cash and cash equivalents as of January 1,	171,795	163,244	171,993
Cash and cash equivalents as of December 31,	254,453	171,795	163,244
Cash paid for			
Income taxes	(198,203)	(151,491)	(129,198)
Interest	(6,702)	(9,237)	(9,414)
Cash received for			
Interest	24,362	29,596	34,019

See accompanying notes to consolidated financial statements.

ALTANA AG

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(amounts in € thousands, except share and per share data)

	Issued		Additional paid-in capital	Retained earnings	Revaluation reserve	Translation adjustment	Treasury Stock		Total Shareholders' equity
	Number of shares	Share capital					Shares	Amount	
Balance January 1, 1999(1)	39,000,000	99,702	158,615	568,584	0	(21,858)	0	0	805,043
Capital increase from retained earnings		138		(138)					0
Dividends paid				(39,881)					(39,881)
Net income				118,228					118,228
Translation adjustments						14,629			14,629
Purchase of treasury shares							(257,000)	(17,204)	(17,204)
Balance December 31, 1999	39,000,000	99,840	158,615	646,793	0	(7,229)	(257,000)	(17,204)	880,815
Dividends paid				(48,429)					(48,429)
Net income				180,698					180,698
Translation adjustments						6,622			6,622
Purchase of treasury shares							(379,002)	(35,349)	(35,349)
Balance December 31, 2000	39,000,000	99,840	158,615	779,062	0	(607)	(636,002)	(52,553)	984,357
Adoption of IAS 39 — marketable securities net of tax of 3,245					5,226				5,226
Adoption of IAS 39 — financial instruments net of tax of 1,363				2,133					2,133
Realized gains and losses on marketable securities, net of tax of 2,000					(3,129)				(3,129)
Change in fair value of marketable securities, net of tax of 307					(7,714)				(7,714)
Change in fair value of financial instruments, net of tax of 1,363				(2,133)					(2,133)
20 % stock dividend	7,800,000	40,560	(20,592)	(19,968)					
Stock split	93,600,000						(1,653,605)		
Dividends paid				(84,401)					(84,401)
Net income				327,937					327,937
Issuance of treasury shares			1,241				762,372	18,190	19,431
Purchase of treasury shares							(1,691,750)	(75,699)	(75,699)
Translation adjustments						3,566			3,566
Balance December 31, 2001	140,400,000	140,400	139,264	1,002,630	(5,617)	2,959	(3,218,985)	(110,062)	1,169,574

(1) Balances have been restated from Deutsche Mark to Euro

See accompanying notes to consolidated financial statements.

(1) The Company

Description of business and organization

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

Basis of presentation

The consolidated financial statements of the Company are prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and the interpretations of the Standing Interpretations Committee ("SIC"), and in accordance with § 292a of the German Commercial Code. The financial statements comply with the European Union's guidelines on the preparation of consolidated financial statements (Directive 83/349/EWG).

The consolidated financial statements of the Company include additional disclosures required by generally accepted accounting principles in the United States ("U.S. GAAP"). Significant differences between IAS and U.S. GAAP affecting the Company's consolidated net income and shareholders' equity are detailed in Note 32.

(2) Restatements

In connection with the Company's planned listing in May 2002 on the New York Stock Exchange and in view of the accounting and disclosure requirements of the United States Securities and Exchange Commission, the Company has restated its previously issued consolidated financial statements in accordance with IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies", paragraphs 31 to 40.

The following paragraphs discuss the nature of these errors and their effect on net income and the related per share amounts.

DAT litigation

In connection with the DAT litigation (see Note 30), the Company in 2001 measured the additional shares to be issued to former DAT shareholders based on the original 1990 values of ALTANA shares. The financial statements have been restated to measure the settlement at the current value of ALTANA shares.

Revenue recognition

On January 22, 1997, the Company entered into a licensing agreement with American Home Products, acting through one of its subsidiaries, Wyeth-Ayerst Laboratories ("WA"). Under the terms of the agreement, the Company granted WA an exclusive license to carry out certain manufacturing tasks with respect to semi-finished Pantoprazole-based products supplied by the Company and to distribute the resulting drugs in the U.S. market. WA agreed to pay the Company a specified percentage of its net sales of the product subject to a minimum price.

The Company previously recognized revenue for all sales made to WA during 2000 using an estimated average net sales price. Due to the direct link between WA's sales price and the amount the Company will ultimately realize, revenue for the products delivered to but not yet sold by WA as of the balance sheet date has been restated to reflect the minimum price. Adjustments to the minimum price are recognized during the period the product is sold by WA.

Also under this agreement, certain deliveries were requested by WA and made during 1999 in anticipation of FDA approval. Under the terms of the contract, the Company did not bear any inventory risk and the buyer did not have any legal right to return the product. However, it was management's intent to accept returns of expired product prior to FDA approval. This intent was not communicated to the license partner and was not extended to relate to the periods subsequent to FDA approval. The Company originally recognized revenue in 1999 as no legal right of return existed. The financial statements as of and for the year ended December 31, 1999 have been restated to defer revenue, in accordance with IAS 18 (revised 1993) "Revenue", until FDA approval was received in May 2000 on account of the Company's intent to accept return of expired inventory that could have resulted from delay in FDA approval.

Daiichi termination agreement

On February 22, 1993, the Company and Daiichi Pharmaceutical Co., Ltd. entered into a licensing agreement pertaining to the development and commercialization of Pantoprazole by Daiichi in Japan. Daiichi terminated the agreement effective October 2000. Under the termination agreement, Daiichi agreed to pay the Company at total of € 18.4 million in three annual installments as a settlement for termination. These payments are non-refundable and release Daiichi completely from its obligations under the licensing agreement. The first installment totaling € 6.1 million was paid during 2000. The second installment was paid on October 1, 2001. The final installment, is due on October 1, 2002. In 2000, the Company initially recorded only the first installment as other income. The financial statements as of and for the year ended December 31, 2000, have been restated to reflect the entire settlement as other income in the year 2000 as ALTANA has no future obligations or commitments with respect to the termination of the licensing agreements or resulting payments.

Retroactive consolidation of special purpose entities

The Company has four special funds containing marketable securities and other financial instruments. In 2001, the Company concluded that under IAS 27 "Consolidated Financial Statements of Accounting for Investments in Subsidiaries", these special funds should be considered special purpose entities that are controlled by the Company and, therefore, should be consolidated. Previously, the Company recorded its investments in the funds as marketable securities at the lower-of-cost or market with unrealized losses recorded currently in income. The financial statements have been restated to reflect the consolidation of these special purpose entities for all periods presented.

Reclassification of other equity

For the periods ended December 31, 2000 and 1999, the Company's Consolidated Statements of Changes in Shareholders' Equity included a caption entitled "other changes" in retained earnings. These amounts relate to foreign currency translation adjustments and have, therefore, been reclassified accordingly.

The effects of the restatements discussed above on net income and earnings per share are as follows:

	Net Income	Related per share amounts (€)
For the period ended December 31, 2001		
Net income previously reported	342,474	2.49
DAT litigation	(14,537)	
Net income as restated	327,937	2.38
For the period ended December 31, 2000		
Net income previously reported	177,447	1.28
Revenue recognition	(5,720)	
Daiichi termination agreement	12,271	
Consolidation of special purpose entities	496	
Tax effect of restatements	(3,796)	
Net income as restated	180,698	1.30
For the period ended December 31, 1999		
Net income previously reported	123,989	0.88
Revenue recognition	(9,352)	
Consolidation of special purpose entities	(2,068)	
Tax effect of restatements	5,659	
Net income as restated	118,228	0.84

(3) Significant accounting policies and procedures

Consolidation

The consolidated financial statements of the Company include ALTANA AG and 25 (2000: 24) subsidiaries in Germany and 54 (2000: 52) subsidiaries abroad. The change in the consolidated subsidiaries from 2000 to 2001 does not have a material effect on the balance sheets, on the statements of income, changes in shareholders' equity or cash flows and, therefore, does not adversely affect comparability.

The Company holds a 49% interest in Bracco Byk Gulden, Constance and accounts for this investment using the equity method.

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

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

Financial statements reported in euro

As of January 1, 1999, the Company adopted the euro (€) as its reporting currency. All previously reported balances were restated (from Deutsche mark at the official fixed exchange rate of DM 1.95583 =

€ 1.00) to reflect this change. All financial statements issued subsequently to January 1, 1999 use the euro as the reporting currency.

Foreign currency

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 at year-end exchange rates, while revenues and expenses are translated at average exchange rates prevailing during the year. Adjustments for foreign currency translation fluctuations are excluded from net income and are reported as a separate component of shareholders' equity.

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

The following table provides selected foreign currencies of importance to the Company along with relevant exchange rate information:

1 Euro

	Middle rate at December 31,		Average rate Year ended December 31,		
	2001	2000	2001	2000	1999
U.S. Dollar	0.88	0.93	0.89	0.92	1.07
Pound Sterling	0.61	0.62	0.62	0.61	0.66
Japanese Yen	115.71	106.90	108.72	99.27	120.60
Brazilian Real	2.06	1.81	2.08	1.68	1.92
Mexican Peso	8.06	8.92	8.35	8.71	10.17

Due to the financial crisis in Argentina, the foreign exchange market was closed on December 20, 2001 and reopened on January 11, 2002. Therefore, the closing rate on January 11, 2002 was used to translate assets and liabilities for the Company's Argentinean subsidiary.

Intangible assets

Intangible assets are stated at cost and are amortized straight-line over the shorter of their contractual term or the estimated useful lives over the periods shown below:

	Years
Goodwill	5 - 15
Patents, licenses and similar rights	3 - 20
Other intangibles	2 - 20

Amortization of goodwill is recorded in other operating expenses. Prior to 1995, goodwill was not amortized but charged against retained earnings as permitted under IAS 22 "Business Combinations".

Property, plant and equipment

Property, plant and equipment are stated at cost and include certain costs that are capitalized during construction, including material, payroll and direct overhead costs. Government grants are deducted from the acquisition costs.

Depreciation on plant and equipment is calculated on a straight-line basis over the estimated useful lives of the assets.

The useful lives are:

	Years
Buildings	5 - 50
Plant and machinery	3 - 20
Assets under capital lease	2 - 25
Equipment	2 - 20

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

Impairment

In the event facts and circumstances indicate that the Company's assets, regardless of whether they are to be held and used or to be disposed of, may be impaired, an evaluation of recoverability is performed. In accordance with IAS 36 "Impairment of Assets", an impairment loss is recognized when an asset's carrying amount exceeds the higher of its net selling price 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 disposal at the end of its useful life.

If there is any indication that the considerations which led to impairment no longer exist, then the Company would consider the need to reverse all or a portion of the impairment charge.

Inventories

Inventory is valued at the lower of acquisition or manufacturing cost 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 of completion and selling expense. Generally, cost is determined on the basis of weighted average costs. Manufacturing costs comprise material, payroll and direct overhead, including depreciation.

Marketable securities

Until December 31, 2000, marketable securities were carried at the lower-of-cost or market with unrealized losses recorded in financial income. Unrealized gains were not recorded. Historical costs were reinstated when considerations for the write-down no longer existed.

Beginning on January 1, 2001, in accordance with IAS 39 (revised 2000), "Financial Instruments: Recognition and Measurement", the Company classified all marketable securities as available-for-sale and, therefore, carried these securities at fair value with unrealized gains and losses recorded in equity (revaluation reserve), net of tax. As prior years' financial statements are not restated in accordance with IAS 39, differences between the carrying amount and the fair value are recognized as an adjustment to equity (revaluation reserve) as of January 1, 2001. The company accounts for "regular way" purchases and sales of financial assets that require delivery of the assets within the time frame generally established in the related market place at the settlement date.

Impairment charges are recorded in income. Gains and losses are recognized in the income statement when realized and are determined on an individual security basis.

Cash and cash equivalents

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

Financial Instruments

Effective January 1, 2001, the Company adopted IAS 39 (revised 2000), "Financial Instruments: Recognition and Measurement". IAS 39 requires the recognition of all financial assets and liabilities as well as all derivative instruments as assets or liabilities on the balance sheet and, generally, all are measured at fair value, regardless of the Company's intent. Changes in the fair value of derivative instruments are recognized in income or stockholders' 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 currently in the income statement. For derivatives designated as a cash flow hedge, changes in fair value of the effective portion of the hedging instrument are recognized in equity (revaluation reserve) until the hedged item is recognized in the income statement. The ineffective portion of the fair value changes or, to the extent the derivative does not qualify for hedge accounting under IAS 39, changes in fair values are recognized in the income statement immediately.

Government grants

The Company received € 0.1 million, € 0.5 million and € 0.3 million for the years ended December 31, 2001, 2000 and 1999, respectively, of taxable and non-taxable investment grants from the State of Brandenburg for the acquisition of certain long-lived assets. The grants are recorded as a reduction of the cost basis of the acquired and constructed assets.

In addition, the Company received government grants as non-refundable reimbursement of expenses in the amount of € 1.1 million, € 1.2 million and € 1.1 million for the years ended December 31, 2001, 2000 and 1999, respectively. These grants are recorded as other income to the extent they are earned.

Accrued liabilities and employee benefit obligations

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

An accrued liability for taxes and other contingencies is recorded when an obligation to a third party has been incurred, the payment is probable and the amount can be reasonably estimated. Accrued liabilities relating to personnel and social cost are valued at their net present value when appropriate.

Revenue recognition

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

Up-front payments received in connection with licensing agreements are recognized immediately if the payment is not refundable and is unconditional. If such payments are conditional on future events, recognition of revenue is deferred until the future event occurs. If the payment is made in connection with future services to be provided by the Company, revenue is deferred and amortized over the periods such services are to be provided.

Advertising and promotion costs

Advertising and promotion costs are expensed as incurred and totaled € 155.4 million, € 151.0 million and € 128.2 million for the years ended December 31, 2001, 2000 and 1999, respectively. These costs are recorded as selling and distribution expenses in the consolidated income statements.

Research and development expenses

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

Employee incentive plans

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

Income taxes

Under IAS 12 (revised 2000), "Income Taxes", deferred tax assets and liabilities are recognized for all temporary differences between the carrying amount of assets and liabilities in the financial statements and their tax bases, investment tax credit and net 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 income in the period the legislation is substantively enacted. 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 carry-forwards can be applied.

Earnings per share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per share are calculated by adjusting the weighted average number of common shares for the effect of the stock option plans as well as the impact of the Deutsch-Atlantische Telegraphen AG ("DAT") lawsuit which is payable in the Company's shares (see Note 30). No adjustments to net income were necessary for the computation of diluted earnings per share.

	2001	2000	1999
Basic earnings per share:			
Net income	327,937	180,698	118,228
Weighted average common shares outstanding	137,533,720	138,827,786	140,192,138
Basic earnings per share	2.38	1.30	0.84
Diluted weighted average common shares:			
Net income	327,937	180,698	118,228
Weighted average common shares outstanding	137,533,720	138,827,786	140,192,138
Dilution from stock options	607,434	437,528	156,816
Dilution from DAT lawsuit	306,391	180,325	0
Diluted weighted average common shares outstanding	138,447,545	139,445,639	140,348,954
Diluted earnings per share	2.37	1.30	0.84

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 2001, 2000 and 1999, respectively, Pantoprazole accounted for 43%, 33% and 26% of net sales of the pharmaceuticals segment and for 29%, 21% and 17% of the Company's total net sales. The Company expects Pantoprazole to continue to be a key revenue driver for the next several years.

Accounting changes

Under IAS 8, changes in accounting policies may be performed either using the benchmark treatment or the allowed alternative treatment, unless one method is prohibited by a new accounting standard. The Company uses the allowed alternative treatment unless otherwise required by the specific accounting standard.

Under the previous version of IAS 12 (revised 1996), "Income Taxes", the Company calculated deferred tax assets and liabilities using the distributed earnings rate in countries that apply different rates for retained earnings and distributed earnings. Previously a deferred tax asset of € 9.7 million was recognized for the tax implications of future tax credits that would be realized upon the distribution of retained earnings. Additionally, a current tax receivable of € 13.5 million had been recorded as of December 31, 2000 for the dividend declared in 2001. With the adoption of IAS 12 (revised 2000) as of January 1, 2001, deferred and current tax assets on undistributed earnings are not recognized until the dividend is declared. This resulted in

an increase in income tax expense of approximately € 23.2 million in 2001. The dividend declared in 2001 resulted in a € 13.5 million current tax benefit during 2001. The net impact of adoption and application of the revised IAS 12 for 2001 was € 9.7 million or € 0.07 basic and diluted earning per share.

As of January 1, 2001, the Company also adopted IAS 39 and recognized € 3.7 million of assets and € 0.2 million of liabilities. Retained earnings as of January 1, 2001 were adjusted by € 2.1 million, net of tax of € 1.4 million. A revaluation reserve was recorded as of January 1, 2001 totaling € 5.2 million, net of tax of € 3.2 million.

In 2000, the Company changed its accounting policy for computing pension expense to adopt the corridor approach. Previously, the Company immediately recognized all actuarial gains and losses. In accordance with IAS 19.92, the Company has chosen the option to defer actuarial gains and losses exceeding a corridor of 10% of the present value of its pension obligation and amortize the excess over the average remaining working lives of the employees participating in the plan. As of December 31, 2000 the defined benefit obligation and unrecognized actuarial gains approximate € 234.7 million and € 39.1 million, respectively.

Had the Company applied this method retroactively, the effect on net income and earnings per share for the year ended December 31, 1999 would have increased by € 8.5 million and € 0.06.

Use of estimates

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

(4) Business combinations and dispositions

All acquisitions have been accounted for using the purchase method with the excess of the purchase price over the estimated fair value of the net assets acquired accounted for as goodwill and amortized on a straight-line basis over their estimated useful lives. 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.

The Company acquired various chemical and pharmaceuticals businesses for a total consideration of € 34.0 million and € 66.8 million in 2001 and 2000, respectively. The excess of the total acquisition costs over the fair value of the tangible and intangible net assets acquired was recorded as goodwill and amounted to € 11.6 million and € 54.6 million in 2001 and 2000, respectively.

On February 1, 2001, a joint venture with DiaSorin S.r.l. Sullogia. Italy was founded. The Company contributed its marketing and sales activities of the German diagnostics business (total net assets € 0.1 million) into the new joint venture, Byk & DiaSorin Diagnostics GmbH & Co KG and received a 51% economic interest. The joint venture is consolidated using the proportional method in accordance with IAS 31 "Financial Reporting of Interests in Joint Ventures", as DiaSorin S.r.l. and the Company have equal voting rights.

In February 2001, the Company sold its interest in the joint venture with Lundbeck AS for € 111 million in cash, realizing a pre-tax gain of € 110 million, which is reported separately in the income statement.

(5) 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 3.

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

The Company's pharmaceuticals segment develops, manufactures and internationally markets a wide range of pharmaceutical products. Its product range comprises therapeutics, which includes prescription drugs for a variety of indications, diagnostics, which includes laboratory diagnostic devices and reagents for in-vitro applications and imaging, which comprises reagents for in-vivo applications. In addition, the Company markets over-the-counter products for self medication and also generates limited revenues from other sources, mainly from contract manufacturing on behalf of third parties.

The chemicals segment offers a portfolio of specialty chemicals, including additives and instruments, coatings and sealants, wire enamels and varnish and compounds. 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 is reconciled to total consolidated information as follows:

		Pharma-ceuticals	Chemicals	Holding company	Consoli-dation	Group
				(€ in millions)		
Net sales	2001	1,591	717	0	0	2,308
	2000	1,262	666	0	0	1,928
	1999	1,025	552	0	0	1,577
Operating income (loss)	2001	466	98	(44)	0	520
	2001 (1)	363	98	(37)	0	424
	2000	221	115	(28)	0	308
	1999	129	103	(27)	0	205
Total assets	2001	1,284	586	898	(641)	2,127
	2000	1,065	503	893	(649)	1,812
Long-lived assets	2001	375	189	15	0	579
	2000	312	158	8	0	478
Liabilities	2001	543	146	63	196	948
	2000	458	135	50	177	820
Capital expenditures	2001	150	68	7	0	225
	2000	117	40	6	0	163
	1999	79	30	0	0	109
Depreciation and amortization	2001	59	24	0	0	83
	2000	51	19	0	0	70
	1999	45	16	0	0	61
Other non-cash expenses (income)	2001	72	8	18	0	98
	2000	27	(2)	11	0	36
	1999	24	13	(10)	0	27

(1) Adjusted to exclude one-time special items: gain of the sale of Lundbeck A/S (€ 110 million) and the donation to Herbert Quandt Foundation (€ 15 million)

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.

Net sales of the segments represent mainly sales to third parties (external net sales). There is no significant revenue from inter-segmental sales between the pharmaceuticals and chemicals segments. In 2001, 2000 and 1999, approximately 79%, 78% and 73%, respectively, of net sales were generated outside of Germany.

Long-lived assets include all tangible assets, such as property, plant and equipment and construction in progress. Segment liabilities consist of total liabilities and provisions excluding interest-bearing liabilities as well as current and deferred income taxes. The consolidation column contains the reconciliation of segment liabilities to consolidated total liabilities and provisions. Capital expenditures as well as depreciation and amortization relate to property, plant and equipment and intangible assets excluding goodwill. Other non-cash expenses mainly consist of pension expense.

The following table presents selected financial information by geographic region:

	Net sales			Total assets		Long-lived assets		Capital expenditures		
	2001	2000	1999	2001	2000	2001	2000	2001	2000	1999
	(€ in millions)			(€ in millions)		(€ in millions)		(€ in millions)		
Germany	478	433	421	1,549	1,385	323	274	127	90	57
Rest of Europe	757	637	563	434	363	98	84	34	31	22
North America	570	395	245	268	210	72	63	24	15	14
thereof USA	494	343	223	238	193	70	62	23	15	13
Latin America	300	293	217	241	194	72	46	36	24	15
Far East	157	130	94	46	34	14	9	4	1	1
Other Regions	46	40	37	2	5	0	2	0	2	0
Consolidation	0	0	0	(413)	(379)	0	0	0	0	0
Total	2,308	1,928	1,577	2,127	1,812	579	478	225	163	109

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:

	2001	2000	1999
	(€ in millions)		
Pharmaceuticals			
Therapeutics	1,275	980	763
Imaging	91	77	79
Diagnostics	43	43	38
OTC	129	126	124
Other	53	36	21
Total	1,591	1,262	1,025
Chemicals			
Additives & Instruments	283	283	242
Coatings & Sealants	218	179	151
Wire Enamels	151	145	110
Varnish & Compounds	65	59	49
Total	717	666	552
Total	2,308	1,928	1,577

(6) Intangible assets

	Patents, licenses and similar rights	Goodwill	Advance payments	Other	Total
Cost					
Balance at January 1, 2001	78,743	142,465	6	124	221,338
Additions	43,889	17,433	193	209	61,724
Disposals	(4,895)	(316)	0	0	(5,211)
Transfers	954	0	0	2	956
Translation adjustments	(410)	22	0	0	(388)
Changes in reporting entities	10,852	11,590	0	0	22,442
Balance at December 31, 2001	129,133	171,194	199	335	300,861
Accumulated amortization					
Balance at January 1, 2001	33,106	43,622	0	78	76,806
Additions	11,335	36,357	0	59	47,751
Disposals	(4,417)	0	0	0	(4,417)
Transfers	372	0	0	1	373
Translation adjustments	(214)	16	0	0	(198)
Changes in reporting entities	1,414	463	0	0	1,877
Balance at December 31, 2001	41,596	80,458	0	138	122,192
Carrying amount at					
December 31, 2001	87,537	90,736	199	197	178,669
December 31, 2000	45,637	98,843	6	46	144,532

Amortization expense for the years ended December 31, 2001, 2000 and 1999, amounted to € 47.8 million, € 23.8 million and € 14.7 million, respectively. Amortization expense in 2001 includes € 8.8 million of impairment charges.

Additions in 2001 are primarily related to the acquisitions of businesses in the chemicals segment.

Together with the 8.3% interest in GPC Biotech AG, Martinsried (see Note 8), the Company purchased a platform license totaling € 30.1 million; the estimated useful life is 5.7 years.

(7) Property, plant and equipment

	Land & buildings	Plant & machinery	Equipment	Advances/ construction in progress	Total
Cost					
Balance at January 1, 2001	347,574	278,473	272,046	65,170	963,263
Additions	16,108	24,544	48,630	81,635	170,917
Disposals	(997)	(5,934)	(12,490)	(1,851)	(21,272)
Transfers	44,937	31,406	8,223	(85,522)	(956)
Translation adjustments	2,526	3,039	907	(547)	5,925
Changes in reporting entities	2,388	2,043	(246)	0	4,185
Balance at December 31, 2001	412,536	333,571	317,070	58,885	1,122,062
Accumulated depreciation					
Balance at January 1, 2001	131,505	179,539	174,695	0	485,739
Additions	12,346	22,903	35,307	0	70,556
Disposals	(332)	(4,900)	(10,276)	0	(15,508)
Transfers	0	0	(373)	0	(373)
Translation adjustments	(627)	1,064	509	0	946
Changes in reporting entities	431	1,336	(104)	0	1,663
Balance at December 31, 2001	143,323	199,942	199,758	0	543,023
Carrying amount at					
December 31, 2001	269,213	133,629	117,312	58,885	579,039
December 31, 2000	216,069	98,934	97,351	65,170	477,524

Depreciation expense for the years ended December 31, 2001, 2000 and 1999, amounted to € 70.6 million, € 62.7 million and € 55.9 million, respectively.

As of December 31, 2001 and 2000, respectively, € 5.5 million and € 2.5 million of net book value relate to equipment and buildings under capital lease.

In 2001, fixed asset additions in the pharmaceuticals segment mainly relate to the increase of the research capacity in Constance and an expansion of the production plant in Singen, both located in Germany. In addition, two production plans were newly constructed in Poland and Brazil. In the chemicals segment a new production plant was constructed in Wesel, Germany.

(8) Long-term investments

	Affiliated companies	Other investments	Other long-term financial assets	Total
Cost				
Balance at January 1, 2001	1,530	2,460	5,385	9,375
Additions	48	19,452	747	20,247
Disposals	(251)	0	(3,435)	(3,686)
Translation adjustments	0	0	(562)	(562)
Changes in reporting entities	1,053	0	(17)	1,036
Balance at December 31, 2001	2,380	21,912	2,118	26,410
Accumulated amortization				
Balance at January 1, 2001	104	3	4,155	4,262
Additions	0	0	686	686
Disposals	0	0	(3,083)	(3,083)
Translation adjustments	0	0	(518)	(518)
Balance at December 31, 2001	104	3	1,240	1,347
Carrying amount at				
December 31, 2001	2,276	21,909	878	25,063
December 31, 2000	1,426	2,457	1,230	5,113

The primary addition to other investments relates to the Company's purchase of an 8.3% in GPC Biotech AG, Martinsried, Germany for € 15.1 million (see Note 27), one of the Company's major research collaboration partners.

Amounts totaling € 0.9 million and € 0.9 million of other long-term financial assets as of December 31, 2001 and 2000, respectively, relate to long-term employee loans bearing a 6% interest rate.

Ownership interests in 12 entities with ownership interests below 20%, which are classified as available-for-sale investments and whose fair values can not be reliably measured, are valued at a cost of € 4.3 million and shown alone under "Other Investment".

(9) Inventories

Inventories consist of:

	At December 31,	
	2001	2000
Raw materials and supplies	91,907	84,833
Work in process	39,016	37,723
Finished products and goods	142,417	128,705
Advance payments	4,005	444
	277,345	251,705

(10) Trade accounts receivable

Trade accounts receivable are as follows:

	At December 31, 2001	At December 31, 2000
Trade accounts receivable	387,623	323,853
Allowance for doubtful accounts	(9,794)	(8,960)
	377,829	314,893
Thereof long-term	155	17

The roll forward of the allowance for doubtful accounts is as follows:

	At December 31, 2001	At December 31, 2000
Allowance at the beginning of the year	8,960	6,737
Translation adjustments	(26)	268
Charged to expense	2,309	4,395
Amounts written-off	(1,449)	(2,440)
Allowance at the end of the year	9,794	8,960

(11) Marketable securities

In accordance with IAS 39 (revised 2000), available-for-sale marketable securities are recorded at fair value beginning on January 1, 2001. 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, 2001 are as follows:

At December 31, 2001	Amortized Cost	Fair value	Unrealized gains	Unrealized losses
Debt securities	222,672	224,570	3,192	1,294
Equity securities	78,658	72,620	4,045	10,083
Other	708	782	173	99
Total	302,038	297,972	7,410	11,476

Prior to adoption of IAS 39, marketable securities were recorded at the lower-of-cost or market whereby gains were not recognized until realized and losses were recorded in the income statement immediately. Unrealized gains were as follows:

At December 31, 2000	Carrying value	Fair value	Unrealized gains
Debt securities	263,289	266,059	2,770
Equity securities	51,939	57,037	5,098
Other	418	1,032	614
Total	315,646	324,128	8,482

The contractual maturities of debt securities are as follows:

	At December 31,	
	2001	2000
Due within one year	36,833	23,004
Due after one year through five years	115,958	139,574
Due after five years	71,779	100,711
	224,570	263,289

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

(12) Other assets and prepaid expenses

	At December 31,	
	2001	2000
Balances due from employees	6,211	4,164
Cash surrender value of life insurance	5,987	7,827
Balances due from fiscal authorities	16,380	13,073
Prepayments	6,796	4,924
Licenses	5,495	5,505
Balances due from related parties	2,224	2,673
Prepaid expenses	16,783	10,811
Contract termination settlement (Note 2)	6,136	12,271
Other	28,908	23,569
	94,920	84,817
thereof long-term	6,945	14,283

(13) Shareholders' equity

Issued capital

At the annual general shareholders' meeting on May 3, 2001, the Company's shareholders approved a 20% stock dividend whereby € 20.0 million was transferred from retained earnings to share capital resulting in the issuance of 7,800,000 new shares to existing shareholders and an additional transfer of € 20.6 million from additional paid in capital to share capital without issuance of new shares. Subsequently, at the same general shareholders' meeting, a 3 for 1 stock split was declared. As a result of these transactions, share capital as of December 31, 2001 is € 140,400, represented by 140,400,000 no par value shares representing € 1 per share. Share and per share information has been restated for all periods presented.

Authorized capital

As of December 31, 2001, the management board was authorized to increase the Company's share capital by € 27.0 million in exchange for cash (authorized capital I) and an additional € 27.0 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 € 13.5 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, 2004.

Treasury shares

The management board was authorized by the shareholders on May 3, 2001 to repurchase up to 14,040,000 shares (10% of the authorized capital) during the period May 4, 2001 to October 31, 2002. In addition to reselling the treasury shares on the stock market, the management board was authorized to offer up to 2.5% of these shares to eligible employees in connection with the Company's stock option plans (Note 14) or to third parties in connection with acquisitions. The management board was not authorized, however, to actively trade these shares on the stock market.

Pursuant to this authorization, the Company purchased 1,316,950 treasury shares from May to October 2001 at a total cost of € 58.5 million with an average price of € 44.45 per share. These shares are used for distribution to eligible employees under the ALTANA stock option plans and the ALTANA Investment plans. During 2001, 598,505 shares were issued in connection with the exercise of the options and 37,295 shares were sold to employees.

Additionally, in accordance with article 71 (1) No. 2 of the "German Stock Corporation Act" (*Aktiengesetz*), during October and November 2001, the Company purchased 220,000 shares at an average price of € 50.34 to distribute to the eligible employees under the ALTANA Investment Plan 2001 (Note 14). In December 2001, 126,572 shares were sold to employees. To cover the risks from ongoing litigation, in May 2001, the Company purchased in accordance with § 71 (1) No 3 of the "German Stock Corporation Act", 154,800 shares for an average share price of € 39.26 each.

Together with the 2,289,607 treasury shares purchased in prior years the Company held a total of 3,218,985 treasury shares at December 31, 2001, representing € 3.2 million (or 2.29%) of its share capital. Of the treasury shares, 2,920,185 are reserved to meet obligations from the employee incentive plans and 298,800 are reserved for issuance to settle ongoing litigation (Note 30).

Dividends

Under the "German Stock Corporation Act", dividends available for distribution to shareholders are based upon the unconsolidated retained earnings of ALTANA AG as reported in its balance sheet determined in accordance with the German Commercial Code (*Handelsgesetzbuch*). The management board has resolved to appropriate € 94.6 million of 2001 net income of ALTANA AG of € 192.9 million to retained earnings, resulting in unappropriated profits of € 98.3 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 of € 0.60 as well as a bonus dividend of € 0.10 per no-par value share, with the amount attributable to treasury shares to be allocated to 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, a separate section of shareholders' equity. Additionally, changes in the fair value of financial instruments qualifying as cash flow hedges are recognized in the revaluation reserve if all hedge accounting criterion under IAS 39 are met. The amounts are stated net of tax.

(14) Employee incentive plans

Management stock option plans 1999 and 2000

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

The plans offer management the option of settling in either stock or cash. Under each plan, the options become exercisable two years after the grant date if the average earnings per share in the year of grant and the following year exceed the average of the two preceding years by 20%. The stock options expire four years after the grant date.

	2001		2000		1999	
	Number of options	Exercise price (€)	Number of options	Exercise price (€)	Number of options	Exercise price (€)
Outstanding options at January 1	1,854,000	19.10*	925,200	15.03	0	0
Granted	0	0	950,400	22.97	925,200	15.03
Exercised	(635,800)	15.03	0	0	0	0
Forfeited	(7,200)	15.03	(21,600)	15.03	0	0
Outstanding options at December 31	1,211,000	21.26*	1,854,000	19.10*	925,200	15.03*

* Weighted average

Management stock option plan 2001

On July 1, 2001, the Company initiated a stock option plan open to members of the Company's management board, its senior executives and certain other key employees ("Stock Option Plan 2001"). The exercise price for stock options granted under this plan is € 42.41 per share, which is calculated on the basis of the average of the published prices of the shares on the Frankfurt Stock Exchange during the 20 trading days preceding the commencement of the plan. The options may only be settled in stock. The options become exercisable two years after the grant date, if earnings per share in 2002 exceed earnings per share in 2000 by 20%. The stock options expire five years after the date of grant.

	2001	
	Number of options	Exercise price (€)
Outstanding options at January 1	0	0
Granted	1,065,750	42.41
Outstanding options at December 31	1,065,750	42.41

ALTANA Investment 2000 and 2001

In 2001 and 2000, the Company initiated the "ALTANA Investment 2001" and "ALTANA Investment 2000" plans for employees in 14 European countries and the United States of America who were not eligible to participate in the Stock Option Plans.

Each investment plan consists of two components. The first component entitled eligible employees to purchase a specific number of shares based on their respective incomes at a fixed price per share, the lowest quoted price of the Company's shares the day when the management board approved the plans. A discount was granted for a specified number of shares purchased by each participant. The Company sold the respective shares in December 2001 and December 2000 to the employees, with exception of the employees of the U.S. subsidiaries. For employees unable to receive shares directly from the Company due to statutory reasons, the Company provided the cash equivalent of the benefit received by other employees participating in the plan.

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

	ALTANA Investment	
	2001	2000
Share purchase component		
Shares sold to employees	126,572	284,393
Exercise price	47.00	27.08
Discount granted	30.0%	23.0%
Discount granted for maximum shares for each employee	37 shares	20 shares
Options component		
Options granted	165,797	305,898
Options forfeited	0	13,310
Exercise price	47.00	27.08
Date of grant	October 1, 2001	October 1, 2000
Exercise of the options beginning	October 1, 2003	October 1, 2002
Expiration of the options	October 1, 2005	October 1, 2004

Compensation expense

Compensation expense under the foregoing plans for the years ended December 31, 2001, 2000 and 1999 totaled € 3.6 million, € 6.9 million and € 0.8 million, respectively. Compensation expense in 2001 and 2000, respectively, included € 1.9 million and € 4.9 million for the discount on the share purchase component of ALTANA Investment 2001 and 2000, as there is no vesting period.

(15) Employee benefit obligations

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

	At December 31,	
	2001	2000
Provision for pensions	244,141	237,882
Provision for other post-retirement benefits	646	4,440
	244,787	242,322

Employee benefit obligations relate mainly to the German plans. The defined benefit obligation is calculated based on the expected compensation level or retirement benefit, the years of service and the expected discount rate.

Some pension commitments are funded by plan assets maintained by trust funds. Fund assets consist of equity and debt securities as well as real estate.

	2001		2000	
	German Plans	Non-German Plans	German Plans	Non-German Plans
Defined benefit obligation				
Balance at January 1	192,743	41,946	213,856	32,932
Changes in reporting entities	(3,251)	5,936	0	0
Translation adjustment	0	1,686	0	1,855
Service cost	4,179	2,513	4,848	2,458
Interest cost	12,298	2,857	11,704	2,504
Actuarial losses (gains)	9,706	2,768	(29,989)	2,744
Plan amendments	0	0	0	686
Other	(15)	(498)	53	0
Benefits paid	(7,856)	(1,314)	(7,729)	(1,233)
Balance at December 31	207,804	55,894	192,743	41,946

	2001		2000	
	German Plans	Non-German Plans	German Plans	Non-German Plans
Plan assets				
Balance at January 1	0	35,927	0	32,981
Changes in reporting entities	0	5,248	0	0
Translation adjustment	0	1,854	0	2,466
Actual return on plan assets	0	(979)	0	1,119
Employer contribution	0	325	0	330
Benefits paid	0	(959)	0	(969)
Balance at December 31	0	41,416	0	35,927
Reconciliation of funded status				
Funded status at December 31	207,804	14,478	192,743	6,019
Unrecognized net gains (losses)	19,056	2,803	29,989	9,131
Net amount recognized at December 31	226,860	17,281	222,732	15,150

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

	At December 31,			
	2001		2000	
	German Plans	Non-German Plans	German Plans	Non-German Plans
Weighted average assumptions				
Discount rate	6.0%	6.9%	6.5%	7.5%
Expected return on plan assets	0	8.7%	0	8.7%
Rate of compensation increase	3.5%	4.7%	3.5%	4.7%
Rate of pension increase	2.0%	0	2.0%	0

The components of net periodic pension costs for the years ended December 31, were as follows:

	For the years ended December 31,					
	2001		2000		1999	
	German Plans	Non-German Plans	German Plans	Non-German Plans	German Plans	Non-German Plans
Service cost	4,179	2,513	4,848	2,458	4,694	2,244
Interest cost	12,298	2,857	11,704	2,504	9,717	1,981
Expected return on plan assets	0	(3,192)	0	(3,047)	0	(2,262)
Actuarial losses and (gains)	603	(420)	0	(860)	8,286	(267)
Net periodic pension costs	17,080	1,758	16,552	1,055	22,697	1,696

The provision for other post-retirement benefits pertains to post-retirement health care and life insurance benefits for employees of the Company's U.S. subsidiaries and other similar obligations.

(16) Accrued liabilities

Accrued liabilities consist of the following:

	Employees	Sales and marketing costs	Warranty	Other	Total
Balance at January 1, 2001	74,557	18,634	7,454	42,372	143,017
Additions	59,252	52,308	4,712	29,313	145,585
Utilization	(39,418)	(14,742)	(1,491)	(15,083)	(70,734)
Release	(2,066)	(492)	(216)	(293)	(3,067)
Translation adjustment	15	366	241	(307)	315
Changes in reporting entities	(968)	(725)	0	(87)	(1,780)
Balance at December 31, 2001	91,372	55,349	10,700	55,915	213,336

Thereof short term	
at December 31, 2000	102,402
at December 31, 2001	169,642

The personnel-related provisions encompass provisions for special bonuses, as well as anniversary, paid vacation and employee incentive plans. Accrued liabilities for sales and marketing pertain to discounts and rebates primarily with one licensing partner and expected product returns. In addition, the Company accrued for business and marketing studies. Provisions for warranty cover commitments in connection with goods delivered and services rendered.

The items included in other provisions are primarily related to taxes other than income taxes and contributions, pending litigation, legal costs, professional fees and costs for clinical studies and research.

(17) Debt

	At December 31,			
	2001		2000	
	Total	Due within one year	Total	Due within one year
Borrowings from banks	82,417	32,390	73,537	35,661
Profit-sharing certificates	8,672	8,672	9,005	9,005
Herbert Quandt Foundation	25,656	25,656	10,226	10,226
Lease obligations	4,170	1,175	2,772	166
Other	5,800	891	4,909	941
	126,715	68,784	100,449	55,999

For the years ended December 31, 2001, 2000 and 1999 weighted average interest rates for borrowings from banks were 4.92%, 5.21% and 5.14%, respectively.

As of December 31, 2001 and 2000, respectively, bank borrowings included € 25.3 million and € 21.3 million denominated in foreign currencies other than euro. All of these borrowings were denominated in U.S. Dollars in 2001.

Bank borrowings of € 1.7 million and € 7.3 million were secured by mortgages (land) as of December 31, 2001 and 2000, respectively.

Profit-sharing certificates are held by German employees of the Company, who are entitled to receive interest at a rate equal to the higher of the Company's dividend rate in any given year and 7%. The Company ceased issuing such certificates in 2000. For the year ended December 31, 2001, the effective interest rate was 98.6% on these certificates. Amounts in excess of 7% are recorded as compensation expense.

The Herbert Quandt Foundation is a not-for-profit foundation, established in 1980, that promotes scientific and cultural research activities and supports civic responsibility projects. The Company donated € 14.8 million to the Foundation in 2001. In turn, the Foundation deposited all its funds, totaling € 25.7 million, with ALTANA. The deposit, subject to an interest rate equaling the discount rate plus 3% (subject to minimum rate of 8%), is considered short-term since it may be called at any time by the Foundation. For the years ended December 31, 2001 and 2000, the minimum interest rate of 8% was paid to the Foundation.

At December 31, 2001 the aggregate amounts of indebtedness maturing during the next five years and thereafter are as follows:

2002	67,609
2003	9,141
2004	5,892
2005	4,696
2006	4,697
Due thereafter	30,510
Total	122,545
Lease obligations	4,170
Total debt	126,715

(18) Other liabilities and deferred income

	At December 31,			
	2001		2000	
	Total	Due within one year	Total	Due within one year
Payroll taxes	21,442	21,442	16,730	16,730
Employees and social security contributions	19,214	18,069	17,090	16,126
Commissions	5,786	5,786	5,084	5,084
Debit notes to customers	3,295	3,295	3,605	3,605
Balances due to related parties	1,554	1,554	797	797
Other	22,771	20,351	16,854	13,487
	74,062	70,497	60,160	55,829

There are no items in other liabilities with a term in excess of five years.

Deferred income relates primarily to sales of Pantoprazole made to Wyeth-Ayerst.

(19) Financial instruments

Use and risk management of financial instruments

The Company conducts business on a global basis in numerous major international currencies and is, therefore, exposed to adverse movements in foreign currency exchanges rates. Derivative financial instruments are used to reduce various types of markets risks. The Company does not invest in derivatives for trading purposes.

The Company has established policies and procedures for risk assessment of derivative financial instrument activities. The Company has a decentralized risk management strategy, whereby the subsidiaries use derivative financial instruments, including forward foreign exchange contracts, to hedge foreign currency denominated assets and liabilities, firm commitments and forecasted foreign currency transactions and occasionally use interest rate swaps to hedge exposure to interest rate risk on debt obligations. At December 31, 2001 no derivative financial instruments were used to hedge forecasted foreign currency transactions or interest rate fluctuations.

By their nature, all such instruments involve risk, including market risk and credit risk of non-performance by counter-parties, and the maximum potential loss may exceed the amount recognized in the balance sheets. However, at December 31, 2001 and 2000, in management's opinion the probability of non-performance of the counter-parties in these financial instruments was remote.

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.

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. The Company does not utilize financial instruments to hedge these risks.

Forward foreign exchange contracts

The Company uses various derivative financial instruments in order to hedge foreign currency denominated assets and liabilities, firm commitments and 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 principle derivative financial instruments used by the Company are forward foreign exchange contracts. The maturity dates of the forward contracts are linked to the anticipated cash flows of the Company. Generally, the contracts do not exceed a one-year maturity period.

The notional amounts of forward foreign exchange contracts as of December 31, 2001 and 2000 amount to € 75.4 million and € 93.1 million, respectively.

Fair value of financial instruments

The fair values of financial instruments are equal to the prices at which these instruments could be sold to third parties. These fair values are determined on the basis of market data and valuation methods described below:

	At December 31,			
	2001		2000	
	Carrying value	Fair value	Carrying value	Fair value
Financial instruments				
Assets				
Long-term investments	25,063	25,063	5,113	5,113
Accounts receivable	377,829	377,829	314,893	314,893
Marketable securities	297,972	297,972	315,646	324,128
Cash and cash equivalents	254,453	254,453	171,795	171,795
Liabilities				
Borrowings from banks	82,417	82,417	73,537	73,537
Lease obligation	4,170	4,170	2,772	2,772
Other	5,800	5,800	4,909	4,909
Derivative financial instruments				
Assets — Currency contracts	191	191	0	3,690
Liability — Currency contracts	861	861	194	194

The fair values of financial assets and marketable securities are determined on the basis of quoted market prices. Investments in companies that are not publicly traded, the profit sharing certificates and the debt due to Herbert Quandt Foundation are not included in the table since their market value is not readily determinable. Fair values of the debt due to the Herbert Quandt Foundation and the profit sharing certificates are not readily determinable primarily since the maturity date is unknown. Investments in 12 entities with ownership interests below 20%, which are classified as available-for-sale investments and whose fair values can not be reliably measured are valued at a cost of € 4.3 million.

The carrying amount of cash and cash equivalents as well as accounts receivable approximate their fair value due to the short-term maturities of these instruments.

The carrying value of borrowings from banks approximates the fair value.

(20) Other operating income

	For the years ended December 31,		
	2001	2000	1999
Up-front payments — license agreements	306	8,555	4,295
Gain on sale of product line	8,180	0	0
Reimbursements	7,483	11,315	3,711
Contract termination settlement (Note 2)	0	18,406	0
Release of accruals	3,067	8,224	3,906
Gains on disposal of fixed assets	4,264	2,695	2,628
Foreign exchange gains, net	0	739	2,792
Other	15,764	5,692	11,343
	39,064	55,626	28,675

(21) Other operating expenses

	For the years ended December 31,		
	2001	2000	1999
Amortization of goodwill	19,345	16,927	9,633
Write-off of receivables	1,825	4,696	3,639
Losses on disposal of fixed assets	1,589	1,857	542
Foreign exchange losses, net	8,251	0	0
Charitable contributions	2,630	3,071	5,466
Legal contingency (see Note 30)	0	0	1,534
Special welfare contributions	1,967	2,912	2,433
Contribution to the "Remembrance, Responsibility and the Future" foundation	0	0	5,113
Impairment charges	10,527	6,902	0
Other	16,781	16,301	15,498
	62,915	52,666	43,858

The foundation "Remembrance, Responsibility and the Future" was established by the German industry to compensate World War II forced labor victims.

Foreign exchange gains and losses are shown net as follows:

	For the years ended December 31,		
	2001	2000	1999
Foreign exchange gains	5,126	7,134	4,339
Foreign exchange losses	(13,377)	(6,395)	(1,547)
Net gain (loss)	(8,251)	739	2,792

A net gain is recorded in other operating income, a net loss is recorded in other operating expense.

(22) Net income from investments in associated companies

	For the years ended December 31,		
	2001	2000	1999
Dividends received	911	222	1,666
Losses from affiliated companies	(14)	(155)	(114)
Net income from investments in associated companies	897	67	1,552

(23) Interest income, net

	For the years ended December 31,		
	2001	2000	1999
Interest income	27,430	30,495	35,837
Interest expense	(7,629)	(10,953)	(12,539)
Net interest income	19,801	19,542	23,298

For the year ended December 31, 1999, interest expense related to the employees' profit-sharing certificates (see Note 17) amounted to € 3.7 million. Since 2000, the portion of the dividend exceeding the base interest rate of 7% is reported as compensation expense. If this accounting principle had been applied in 1999, the financial result would have increased by € 3.1 million, and operating profit would have decreased by the same amount. Since this effect is not material, the amount was not reclassified.

(24) Other financial income (expense), net

	For the years ended December 31,		
	2001	2000	1999
Gain on disposal of marketable securities	5,238	9,816	8,868
Other financial income	10	434	23
Total other financial income	5,248	10,250	8,891
Unrealized losses on other financial assets and marketable securities	(712)	(2,152)	(7,237)
Losses on disposal of marketable securities	(109)	(6,179)	(4,315)
Other financial expenses	(937)	(873)	(4,056)
Total other financial expenses	(1,758)	(9,204)	(15,608)
Other financial income (expenses), net	3,490	1,046	(6,717)

(25) Income taxes

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

	For the years ended December 31,		
	2001	2000	1999
Germany	400,045	185,232	110,710
Foreign	143,713	144,071	112,206
	543,758	329,303	222,916

Income tax expense for these geographic regions is as follows:

	For the years ended December 31,		
	2001	2000	1999
Germany	160,129	89,890	64,435
Foreign	60,457	54,848	44,337
Total current taxes	220,586	144,738	108,772
Germany	3,703	(222)	(8,417)
Foreign	(8,190)	5,959	933
Total deferred taxes	(4,487)	5,737	(7,484)
Total income tax expense	216,099	150,475	101,288

The German corporate tax law in effect for the Company's fiscal years through December 31, 2000 applied a split corporate income tax rate for retained earnings and for distributed earnings. In October 2000, a new German corporate tax law was enacted that eliminated the split income tax rate. Effective for the Company's fiscal year beginning January 1, 2001, a uniform tax rate of 25%, plus a 5.5% solidarity surcharge on corporate tax is applicable in Germany.

Prior to this change, retained earnings were subject to a 40% corporate tax rate, plus a 5.5% solidarity surcharge on corporate taxes payable. Upon distribution, the tax rate was reduced to 30%. The deferred tax assets and liabilities as of December 31, 1999 arising from temporary differences in Germany have been calculated using the 30% distributed income tax rate.

In addition, all German companies pay a trade tax rate of approximately 12% (varies by principality) after corporate tax benefit. Therefore, the effective combined income tax rate applied for the years ended December 31, 2000 and 1999 was 43%.

In connection with the enactment of the new German corporate tax law on October 23, 2000, deferred tax assets and liabilities have been recalculated assuming the new uniform tax rate. This change resulted in a decrease in the combined income tax rate to 39%, reducing deferred income tax expense by € 1.8 million for the year ended December 31, 2000.

For the years ended December 31, 2001, 2000 and 1999, income tax expense differed from the amounts computed by applying the effective combined income tax rate of 39.0% in 2001 and 43.0% for 2000 and 1999 as follows:

	For the years ended December 31,		
	2001	2000	1999
Income before taxes and minority interest	543,758	329,303	222,916
Computed income tax expense at the effective combined income tax rate	212,066	141,600	95,854
Non-deductible expenses	16,583	12,947	6,687
Foreign tax rate differential	(10,088)	(9,531)	(8,851)
Impact of revised IAS 12 (Note 3)	23,220	0	0
Tax credits on dividends	(13,518)	0	0
Tax free income	(12,721)	0	0
Other	557	5,459	7,598
Total	216,099	150,475	101,288
Effective income tax rate	39.7%	45.7%	45.5%

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

	At December 31,	
	2001	2000
Assets		
Intangibles	14,644	14,017
Property, plant and equipment	9,494	6,998
Inventories	8,207	7,627
Receivables and other assets	4,844	3,242
Pension and other post-retirement benefits	25,988	27,575
Other provisions	18,474	13,436
Future benefit on distribution to shareholders	0	11,003
Deferred revenue	12,054	5,878
Tax loss carry-forwards	1,361	1,410
Other	4,585	6,926
Deferred tax assets	99,651	98,112
Liabilities		
Property, plant and equipment	(35,920)	(35,286)
Financial assets	(3,042)	(4,406)
Inventories	(7,236)	(7,098)
Receivables and other assets	(3,648)	(7,669)
Gain deferred for tax purposes	(10,125)	(13,655)
Other provisions	(4,989)	(2,640)
Liabilities	(3,118)	(1,191)
Other	(10,124)	(6,358)
Deferred tax liabilities	(78,202)	(78,303)
Deferred tax assets, net	21,449	19,809

Net deferred income tax assets and liabilities are as follows:

	At December 31,	
	2001	2000
Long-term deferred tax assets	41,276	45,646
Long-term deferred tax liabilities	(19,827)	(25,837)
Long-term deferred tax assets, net	21,449	19,809

At December 31, 2001, the Company had tax loss carry-forwards of € 39.9 million (2000: € 31.1 million), of which € 29.7 million (2000: € 23.4 million) have unlimited carry-forward periods and € 9.3 million (2000: € 7.6 million) expire before 2006. Deferred tax assets on tax loss carry-forwards of € 38.5 million and € 23.3 million were not recognized as of December 31, 2001 and 2000, respectively.

At December 31, 2001, a deferred tax liability has not been provided for the excess in the amount of € 280 million for financial reporting under IAS over the tax basis of certain investments in foreign subsidiaries that are essentially permanent in duration. These amounts become taxable upon a repatriation of earnings

from the subsidiaries or a sale of the subsidiaries. It is not practicable to estimate the amount of the unrecognized deferred tax liability for these undistributed earnings.

Tax benefits in the amount of € 17.4 million for future divided payments exist, of which € 16.4 million relate to the 2001 proposed dividend payments.

(26) Personnel expenses

	For the years ended December 31,		
	2001	2000	1999
Wages and salaries	392,989	356,423	298,752
Social security contributions	81,554	73,458	63,649
Expenses for pensions and other post-retirement benefits	20,586	22,918	28,595
Total personnel expenses	495,129	452,799	390,996

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

Number of employees by segment	2001	2000	1999
Pharmaceuticals	6,779	6,538	6,326
Chemicals	2,193	1,990	1,837
Holding company	38	29	27
Total	9,010	8,557	8,190

The pro rata consolidated companies had 78, 242 and 260 employees for the years ended December 31, 2001, 2000 and 1999, respectively, which are included proportionately. The above figures include 195, 219 and 139 interns for the years ended December 31, 2001, 2000 and 1999.

(27) Commitments and contingencies

Research and development agreements

As part of its research activities, the Company has entered into various long-term research agreements with research and development providers to collaborate on the discovery, development and commercialization of pharmaceutical drugs. Under these agreements, the Company provides research funding over the agreed upon service period. In addition, cost reimbursements, license fees, milestone payments, and royalties may be required to be paid depending on the terms on the respective agreement and the outcome of the research activities. The minimum future payments of research and development agreements as of December 31, 2001 are as follows:

2002	47,546
2003	52,318
2004	31,218
2005	18,819
2006	9,018
Thereafter	48,518
Total	207,437

Effective November 1, 2001, the Company entered into a € 68 million licensing and collaboration agreement with GPC Biotech AG ("GPC"). Under the agreement, the Company will license GPC patented technology in the area of genomics and proteomics research. This patented technology has future economic benefit to the Company since the technology will be used in multiple areas of therapeutic research. The technology significantly speeds up research and reduces related cost. In addition, GPC and the Company entered into two collaborative research projects focusing on Pathway Mapping and Kinases. Concurrently with this agreement, the Company purchased an 8.3% interest in GPC. Total consideration of € 45.3 million was allocated to the individual assets acquired based on the relative fair values of all assets acquired (see Note 6 and 8).

Guarantees and other commitments

	At December 31,	
	2001	2000
Commitments for capital expenditures	76,746	62,506
Guarantee for pension obligations of disposed business	15,838	16,003
Other	3,627	3,242
Total	96,211	81,751

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 acquiror according to the purchase agreement. No payments have been requested.

Lease arrangements

The Company leases equipment used in its operations. These leases are classified as either operating or capital leases. The lease contracts expire on various dates through 2010.

Future minimum lease payments for non-cancelable operating and capital leases at December 31, 2001 are:

	Capital leases	Operating leases
2002	1,175	13,941
2003	901	9,185
2004	701	5,466
2005	529	3,878
2006	277	3,026
After 2006	1,690	2,003
Total minimum lease payments	5,273	37,499
Less amount representing interest	(1,103)	
Present value of lease payments	4,170	
Less current portion	(1,175)	
Non-current lease obligations	2,995	

Total rent expense was € 29.9 million, € 26.8 million and € 23.1 million for the years ended December 31, 2001, 2000 and 1999, respectively.

(28) 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. Mrs. Klatten is also chairwoman of the board of counselors of the Herbert Quandt Foundation, and Nikolaus Schweickart, the chairman of the Company's management board, serves as the chairman of the board of the Herbert Quandt Foundation. The Company donated € 14.8 million to the Foundation in 2001.

Affiliated companies, joint ventures and associated companies are considered related parties. Balances due to and due from related parties are recorded in other assets and other liabilities as they are not material. Balances and transactions with unconsolidated subsidiaries are disclosed below.

	At December 31,	
	2001	2000
Balances due from related parties	2,224	2,673
Balances due to related parties	1,554	797
Deposit from Herbert Quandt Foundation	25,657	10,226

	For the years ended December 31,		
	2001	2000	1999
Sales to related parties	1,437	891	789
Services and goods acquired from related parties	(746)	(32,123)	(33,029)
Lease expense	(570)	(690)	(642)
Interest income from related parties	0	41	62
Interest expense to related parties	(884)	(912)	(871)

(29) Compensation of the supervisory board and management board

	For the years ended December 31,		
	2001	2000	1999
Compensation of the supervisory board	1,661	1,391	797
Compensation of the management board	5,684	4,790	3,484
Pension payments to former members of the management board or their surviving dependents	537	436	423
Pension commitments to former members of the management board or their surviving dependents	5,701	5,328	5,851

In 2001, € 0.1 million of the total emoluments of the supervisory board is attributable to fixed and € 1.6 million to variable payments. The emoluments of the management board include € 1.1 million in fixed and € 4.6 million in variable payments.

As part of the Company's stock option plans, the members of the management board were granted 106,500 and 108,000 stock options in the years ended December 31, 2001 and 2000, at a price of € 42.41 and € 22.97 in 2001 and 2000, respectively. As of December 31, 2001, management board members held a total of 228,700 options. The related expense reported in the compensation of the management board amounted to € 0.1 million and € 0.3 million for the years ended December 31, 2001 and 2000, respectively. The exercise of the options is contingent upon specific conditions. See Note 14 "Employee incentive plans" for a description of the stock option plans.

(30) Litigation

Deutsch-Atlantische Telegraphen AG

In 1988, a group of minority shareholders of Deutsch-Atlantische Telegraphen AG ("DAT"), brought a legal action against the Company in connection with an exchange offer made to these minority shareholders.

After consideration of the case, both the Landesgericht Köln and the Oberlandesgericht Düsseldorf stated that the 1.4 shares offered to the former shareholders was fair consideration. However, in 1999 the Federal Supreme Court of Germany overturned this ruling stating that the fair value should be determined based on a higher market value for DAT shares.

On March 12, 2001, the German Federal Court of Justice (*Bundesgerichtshof*) ruled that the exchange ratio must be based on the average market price of the shares to be exchanged during the three months preceding the approval by majority shareholders of DAT to sell its shares to the Company.

The settlement has been recorded as contingent consideration based on the Company's best estimate of the outcome. However, since all of the assets of DAT were either sold or written off in connection with

Altana's restructuring plan in 1995, the additional consideration is expensed immediately as an impairment expense. As of December 31, 2001, consideration expected to be paid by the Company through the issuance of shares has been measured at € 17.2 million based on Altana's share price at December 31, 2001. The portion of the settlement expected to be paid in cash is € 2.4 million. The estimated total settlement of € 19.6 is recorded as an accrual. The final settlement is subject to change based on the final exchange ratio and the market value of Altana's stock on the date of the settlement.

Other litigation and potential exposures

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

(31) Subsequent events

The Management Board and the Supervisory Board of ALTANA AG authorized the issuance of the financial statements as of March 19, 2002.

On April 22, 2002, Altana AG and Pharmacia Corporation ("Pharmacia") announced the signing of an agreement under which the pharmaceutical group of Altana ("Altana") grants Pharmacia certain rights and licenses to Altana technology. The purpose of the agreement is to collaborate in the development and commercialization of Altana's drug, Roflumilast, for the expected treatment of respiratory diseases and conditions, including asthma and chronic obstructive pulmonary disease (COPD).

Under the agreement, the companies will jointly co-develop Roflumilast for the United States, Europe and other markets to generate the pre-clinical and clinical data needed to obtain regulatory approvals. Following regulatory approval, varying for different geographic markets, Altana grants Pharmacia the right to co-promote the product together with Altana in the United States and other Major Markets (excluding Japan). The agreement provides that, Altana will receive an upfront payment totaling $30 million in the second quarter of 2002 and additional payments based on the achievement of development milestones and regulatory approvals.

(32) Reconciliation to U.S. GAAP

The consolidated financial statements of the Company have been prepared in accordance with IAS. 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, 2001 and 2000 are set out in the reconciliations below:

	Note	For the years ended December 31, 2001	2000
Net income under IAS		327,937	180,698
Adjustments			
Goodwill	a	1,627	(2,236)
Capitalization of interest on property, plant & equipment	c	1,186	1,272
Marketable securities	d	(8,258)	525
Employee incentive plans	e	(34,968)	(24,482)
Provisions for pensions and similar obligations	f	(600)	102
Voluntary termination benefits	g	934	5,692
Other accruals	h	4,042	(3,278)
Revenue recognition	i	1,803	(7,293)
Hyperinflation accounting	j	(1,292)	(1,255)
Other		376	1,336
Current and deferred tax on U.S. GAAP adjustments	k	13,381	12,199
Deferred tax differences between IAS and U.S. GAAP	l	7,470	3,041
Net income under U.S. GAAP		313,638	166,321
Basic earnings per share under U.S. GAAP		2.28	1.20
Diluted earnings per share under U.S. GAAP		2.26	1.19

	Note	At December 31, 2001	2000
Shareholders' equity under IAS		1,169,574	984,357
Adjustments			
Goodwill	a	3,603	2,861
Intangible assets	b	11,840	0
Capitalization of interest on property, plant & equipment	c	3,132	1,909
Marketable securities	d	0	8,478
Employee incentive plans	e	(37,480)	(24,550)
Provisions for pensions and similar obligations	f	4,374	4,529
Voluntary termination benefits	g	10,999	10,390
Other accruals	h	4,152	240
Revenue recognition	i	(18,200)	(20,003)
Hyperinflation accounting	j	4,749	5,502
Other		320	229
Current and deferred tax on U.S. GAAP adjustments	k	8,168	6,016
Deferred tax differences between IAS and U.S. GAAP	l	(6,633)	(6,887)
Shareholders' equity under U.S. GAAP		1,158,598	973,071

a) Goodwill

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

In July 2001, the Financial Accounting Standard Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations". SFAS No. 141 requires, among other things, that goodwill associated with acquisitions consummated subsequent to July 1, 2001 not be amortized, but rather tested for impairment on an annual basis. The acquisition of Epoxylite Corporation was consummated on July 18, 2001 and, therefore, amortization of goodwill totaling € 0.3 million was reversed 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. SFAS No. 52 "Foreign Currency Translation" requires goodwill and other fair value adjustments 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 and other comprehensive income.

b) Intangible Assets

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" provides the simultaneous equations method should be used to record the assigned value of an asset in

which the amount paid differs from the tax basis of the asset. Such a provision does not exist under IAS. The assumption of a deferred tax liability as part of an acquisition of an intangible asset resulted in a higher asset for U.S. GAAP then for IAS.

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.

d) Marketable securities

Under IAS 25, "Accounting for Investments", marketable securities were carried at the lower of cost or market with unrealized losses recorded in financial income. Unrealized gains were deferred and historical costs were reinstated when considerations for the write-down no longer existed.

	At December 31, 2000		
	Cost	Fair value	Unrealized net gain (loss)
Debt securities	265,780	265,269	(511)
Equity securities	57,692	57,037	(655)
Other	702	1,032	330
Total	324,174	323,338	(836)

Effective January 1, 2001, in accordance with IAS 39 (revised 2000), "Financial Instruments: Recognition and Measurement", the Company classified all marketable securities as available-for-sale and, therefore, carried these securities at fair value with unrealized gains and losses, recorded in equity (revaluation reserve), net of tax. As prior years' financial statements are not restated in accordance with IAS 39, the difference between the carrying amount and the fair value is recognized as an adjustment to equity (revaluation reserve) as of January 1, 2001.

Under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", the Company's marketable securities are classified as available-for-sale and carried at fair value with unrealized gains and other than permanent losses recorded as a separate component of shareholders' equity. In the reconciliation of net income, the adjustment pertains to the reclassification of unrealized losses to shareholders' equity. In the reconciliation of shareholders' equity in 2000, the adjustment pertains to unrealized gains which are not recorded under IAS.

Upon adoption of IAS 39 effective January 1, 2001, the recognition of fair value for marketable securities is no longer a reconciliation item. However, the difference in shareholders' equity, in 2000, results from periods prior to the adoption of IAS 39.

e) Employee incentive plans

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

In accordance with APB Opinion No. 25 "Accounting for Stock Issued to Employees" and related interpretations, compensation expense for options granted under employee incentive plans which are settled in

cash (ALTANA Investment 2000 and ALTANA Investment Plan 2001), settled in cash or stock at the election of the employee (Stock Option Plans 1999 and 2000) or settled in stock (Stock Option Plan 2001) is remeasured as the excess of the quoted market value of the shares at each balance sheet date over the exercise price, provided it is probable that performance requirements of the plan will be met. The expense is recognized through the measurement date or the exercise date, if no measurement date, based on the estimated number of shares to be issued.

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

	2001
Net income	
As reported	313,638
Pro forma	312,804
Basic earnings per share	
As reported	2.28
Pro forma	2.27
Diluted earnings per share	
As reported	2.26
Pro forma	2.26

The fair value of the stock options issued in conjunction with the Stock Option Plan 2001 is estimated at the date of grant using the Black-Scholes option pricing model based on the following assumptions:

	2001
Expected dividend yield	1.68%
Expected volatility	37.5%
Risk-free interest rate	4.5%
Expected lives (in years)	5
Fair value per option	16.72

f) Provisions for pensions and similar obligations

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

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

The reconciling item relates to the different effective dates for use of the corridor approach under IAS and U.S. GAAP.

g) Voluntary termination benefits

In accordance with IAS 19 "Employee Benefits", 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 SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", the obligation for voluntary termination benefits is first recognized when the employee accepts the offer. The total costs of the benefits are accrued on a straight-line basis over the remaining service period, which for ALTANA ranges from zero to 60 months.

h) Other accruals

In accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", an accrual should be recognized when an enterprise has a present obligation as a result of a past event, it is probable 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. An outflow of resources or other event is regarded as probable if the event is more likely than not to occur.

Under SFAS No. 5 "Accounting for Contingencies", an estimated loss from a loss contingency must be accrued if the contingency is probable and can be reasonably estimated. SFAS No. 5 uses the term "probable" to describe a future event in which the outcome is likely to occur. Accordingly, under U.S. GAAP, a higher recognition threshold is applied, and certain accruals recorded under IAS have been reversed for U.S. GAAP purposes.

i) Revenue recognition

The Company has entered into various license and supply agreements under which it received 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.

In accordance with SAB No. 101, "Revenue Recognition in Financial Statements", income resulting from up-front payments, even if non-refundable, is considered to be earned as the products are delivered over the term of the arrangement or the expected period of performance, and generally should be deferred and recognized systematically over the periods that the fees are deemed to be earned.

j) Hyperinflation accounting

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

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

k) Current and deferred tax on U.S. GAAP adjustments

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

l) Deferred tax differences between IAS and U.S. GAAP

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

Under U.S. GAAP, Emerging Issues Task Force Issue ("EITF") No. 95-10, "Accounting for Tax Credits Related to Dividend Payments in Accordance with FASB Statement No. 109" deferred tax assets and liabilities are determined using the rate on undistributed earnings. Tax benefits of future tax credits that will be realized when the previously taxed income is distributed are recognized as a reduction of income tax expense in the period that the tax credits are included in the enterprise's tax return. There were no tax credits for the distribution of previously taxed income included in ALTANA's 2001 tax return and, consequently, no tax benefit recognized in 2001.

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

In accordance with IAS 12, a deferred tax asset or liability is not recognized for temporary differences that arise from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit. SFAS No. 109, "Accounting for Income Taxes", does not have a similar exception to the recognition of deferred tax assets and liabilities.

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

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

	Shareholders' Equity		Income Statement	
	2001	2000	2001	2000
Income tax consequences of distributions	—	(10,337)	10,337	1,745
Deferred taxes related to revaluation surplus	(1,075)	—	(1,075)	—
Deferred taxes arising upon initial recognition of an asset or liability	(6,876)	—	340	—
Income taxes paid on intercompany profits	1,318	3,450	(2,132)	1,296
	(6,633)	(6,887)	7,470	3,041

(33) 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 do not have an impact on shareholders' equity or net income. The following summarizes the proportional effect of all such entities accounted for under the pro rata consolidation method.

	At December 31,	
	2001	2000
Balance Sheet Information		
Fixed assets	4,549	2,514
Other assets	5,562	10,596
Total assets	10,111	13,110
Shareholders' equity	3,417	5,037
Accrued liabilities	935	5,529
Liabilities	5,759	2,544
Total liabilities and stockholders' equity	10,111	13,110

	For the years ended December 31,	
	2001	2000
Income Statement Information		
Net sales	11,777	31,424
Operating income	(50)	2,641
Net income	(214)	799
Cash Flow Statement Information		
Net cash flow provided from operating activities	(1,680)	4,226
Net cash flow used in investing activities	(2,869)	(401)
Net cash flow used in financing activities	3,739	(2,414)

Consolidated balance sheets

Certain items in the consolidated balance sheets would be classified differently if presented under U.S. GAAP.

In accordance with IAS, 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, 2001 and 2000, deferred tax assets and liabilities for U.S. GAAP were as follows:

	At December 31,	
	2001	2000
Deferred tax assets — current	35,141	24,915
Deferred tax assets — non-current	24,040	42,615
Deferred tax liabilities — current	(8,940)	(25,916)
Deferred tax liabilities — non-current	(27,264)	(22,676)

Consolidated income statements

Certain items in the consolidated income statements would be classified differently under U.S. GAAP. These items include the reversal of certain provisions and allowances that would generally be recorded in the same line item as the provision was originally recorded under U.S. GAAP rather than as other income. Shipping and handling costs totaling € 38.7 million and € 33.9 million, for the years ended December 31, 2001 and 2000, respectively, are included primarily in selling expenses.

Consolidated cash flow statements

The consolidated cash flow statements are prepared in accordance with IAS 7. The Company's non-cash investing and financing activities include capital lease obligations totaling € 1.6 million and € 2.7 million, for the year ended December 31, 2001 and 2000, respectively, and the sale during 2001 of one of the Company's product lines for cash of € 4.0 million and a note receivable for € 5.2 million.

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). Cumulative comprehensive income includes the following items:

	For the years ended December 31,	
	2001	2000
Net income under U.S. GAAP	313,638	166,321
Net unrealized gains (losses) on available for sale securities net of tax of € (1,461) and € 2,704 in 2001 and 2000, respectively	(5,793)	(2,262)
Foreign currency translation adjustments	423	7,302
Other comprehensive income, net of tax	(5,370)	5,040
Comprehensive income, net of tax	308,268	171,361

Accumulated balances of other comprehensive income are as follows:

	Marketable securities	Foreign currency translation	Other comprehensive income (loss)
Ending balance at December 31, 1999	1,828	(7,933)	(6,105)
Reclassification to net income, net of tax 2000	(1,698)	0	(1,698)
Net unrealized (losses) gains, net of tax 2000	(564)	7,302	6,738
Ending balance at December 31, 2000	(434)	(631)	(1,065)
Reclassification to net income, net of tax 2001	1,806	0	1,806
Net unrealized (losses) gains, net of tax 2001	(7,599)	423	(7,176)
Ending balance at December 31, 2001	(6,227)	(208)	(6,435)

Concentration of risks

Statement of Position No. 94-6 "Disclosure of Certain Significant Risks and Uncertainties" requires the disclosure of certain significant risks and uncertainties. At December 31, 2000 and 2001, one customer accounted for 2.1% and 6.0% of trade accounts receivables. During fiscal year 2001 and 2000, this same customer accounted for 8.6% and 4.0% of sales, respectively.

New U.S. Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 141 "Business Combinations", and SFAS No. 142 "Goodwill and Other Intangible Assets". These pronouncements significantly change the accounting for business combinations, goodwill and intangible assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001. SFAS No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment annually (or more frequently if impairment indicators arise) in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives

to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". The Company adopted the provisions of SFAS No. 141 as of July 1, 2001 and is required to adopt SFAS No. 142 as of January 1, 2002. Any goodwill that is acquired in a business combination completed after June 30, 2001, and any intangible asset determined to have an indefinite useful life that was acquired after June 30, 2001 were not amortized. Goodwill acquired in a business combination completed before July 1, 2001, and intangible assets with indefinite useful lives acquired before July 1, 2001, were amortized until December 31, 2001.

SFAS No. 142 requires the Company and its affiliates to evaluate its existing intangible assets and goodwill and to make any required reclassifications in order to conform with the new separation requirements at the date of adoption. The Company is also required to reassess the useful lives and residual values of all intangible assets and make any required adjustments by March 31, 2002.

In connection with the transitional impairment evaluation, SFAS No. 142 requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of January 1, 2002. To accomplish this, the Company is currently (1) identifying the reporting, (2) determining the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets to those reporting units, and (3) determining the fair value of each reporting unit. This first step of the transitional assessment is required to be completed by June 30, 2002. If the carrying value of any reporting unit exceeds its fair value, then detailed fair values for each of the assigned assets (excluding goodwill) and liabilities will be determined to calculate the amount of goodwill impairment, if any. This second step is required to be completed as soon as possible, but no later than December 31, 2002. Any transitional impairment loss resulting from the adoption will be recognized as the effect of a change in accounting principle in the consolidated income statements. Because of the extensiveness of the efforts needed to comply with the adoption of these statements, it is not practicable to reasonably estimate the impact on the consolidated financial statements.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Assets Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated assets retirement costs. SFAS No. 143 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset. SFAS No. 143 also requires the enterprise to record the contra to the initial fix obligation and an increase to the carrying amount of the related long-lived asset (i.e. the associated asset retirement cost) and to depreciate that cost over the remaining useful life of the asset. The liability is adjusted at the end of each period to reflect the passage of time (i.e. accretion expense) and changes in the estimated future cash flows underlying the initial fair value measurement. Enterprises are required to adopt SFAS No. 143 for fiscal years beginning after June 15, 2002. The Company is expected to adopt SFAS No. 143 on January 1, 2003, and is currently determining the impact of the adoption of SFAS No. 143.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lives assets. It supersedes SFAS No. 121 and the accounting and reporting provisions of APB 30. SFAS No. 144 also amends ARB No. 51 "Consolidated Financial Statements" to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 is not expected to have a material impact on the Company's financial statements.

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