ALTANA

Corporate Report 2017

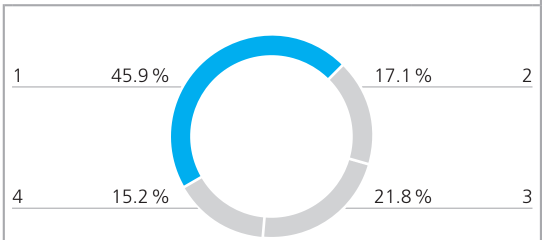
Group Profile 2017

ALTANA's divisions

ALTANA

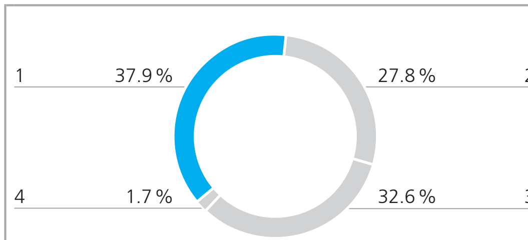
BYK | ECKART | ELANTAS | ACTEGA

Sales by division



in € million	2017
1 BYK	1,030.4
2 ECKART	385.3
3 ELANTAS	488.7
4 ACTEGA	342.6
Total	**2,247.0**

Sales by region



in € million	2017
1 Europe	852.3
2 Americas	623.6
3 Asia	733.5
4 Other regions	37.6
Total	**2,247.0**

Key figures at a glance

	2016	2017	Δ %
in € million			
Sales	2,075.3	2,247.0	8
Earnings before interest, taxes, depreciation and amortization (EBITDA)	453.0	470.0	4
EBITDA margin	*21.8 %*	*20.9 %*	
Operating income (EBIT)	328.7	335.9	2
EBIT margin	*15.8 %*	*14.9 %*	
Earnings before taxes (EBT)	299.8	306.0	2
EBT margin	*14.4 %*	*13.6 %*	
Net income (EAT)	210.1	234.6	12
EAT margin	*10.1 %*	*10.4 %*	
Research and development expenses	129.3	142.5	10
Capital expenditure on intangible assets and property, plant and equipment	122.1	188.0	54
Cash Flow from operating activities	376.7	302.3	-20
Return on capital employed (ROCE)	*11.6 %*	*11.3 %*	
ALTANA Value Added (AVA)	83.3	84.0	1

	Dec. 31, 2016	Dec. 31, 2017	Δ %
in € million			
Total assets	3,053.9	3,147.7	3
Shareholders' equity	2,082.2	2,214.2	6
Net debt (-)/Net financial assets (+)[1]	25.7	(78.0)	–
Headcount[2]	5,967	6,186	4

[1] Comprises cash and cash equivalents, current financial assets, marketable securities, loans granted, debt, and employee benefit obligations.
[2] When in the following the term "headcount" or "employees" is used, it refers to all staff members, male, female, or otherwise.

	2016	2017	Δ %
WAI 1 (number of occupational accidents with lost work time of one day or more per million working hours)	3.94	4.01	2
WAI 2 (number of occupational accidents with lost work time of more than three days per million working hours)	2.52	3.06	21
WAI 3 (number of lost work days due to occupational accidents per million working hours)	38.21	54.58	43
CO_2 total (Scope 1 + Scope 2)[3] (t)	202,234	187,548	-7
CO_2 specific (Scope 1 + Scope 2)[3] (kg/€)	0.24	0.21	-13

[3] Scope1: direct emissions; Scope 2: indirect emissions

Due to rounding, this Corporate Report may contain minor differences between single values, and sums or percentages.

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Management Board

Dear Ladies and Gentlemen,

2017 marked the 40th anniversary of the founding of the ALTANA Group. Although the roots of our company actually date back much further – the BYK and ECKART divisions were established back in the 19th century – this anniversary is a milestone in ALTANA's success story. Looking back, we can see that the qualities that characterize our company were especially clear in 2017.

In the last fiscal year, we once again demonstrated our innovation potential, not only through our own research and development, but also by strengthening our company with acquisitions. In doing so, we also entered new territory. For example, we significantly increased our basic research by cooperating with universities within the framework of the ALTANA Institute. In addition, the founding of ACTEGA Metal Print gave rise to the first startup company in the ALTANA Group.

Owing to our customer proximity and service orientation, we were able to take advantage of various business opportunities in our markets. We increased our operating sales by 7 percent and our nominal sales by 8 percent, thus exceeding our growth targets substantially. Acquisitions by BYK and ELANTAS also contributed to this development.

The driving force behind our dynamic profitable growth is our largest division, BYK, which broke the one billion Euro sales mark at the end of 2017. And the division keeps on growing, due, for example, to large expansion projects in Shanghai and Gonzales in the U.S.

The other divisions also contributed to our growth or paved the way for future expansion. In 2017, ECKART boosted its sales more substantially than it had for a long time. ELANTAS is particularly benefitting from the demand in China and is further expanding its site in Tongling. And in a challenging business environment, ACTEGA continues to invest in the future, for example in the modernization of production and research in Bremen.

However, we not only aim to ensure our company's long-term economic success, but also to be sustainable in every respect. Thus, as a member of UN Global Compact, ALTANA

The ALTANA Management Board (from left to right):
Stefan Genten, **Martin Babilas** (Chairman), **Dr. Christoph Schlünken**

actively supports the goals of this organization, the world's most important and largest initiative for responsible corporate management.

By integrating sustainability criteria into our business processes, we took a great stride forward last year. And nearly all of our environmental key performance indicators showed a positive development. In 2017, we already reached our goal of reducing our specific CO_2 emissions by 30 percent in the period from 2007 to 2020. After improving all of our key accident figures in 2016, we did not achieve the goals we set ourselves for the past fiscal year. As a result, we are now focusing even more on measures that will enable further optimization in this important area, too.

Throughout all of this, our ability to change is the engine of our further development. Within the framework of our Keep Changing Agenda, established in 2016, we made significant progress in 2017: We strengthened the strategic management function of ALTANA's holding company and bundled competence and service units, which began work at the beginning of the year as the ALTANA Management Services company. And we also pushed forward the digital transformation of ALTANA, to cite just a few examples.

As in the development of our Keep Changing Agenda, we rely on the integration of our employees in corporate decision-making processes. Furthermore, we are in contact with external interest groups and opinion leaders. We are convinced that only in dialog with people who are associated with ALTANA directly or indirectly can we keep the company on track for the future and create value not only for our customers, employees, and shareholder, but also for society as a whole.

For this reason, in 2017 we intensified our dialog with selected representatives of these stakeholders by means of structured interviews. You can read excerpts in the magazine section of this report. For example, a mayor and a managing director at ACTEGA talk about what constitutes the right degree of citizen participation in expansion projects in the middle of residential areas. An internationally experienced energy expert, who otherwise advises governments, exchanges ideas with the chief engineer of our most energy-intensive operation. The chairwoman of a children's welfare organization in India talks with our CSR manager in that country about the importance of legally required social engagement. The managing director of a Swedish foundation that promotes women in management positions and an employee representative on ALTANA's Supervisory Board talk about what German chemical companies can learn from Swedish firms. And the purchasing manager of one of our largest customers and his key account manager discuss the issue of how innovation can be advanced to continue to benefit both sides in the future, and what role sustainable products play in the process.

Our answer: The people at ALTANA are and will remain our recipe for success. They make ALTANA what it is: a highly innovative customer- and service-oriented company with the courage and will to change, yet at the same time with the staying power needed for sustainable corporate action.

We would like to warmly thank our employees for their contribution to the success and development of ALTANA in the 2017 fiscal year. Thanks also go to the members of the Supervisory Board for their constructive accompaniment and their trust in ALTANA's work.

Martin Babilas **Stefan Genten** **Dr. Christoph Schlünken**

About This Report

Corporate Report 2017

The Corporate Report for 2017 encompasses the annual and sustainability reports, which were brought together for the first time last year. With it, the ALTANA Group informs the public, its employees and business partners, as well as public authorities, nongovernmental organizations, and all other interested parties about the Group's development in economic, ecological, and social respects. In addition to the Group Management Report and the Consolidated Financial Statements (short version), as well as information on the Group's corporate governance, this report contains a description of ALTANA's understanding of sustainable management and the progress the Group has made in implementing it in the past fiscal year. As a result, this report for 2017 updates the content that was published in the 2016 Annual Report (published on March 17, 2017). At the same time, it serves as the annual COP on ALTANA's implementation of the principles of the United Nations Global Compact Initiative.

The Reporting Period

The facts and key performance indicators included in this report are based on different reporting periods.

All financial and human resource information in the Group Management Report and the Consolidated Financial Statements refer to the period from January 1 to December 31 of the previous year.

The reporting period for the environmental key performance indicators changed. They are based on values that were collected between October 1, 2016, and September 30, 2017 (previous year: July 1, 2015 to June 30, 2016). As in the previous year, the data on occupational health and safety refer to the period from January 1 to December 31.

Reporting Principles

In terms of the Group Management Report and the Consolidated Financial Statements, the report adheres to the specifications of the International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements of German commercial law pursuant to section 315 e of the German Commercial Code (HGB). As in the previous years, this was audited and confirmed by an independent auditor. The complete Consolidated Financial Statements including the Notes to the Consolidated Financial Statements are available online at www.altana.com/consolidated_financial_statements_2017.

This report has been prepared in accordance with the GRI Standards: *Comprehensive option*. It is also oriented to the International Integrated Reporting Council's (IIRC) reporting framework. In 2017, ALTANA did not have the key performance indicators based on the standards of the Global Reporting Initiative (GRI) tested by an independent auditor. Detailed information is available online at www.altana.com/sustainability_performance_indicators_2017.

Information on the selection of content based on GRI Standards and regarding the definition of sustainability issues important for the ALTANA Group and its stakeholders can be found in the "Sustainability Management" section (page 7 of this report). A detailed list of all criteria based on the GRI Standards that ALTANA provides information about is available online at www.altana.com/gri_content_index_2017.

This report is available in German and English.

Sustainability Management

ALTANA's Understanding of Sustainability

ALTANA consistently gears its activities to sustained profitable growth. But we can only achieve economic success in the long run if we also bear in mind ecological and social aspects and anchor them firmly in our company.

Our understanding of sustainability as a triad of economy, ecology, and corporate social responsibility is also reflected in ALTANA's mission:

> We provide innovative solutions based on integrated chemical, formulation, and application expertise that make products of daily life better and more sustainable.
>
> Our solutions open up growth or savings potential for our customers and can change entire markets.
>
> As a result, we create value for our customers, employees, shareholder, and society as a whole.

The View of Our Stakeholders

As a globally manufacturing specialty chemicals company, ALTANA has diverse stakeholders with whom the Group and its different companies maintain regular contact and exchange. The content and results of these dialogs are among the factors that inform ALTANA's understanding of sustainability.

Among ALTANA's most important stakeholders are its customers, employees, owner, suppliers, other business partners, authorities, associations, and nongovernmental organizations (NGOs), and our neighbors at the different sites. In the year under review, we updated the stakeholder analysis we performed in the previous year in order to define the important sustainability issues for the Corporate Report 2017. ALTANA's Environment, Health & Safety (EH&S) department and Corporate Communications drafted a materiality matrix with 13 criteria. In doing so, all topics relating to the GRI Standards, existing stakeholder analyses, ALTANA's Keep Changing Agenda for the future, as well as selected best-practice examples in the form of reports and studies were considered.

Within the framework of interviews with 15 national and international external and internal experts, the participants subsequently discussed the draft matrix. They also talked about areas of the value chain where the topics are especially important. In addition, expectations of sustainability management and ALTANA's stakeholder engagement were addressed.

Over the entire process of the materiality matrix, topics were prioritized based on their relevance to stakeholder decisions and the consequences for the ALTANA Group.

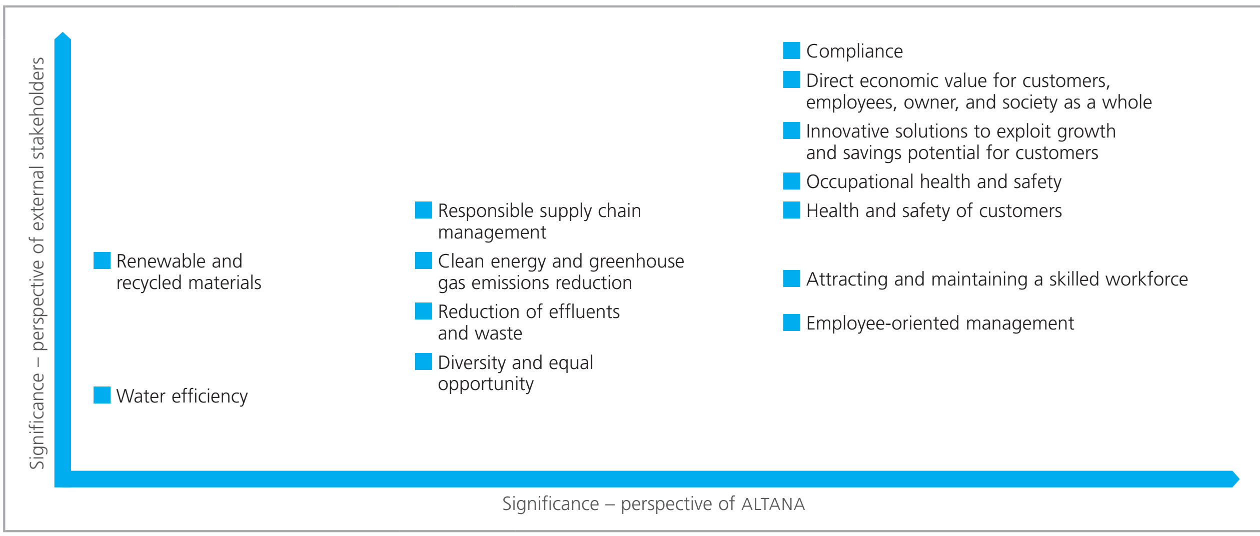
Within the framework of a prioritization workshop, the topics and positions were consolidated into a final materiality matrix and the matrix was checked for completeness with regard to the reporting period (see graphic on the following page). The most important arguments, positions, and sources were documented in a materiality analysis.

The stakeholders incorporated in the materiality matrix, which were identified based on high relevance, came from the areas of customers, suppliers, NGOs, foundations, politics, and institutions. Internally, EH&S, Corporate Communications, Strategy, Procurement, Research and Development, Finances and Controlling, Engineering, and Sales were incorporated.

The materiality matrix in 2017 essentially confirms the 2016 materiality matrix.

Changes and additions are mainly due to a more profound understanding of sustainability. ALTANA will continue to update the materiality matrix on a regular basis.

ALTANA Materiality Matrix



Objective Evaluation of Sustainability

To be able to measure not only the company's business performance but also its involvement in all areas of sustainability, alongside key performance indicators and certified management systems, ALTANA is using objective external evaluations increasingly. The audits of the chemical industry rating company EcoVadis and the Together for Sustainability (TfS) initiative play a special role.

In 2017, two ALTANA companies, ECKART at the Güntersthal and Wackersdorf sites, and ACTEGA DS were evaluated by EcoVadis and received the Gold Status. As a result, ALTANA continued its successful series of assessments. EcoVadis, which analyzes environmental aspects, procurement policy, compliance, and working conditions of companies based on the international sustainability guideline ISO 26000, has become one of the world's leading rating platforms for the chemical industry. 20,000 companies are now registered with it.

The TfS audit is based on a globally uniform sustainability standard and thus is also one of the most important rankings in this area. Another company in the ALTANA Group, BYK-Chemie, underwent the TfS audit. The company had an excellent score, receiving 196 of 200 possible points. The company swiftly implemented the few improvements suggested in the report in the course of the year.

Corporate Governance

Good corporate governance is the basis for the sustainable success of ALTANA. Even as a company not listed on the stock exchange, ALTANA orients itself to the rules of the German Corporate Governance Code.

At least once a year, the Management and Supervisory Boards deal with the regulations of the German Corporate Governance Code and examine which recommendations and suggestions ALTANA can follow even as a company not listed on the stock exchange and sensibly apply within the company given its shareholder structure.

ALTANA follows, or will follow, the vast majority of the applicable recommendations of the German Corporate Governance Code in the current version of February 7, 2017. This especially applies to the recommendations regarding the cooperation between the Management Board and the Supervisory Board, the cooperation between the Chairman of the Supervisory Board and the Supervisory Board plenum, dealing with conflicts of interest of the Supervisory Board members, the setting up and composition of the committees, as well as matters relating to the audit.

Management and Control

The Management Board of ALTANA AG consists of three members, who are appointed by the Supervisory Board for a period of five years. The selection criteria include experience, business and professional expertise, as well as competence in ecology and social responsibility. Considerations regarding diversity also play a role in the selection process. The Management Board members manage the Group independently and are solely committed to the interests of the company. Together with the presidents of the divisions and selected heads of central functional areas, the Management Board forms the Executive Management Team. In regular meetings, this team discusses and analyzes the development of business and important business incidents, as well as plans for the Group's future development and sustainability issues.

The company's Supervisory Board has twelve members. Half of them are employee representatives, elected by Group employees in Germany in accordance with the German Codetermination Act. The remaining six members are elected by the Annual General Meeting. Experience and expertise, as well as independence, are also important criteria in the selection of the members of the Supervisory Board. The members of the Supervisory Board are generally elected for a period of five years. The Management Board regularly reports to the Supervisory Board in a timely and comprehensive manner on all issues relevant for the company regarding business development, risks, and planning, and discusses ALTANA's strategy with the Supervisory Board. Sustainability issues are also discussed regularly at the Supervisory Board meetings. The Supervisory Board monitors and advises the Management Board in its management activities. The Supervisory Board's tasks also include approving the annual financial statements. Specially defined business decisions of the company, such as major acquisitions and divestments, require the approval of the Supervisory Board, in accordance with a list of transactions that are subject to authorization.

The Supervisory Board formed an Audit Committee, a Human Resources Committee, and a Mediation Committee, legally required in accordance with section 27 (3) of the German Codetermination Act. Each committee consists of two shareholder representatives and two employee representatives. The Chairman of the Human Resources Committee and the Mediation Committee is the Chairman of the Supervisory Board, Dr. Klaus-Jürgen Schmieder. The Chairman of the Audit Committee is Dr. Lothar Steinebach. He has the necessary knowledge and expertise in the fields of accounting and auditing in accordance with the German Stock Corporation Act.

There is a D&O liability insurance scheme for members of the Management and Supervisory Boards. The insurance covers personal liability risks in the event that a claim is made against members of the Management and Supervisory Boards while they are performing their activities. The insurance contract stipulates a deductible of ten percent of the damages, but a maximum of one-and-a-half times the amount of the fixed annual compensation of the respective member of the Management or Supervisory Board per insurance year. Further information on the compensation of the Management and Supervisory Boards can be found on pages 71 f. of the online Consolidated Financial Statements.

Compliance

The trust of our business partners and customers, as well as the public, in the lawful and responsible behavior of the ALTANA Group and its employees is decisive for the success and reputation of the company. Compliance is therefore extremely important for ALTANA.

Since 2008, ALTANA has had a so-called Compliance Management-System (CMS). It aims to ensure that its companies and employees abide by the laws, regulations, and internal company rules the non-observance of which can pose considerable risks for the company. The objective of the CMS is therefore to identify the primary risks that can arise through violations of laws and rules, and to assure that the company's employees receive training regarding the content and importance of rules and regulations relevant to them and that measures are taken to prevent infringements of laws and internal regulations.

Furthermore, the CMS aims to ensure that the necessary control mechanisms are implemented so that violations of laws and rules can be detected and terminated. The CMS encompasses nine compliance areas, including corruption, antitrust law, environmental protection and safety, human resources, customs and foreign trade, data protection, financial reporting, as well as taxes and information technology.

ALTANA's CMS follows the ALTANA structure and thus is decentralized. The main responsibility for making sure that the individual subsidiaries and their employees behave in accordance with the rules rests with the local managing directors and the local management. ALTANA AG lives up to its responsibility of ensuring compliance by providing a framework, making competencies available, creating platforms and forums for local authorities, and by taking concrete measures to secure compliance on the part of the management of subsidiaries or to impose minimum requirements, especially through guidelines that are binding Group-wide.

ALTANA's Code of Conduct, which holds for the entire company, contains binding rules regarding responsible, ethical, and lawful behavior for all staff members. This applies in particular to issues such as antitrust law, corruption, conflicts of interest, environmental protection, and discrimination. Together with the company's Guiding Principles, the Code of Conduct provides a guideline for responsible corporate action. The Code of Conduct and our Guiding Principles are published on our website (www.altana.com). Since 2010, ALTANA's employees have been trained with the help of an e-learning program regarding the content of the Code of Conduct and further issues relevant to compliance such as corruption and bribery, as well as competition law issues.

Moreover, for each compliance area further specific measures have been developed and implemented to ensure that laws and internal regulations are adhered to.

Another important element to guarantee compliance is the management system. Since 2016, specifically developed compliance tests have been carried out regularly at ALTANA and its subsidiaries.

With the ALTANA Compliance Hotline ALTANA provides a further central means for ensuring compliance. The hotline gives employees the possibility to report illegal behavior, if need be, anonymously and regardless of levels of hierarchy. In 2018, we are also permitting third parties to use the ALTANA Compliance Hotline to report severe legal violations on the part of ALTANA or its employees.

Once a year, the Audit Committee receives a written report on compliance that is then also presented and discussed in a meeting of the committee. The report gives an overview of the risks identified for each compliance area, as well as of already implemented or planned measures to advance the system. The Audit Committee is also informed about compliance violations in this framework.

ALTANA joined the UN Global Compact initiative, whose members are voluntarily committed to adhering to social and environmental standards as well as the protection of human rights. By joining Global Compact, ALTANA has not only acknowledged its principles but also shown a general commitment to support and promote overall UN aims.

Corporate Bodies and Management

The Management Board

Martin Babilas
Chairman

Responsibility:
- ELANTAS Division
- ACTEGA Division
- Corporate Development / M & A
- Human Resources
- Digital Transformation
- Corporate Communications
- Internal Audit

Stefan Genten

Responsibility:
- Controlling
- Accounting
- Corporate Finance / Treasury
- Tax
- Information Technology
- Legal / Patents
- Compliance

Dr. Christoph Schlünken

Responsibility:
- BYK Division
- ECKART Division
- Innovation Management
- Key Account Management
- ALTANA Excellence
- Environment, Health & Safety
- Procurement

The Executive Management Team

The Executive Management Team is an advisory body in which strategic and operative issues that are important for ALTANA and the divisions are discussed and deliberated on. In addition to the members of the Management Board, the Executive Management Team includes the four presidents of the divisions as well as selected executives of the company.

(in alphabetical order)

Jörg Bauer
Vice President Human Resources

Dr. Guido Forstbach
President Division ELANTAS

Dr. Stephan Glander
President Division BYK

Dr. Andreas Jerschensky
Head of Corporate Development / M & A

Dr. Roland Peter
President Division ACTEGA

Dr. Wolfgang Schütt
President Division ECKART

The Supervisory Board

Dr. Klaus-Jürgen Schmieder
Chairman

Ulrich Gajewiak[1]
Deputy Chairman

Susanne Klatten
Deputy Chairwoman

Dr. Anette Brüne[1]

Dr. Monika Engel-Bader

Armin Glashauser[1]

Olaf Jung[1]

Klaus Koch[1]

Dr. Lothar Steinebach

Dr. Antonio Trius

Stefan Weis[1]

Dr. Matthias L. Wolfgruber

[1] Employee representative

Supervisory Board Committees

The Supervisory Board of ALTANA AG has established the following committees:

Human Resources Committee
Dr. Klaus-Jürgen Schmieder (Chairman)
Ulrich Gajewiak
Olaf Jung
Susanne Klatten

Audit Committee
Dr. Lothar Steinebach (Chairman)
Armin Glashauser
Dr. Antonio Trius
Stefan Weis

Mediation Committee
(in accordance with section 27 (3) of the German Codetermination Act)
Dr. Klaus-Jürgen Schmieder (Chairman)
Ulrich Gajewiak
Susanne Klatten
Klaus Koch

Details on the corporate bodies can be found on page 71 f. of the online Consolidated Financial Statements (www.altana.com/consolidated_financial_statements_2017).

Report of the Supervisory Board

The Supervisory Board of ALTANA AG, carrying out the functions stipulated by law and the Articles of Association, closely followed the work of the Management Board in the 2017 fiscal year. The Supervisory Board dealt in depth with the situation and development of the company as well as with various special issues. The Supervisory Board was informed by the Management Board about the respective agenda items through presentations and oral reports in its meetings. The Supervisory Board also regularly received additional written reports. Between Supervisory Board meetings, the Chairman of the Management Board informed the Chairman of the Supervisory Board about significant developments and events, and discussed pending or planned decisions with him. The Supervisory Board was involved in all major company decisions.

Meetings of the Supervisory Board

In the 2017 fiscal year, the Supervisory Board held four regular meetings and one extraordinary meeting. At the meetings, the economic situation and the development perspectives of the ALTANA Group, as well as important business events, were discussed and deliberated on in detail. The Management Board reported regularly to the Supervisory Board on the sales, earnings, and financial development of ALTANA. In an extraordinary meeting in January 2017, the Supervisory Board approved the acquisition of the PolyAd business with multi-component additives systems, as well as the acquisition of a novel technology for metalizing two-dimensional substrates. Other issues addressed by the Supervisory Board included ALTANA's Keep Changing Agenda, the results of an employee survey, sustainability, digitization at ALTANA, and the company's investment in Landa Corporation. In June, the Supervisory Board dealt in depth with the business of ALTANA's Italian subsidiaries. At its September meeting, the Supervisory Board resolved to renew the Management Board contract of Stefan Genten for five more years, until July 31, 2023. At its meeting in December of the fiscal year, the Supervisory Board dealt extensively with corporate planning for the coming years and with the budget for 2018, which it approved.

Dr. Klaus-Jürgen Schmieder, Chairman of the Supervisory Board of ALTANA AG

Meetings of the Committees

The Human Resources Committee met three times in the year under review. It dealt primarily with issues pertaining to compensation and extending the Management Board appointment of Stefan Genten. The Audit Committee met twice in the year under review. In the presence of the auditor as well as members of the Management Board, the Audit Committee discussed the annual financial statements of ALTANA AG and the ALTANA Group. In addition, it dealt with the statutory audit process mandating the auditor, the setting of audit fees, monitoring the auditor's independence, and the approval of non-auditing services of the auditor. Furthermore, the Audit Committee addressed the identification and monitoring of risks in the Group, the Group's internal auditing activities, as well as ALTANA's Compliance Management System. The Mediation Committee, established in accordance with section 27 (3) of the German Codetermination Act, did not convene in the 2017 fiscal year.

Annual Financial Statements

The annual financial statements of ALTANA AG, the consolidated financial statements for the year ended December 31, 2017, and the management report of ALTANA AG, as well as the Group management report were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, which was appointed by the Annual General Meeting and engaged by the Audit Committee of the Supervisory Board, and it issued an unqualified audit opinion in each case. The system for early risk recognition set up for the ALTANA Group pursuant to section 91 of the German Stock Corporation Act was audited. The examination revealed that the system is suitable for fulfilling its function.

The financial statement documentation, the Corporate Report, and the reports of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft on the audit of the annual financial statements and the consolidated financial statements, as well as the Management Board's proposal for the distribution of the profit, were made available to all Supervisory Board members. The Audit Committee of the Supervisory Board dealt at length with this documentation. The Supervisory Board plenum inspected the documentation and dealt with it in depth at its balance sheet meeting in the presence of the auditor, who reported on the main results of the examination. The Supervisory Board is in agreement with the findings of the audit. Following its final examination, it has no grounds for objection. At its meeting of March 15, 2018, the Supervisory Board approved the annual financial statements and consolidated financial statements prepared by the Management Board. The annual financial statements are thereby adopted. The Supervisory Board evaluated the Management Board's proposal for the distribution of the profit and is in agreement with its recommendation.

Report in Accordance with Section 312 of the German Stock Corporation Act

The Management Board prepared a report in accordance with section 312 of the German Stock Corporation Act on relations with affiliated companies for the 2017 fiscal year. The Supervisory Board inspected this report and found it to be accurate. The auditor issued the following audit opinion:

"On completion of our audit and assessment in accordance with professional standards, we confirm that the factual information in the report is correct and that the consideration made by the company for the transactions listed in the report was not unreasonably high."

The Supervisory Board approved the auditor's findings. Following the completion of its own review, the Supervisory Board has no objections to the Management Board's statement at the end of the report.

Personnel Changes

On March 16, 2017, the Annual General Meeting renewed the appointment of Dr. Monika Engel-Bader and Dr. Antonio Trius as members of the Supervisory Board of ALTANA AG for five more years, and of Dr. Lothar Steinebach as a member of the Board for one more year. At the Supervisory Board meeting on the same day, Dr. Lothar Steinebach was reappointed as the Chairman of the Audit Committee and Dr. Antonio Trius was reappointed as a member of the Audit Committee. At the Supervisory Board meeting of September 21, 2017, Stefan Genten was reappointed as a member of the Management Board of ALTANA AG for five more years until July 31, 2023.

The Supervisory Board would like to express its gratitude to the members of the Management Board, to the company's management, and to the Group's employees for their achievements and commitment during the last fiscal year.

Wesel, March 15, 2018

For the Supervisory Board

Dr. Klaus-Jürgen Schmieder
Chairman

Dialog with our Stakeholders

Only in dialog with the people who are directly or indirectly associated with ALTANA can we set the right long-term course for the future and create value for our customers, employees, shareholder, and society as a whole. For this reason, in 2017 we intensified our dialog with selected representatives of these stakeholders through structured interviews. On the following pages you will find some of these interviews in shortened form.

»FOR THE FUTURE, I ENVISION EVEN STRONGER R&D COOPERATION.«

Detlev Lindner
Head of Key Account Management, ALTANA

»WE ARE PARTICULARLY BENEFITING FROM ALTANA'S INNOVATIVE POTENTIAL.«

Suraj Krishnan
Global Procurement Director,
Direct Materials & Packaging, Axalta

Mr. Krishnan, how important is ALTANA's innovative potential for you as a customer?

Suraj Krishnan: ALTANA's potential to innovate is very important. Innovation, with an eye to sustainability, is of the utmost importance for the long-term success of our two companies. High-quality products and impeccable service are no longer unique selling points today. But what distinguishes us from others is the combination of our products' quality, technology, and sustainability. ALTANA and Axalta entered into a promising collaborative venture, and we at Axalta are particularly benefiting from ALTANA's innovative strength.

What is your appraisal of the pressure to innovate in the industry in general? Have you noticed any changes in the last 10 to 15 years?

Suraj Krishnan: In my view, the pressure to innovate has ramped up over the last five to ten years. Just look at China and India; it used to be enough to sell products originally developed in the West into Asia. Today, consumers and customers in emerging countries are no longer satisfied with this and are calling for innovative solutions that are tailored to their needs, but that also consider environmental and sustainability aspects. In this context, innovation does not mean having the newest and most expensive product on the market, but the product that best fulfills customers' requirements.

Detlev Lindner: I agree completely. The market has changed considerably in recent years. Today, sustainability and pricing aspects play a much bigger role than they used to. Regulatory requirements for protecting the environment have become more stringent. In the end, though, these requirements help us remain successful because they compel us to be innovative in this area. For instance, when the authorities in China decide from one day to another to switch from solvent-based to water-based systems. In such situations innovation is extremely important.

You addressed the topic of sustainability. What role do environmental aspects play in the choice of suppliers? Are there criteria or a standardized process for this?

Suraj Krishnan: We at Axalta want to ensure that environmental and sustainability standards are assured across the entire supply chain. We are committed to this aim and expect the same from our suppliers. We have written down our requirements transparently in our code of conduct and in our corporate values. Also, we developed a catalog of requirements for existing and potential suppliers, the Axalta Supplier Code of Conduct. In it, alongside sustainability aspects, we explicitly address human rights issues, compliance rules, and safety standards. In this context, sustainability means more than environmental compatibility for us. We are also concerned with social and governance aspects.

When we talk about sustainability aspects, they go hand in hand with regulatory requirements, either ones we have set ourselves or ones initiated from the outside. What concrete effects do these requirements have on development and manufacturing? Can you give us an example?

Detlev Lindner: Take paints for the automotive industry, for example. The paint shop consumes about a third of the energy in an assembly plant. At the request of customers, we are working on solutions that help reduce the layers of paint and eliminate energy demanding curing steps needed to paint a car. Another example is the reduction of transport distances. For this reason, we are manufacturing locally in our most important core markets to an ever-greater extent, for example at BYK.

Let's stick with the automotive industry: We talked about sustainability in manufacturing. But how can you ensure that your paints will contribute to the sustainability of automobiles in the long run?

Suraj Krishnan studied chemical engineering and has been Global Procurement Director, Direct Materials & Packaging at Axalta since 2014. In this capacity, he is responsible for all materials needed for coatings and their packaging.

Detlev Lindner is head of Key Account Management at ALTANA, an area he has helped build himself since 2009. He has been with ALTANA since 2002. In the first eight years, he headed the Coating Additives business line at BYK.



CONVINCING COLLABORATION
KEY ACCOUNT AXALTA

Axalta awarded ALTANA companies Supplier of the Year in 2016, the first year of the program, and in 2017. The partners engage in regular exchange regarding innovation.

2017 – AWARD
"SUPPLIER OF THE YEAR"

The successful collaboration between Axalta and ALTANA has opened up new perspectives. Currently, the two companies are thinking about intensifying their cooperation in research and development.

Suraj Krishnan: Coatings are all about sustainability. Their primary function is to protect the vehicle parts being coated, enabling them to last longer and perform better. Next, to protect those substrates from corrosion, climate, road conditions, and more year after year, our coatings must themselves be durable and sustainable. Some of our latest coatings support fuel efficiency by being formulated for lightweight vehicle parts which help fuel efficiency. And I'd be remiss not to add that in most cases our coatings also need to be beautiful. But sustainability goes yet further for us at Axalta. Our technologies enable us to reduce waste in vehicle repair business. In the old days, body shops first had to mix different paint samples and then compare the color with the paint on the car to get the correct color match. The original paint can fade over time. This required a lot of re-work and wasted paint. With the help of BYK-Gardner's handheld spectrophotometers body shops now match the exact color shade without trial and error and speed up the repair process.

Axalta and ALTANA are working well together in many areas. What are your wishes for the future?
Suraj Krishnan: ALTANA, and especially BYK and ECKART, are part of our initiative to improve collaboration with suppliers. We meet quarterly to discuss current issues – operative, technological, or commercial ones. The topic of sustainability always plays a role, even when it is not addressed firsthand. It hovers over everything. For the future, I would like us to be able to learn more from one another in terms of how to help our customers reduce their environmental footprint, and to optimize our own as well.
Detlev Lindner: I agree with Suraj. In my view, the cooperation between Axalta and ALTANA is excellent. But of course there is always room for improvement. For the future, I envision stronger cooperation between ALTANA's research and development and Axalta, in order to better understand what the market needs.

»THROUGH ACQUISITIONS WE ACCELERATE OUR GROWTH.«

Oliver König
Head of Finance and Controlling at ALTANA AG

»OUR GOAL WAS TO FIND A BUYER WHO WOULD FURTHER DEVELOP OUR BUSINESS.«

Frank Wright
Consultant, former Managing Director of
Clay-Based Additives at Rockwood

Mr. Wright, in 2013 ALTANA acquired the rheology business of the U.S. company Rockwood Holdings Inc. You were responsible for this area at the time. What were the most important reasons for the sale?

Frank Wright: In Rockwood's view, the time was ripe for finding a buyer that could push ahead the attractive business, which would require further investments in research and manufacturing. It was also important that the buyer could offer the employees a perspective for the future, which was something ALTANA could do. I think that the business area was very compatible with what ALTANA was seeking at the time, namely, to strengthen its international rheology business. In addition, there were synergies and cross-selling potential. Last but not least, the acquisition offered ALTANA access to new business fields such as the oil and gas sector.

Mr. König, what was ALTANA's perspective?

Oliver König: In addition to strengthening its rheology business and expanding to the U.S., other important factors were the possibility to enter different markets, raw materials, manufacturing technologies, above all in the oil and gas sector. With Rockwood's rheology business we could advance our diversification strategy. Why? While rising oil prices and the resulting higher raw material costs could burden the profitability of our core activities, ALTANA's oil and gas business benefitted from this development due to the increased mining activities.

How did the integration work run?

Oliver König: Very well! It was the second-biggest acquisition we had made at ALTANA hitherto. And we have made many. Nevertheless, the integration into the BYK division generally ran smoothly. The secret of our success? Our employees! I remember a great welcoming video consisting of personal messages from employees around the world. The comprehensive cooperation announced during staff meetings at the new sites was reflected in the structure of the integration process. The subprojects, which ranged from IT and purchasing to R&D, were jointly led by a manager from BYK and the former CBA.

Frank Wright: It quickly became clear that we at Rockwood were not competing with ALTANA. The employees saw the advantages of being part of a strong group of companies. At an early stage, the top management informed the staff at employee meetings at the four Rockwood sites that ALTANA was investing in the company to grow its business. The employees were given a convincing perspective. ALTANA's values were also discussed. This was a new experience for the employees and bolstered their commitment. From then on, nearly everything ran smoothly in the integration work.

What role does innovation potential play for an acquisition?

Oliver König: Innovation is our most important growth driver. Our own research and development plays a decisive role. But we can accelerate this growth by acquiring other innovative companies or parts of companies.

Does ALTANA favor internal or external financing when it makes acquisitions?

Oliver König: Our own financial strength is very important to us. So we observe and manage it continually with our controlling instruments: liquidity, balance-sheet, and earnings planning. On this basis, we can quickly draw up a financing plan.

And when you have decided on an acquisition …

Oliver König: … then we usually first use our internal financial strength from existing operating cash flow for the acquisition. Operating cash flows of 300 to 400 million Euros a year give us enough leeway to do so. In 2017 alone, we took over five

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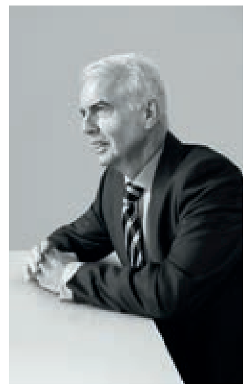
Frank Wright is a biochemist who began his career as a technician in the food industry. Subsequently, he worked for the British chemical company Laporte Industries; parts of Laporte were sold to Rockwood. When BYK acquired Rockwood's clay-based additives (CBA) business, he became a member of BYK's management. He has been active as a consultant since 2017.

Oliver König is the head of Finance and Controlling at ALTANA AG. He began working at ALTANA as head of Investor Relations. After the ALTANA Group withdrew from the stock exchange in 2010, he became a member of the corporate controlling team, which he headed until 2016. After a stint as head of the Group Treasury, he is now in charge of finances and controlling at ALTANA's holding company.





EXPANDING OUR RHEOLOGY BUSINESS
SECOND-LARGEST ALTANA ACQUISITION

By acquiring the rheology business of Rockwood Industries, the ALTANA Group pushed ahead its consistent orientation to growing specialty chemical markets, strengthened its additive portfolio, and opened up new growth fields.

635 MILLION U.S. $
INVESTMENT

The rheology business was successfully integrated into the BYK division, making BYK one of the world's leading suppliers of rheology additives. With the help of these additives, the flow behavior of all kinds of materials can be optimized.

businesses and technologies and financed them all from our cash flow. In the case of bigger acquisitions, we rely on medium-term financing instruments such as credit facilities and promissory loans.

What about non-financial aspects?

Oliver König: The most important thing about an acquisition is the employees. We have to ensure that the top performers stay on board and are ready for integration. Because we can't be successful without them. And that has to do with the corporate culture. In the due diligence process, when the pros and cons of a transaction are examined, non-financial parameters are also important, especially when it comes to environment, safety, and health. We check to see exactly how our non-financial targets are influenced by an acquisition.

Alongside employees, there are other stakeholders such as suppliers, customers, and neighbors …

Frank Wright: … exactly. Their needs should not be underestimated. Some stakeholders didn't know who ALTANA was. So we described ALTANA in more detail to people locally, its tradition, values, working conditions, and plans for the future. It is extremely important to explain to local decision-makers what improvements there will be for them.

Oliver König: Ultimately, it is important that we can create value at relevant stakeholder levels. It is essential to know that ALTANA has a long-term orientation. We want our business to continue to grow in the future and thus create value for the different stakeholder groups. When ALTANA comes aboard as the new owner, this should give the important stakeholders a good feeling.

»OUR NEIGHBORS CAN ALWAYS APPROACH US WITH THEIR CONCERNS.«

Dr. Thomas Sawitowski
Managing Director of ACTEGA Rhenania

»I AM A MAYOR BE-
CAUSE I WANT
TO CARRY PEOPLE
ALONG.«

Klaus Krützen
Mayor of the city of Grevenbroich

Mr. Krützen, how important in your experience are local site factors and having a sufficient number of local employees and suppliers?

Klaus Krützen: Extremely important! In many companies, people from Grevenbroich and the Rhine district of Neuss constitute the core group of employees. And when contracts are awarded local needs are considered to view the region as a whole and to strengthen it. We in Grevenbroich can say that the cooperation with companies is very good. This is reflected by the fact that both big and small companies generate considerable value locally.

Dr. Sawitowski, what role do the company's regional roots play for its long-term success?

Dr. Thomas Sawitowski: Our company is successful locally. One reason is that despite our international orientation we have local roots. An example is our employees. Around 90 percent of our staff lives within a radius of 20 kilometers. And some of our employees are third-generation ACTEGA Rhenania staff members. We are quite proud of this great allegiance! And it is very important for us, because our company's success depends in large part on having loyal, qualified employees. That's why we are investing strongly in staff training and education. We have a high trainee rate, seven percent.

Isn't it difficult to get enough young talents interested in a region that is undergoing structural change …

Klaus Krützen: … presumably you are alluding to the fact that Grevenbroich is closely associated with lignite?

That's right.

Klaus Krützen: But that is no longer the reality found here. Our residential and leisure value can certainly hold their own against those of other cities and regions. Grevenbroich is a green city. Life here is rural and rustic, but thanks to the excellent infrastructure people can reach big cities quickly. So it's important to me that we take a closer look at the region in our discussion. Then you will see that we are well linked to different airports and have an outstanding infrastructure. These are valuable assets.

Where do you see potential for action?

Dr. Thomas Sawitowski: First, I would like to point out that we have been at this location for more than 100 years. At this site, we successfully create value for customers, employees, our owner, and the entire company. We develop and manufacture a number of products that people come into contact with on a daily basis. An example is our special coatings for coffee capsules. By the way, with our new customer technical center we now offer our customers the opportunity to test new packaging trends locally.

How many employees can the new laboratory building accommodate?

Dr. Thomas Sawitowski: Of the 150 employees at the site, initially around 50 will carry out their work there. Thanks to the ideas that will be developed in our new laboratory building, in the future, too, we will be able to sustain our position on the world market from Grevenbroich. This should not be taken for granted, and we can't rest on our laurels. For example, the city has grown closer and closer to us. Today, we at ACTEGA Rhenania are even integrated in a residential environment, which poses new challenges such as noise pollution from truck traffic. But we are finding solutions to such challenges, as we did in the past. We continue to believe in the site. Having said that, I must add that it is becoming harder and costlier to implement measures to expand the site. Because there are more and more hurdles on the way to implementation.

As a local politician, is your main task to mediate between companies and citizens?

Klaus Krützen has been the mayor of the city of Grevenbroich since November 2015. Previously he worked as a teacher and a school principal.

Dr. Thomas Sawitowski has been the managing director of ACTEGA Rhenania GmbH since October 2013. Before that, he worked for BYK-Chemie GmbH and thus for one of the ALTANA Group's four divisions.

ACTEGA IN GREVENBROICH
NEW LABORATORY BUILDING

Encompassing 5,700 square meters, the new laboratory building is twice as large as the two previous labs at the site. Now research and development, quality control, and technical service are all under one roof.

+ 100 % LABORATORY SPACE

In the new laboratory building, processes have been merged and thus optimized. Customers are now supported more efficiently with new developments. Around ten million Euros were invested in the building.

Klaus Krützen: I am a mayor because I want to carry people along. People want to be integrated. And that is their right. But sometimes, when weighing up private and public interests, I have to acknowledge certain things and decide otherwise. Please don't get me wrong. Decisions should and must not be made over the public's heads. But unfortunately it is very hard to reconcile everyone's interests.

Do we need new forms of cooperation between politicians and companies in order to better explain local needs?

Klaus Krützen: What is decisive is to sit down and talk about such issues in a timely manner.

Dr. Thomas Sawitowski: The cooperation between Mr. Krützen, the administration as a whole, and our company is working well. We work in consultation with the authorities. That enables us to talk openly with each other, even with short official channels, whenever it is possible and sensible. And we also invite neighbors to discuss matters with us.

How exactly does this transpire, for example when a new laboratory building is built?

Dr. Thomas Sawitowski: At the meetings, we present our plans to them and entertain their questions. Also, our neighbors can always approach us at ACTEGA Rhenania with their concerns, personally, by email, or over the phone.

To return to the subject of private versus public interests, do things really always run smoothly?

Dr. Thomas Sawitowski: No, but that's not surprising. During the construction phase there were adversarial conversation situations. But there were also very friendly encounters. After the building was completed, a neighbor approached me in the parking lot and said that it was a beautiful building after all!

»WE HAVE TO TRANSFORM INTO A KNOWLEDGE SOCIETY.«

Benoît Lebot
Executive Director of IPEEC (International Partnership for Energy Efficiency Cooperation)

»BEST PRACTICE AND PERSONAL COMMITMENT ARE THE KEY TO SUCCESS.«

Tricia Schaffrik
Head of Global Engineering Services at ECKART

Mr. Lebot, you've just returned from the UN climate conference, COP23. Is the chemical industry taking responsibility for reaching the climate goals?
Benoît Lebot: The chemical industry is no different from other industries in this respect. We all have to face the fact that climate change has long been a reality. But we can limit the consequences of climate change. However, the known solutions for limiting greenhouse gas emissions in accordance with the Paris Agreement are not being harnessed sufficiently.

… because the industry isn't committed enough?
Benoît Lebot: I'm sure that industrial companies like ALTANA have already made great progress. But is that which has been achieved commensurate with the long-term goals we agreed on in Paris? To prevent global warming of more than 1.5 degrees Celsius, we have to change the way we are managing economic development. I do see encouraging steps being taken, but do not think we have fully mobilized our forces, which is indispensable to this end. In particular, governments and institutions are called upon to push ahead dialog at all levels – government, the private sector, and society as a whole – as well as an exchange of best-practice solutions.
Tricia Schaffrik: I agree with you, but I'd like to add one important point. Energy and sustainability management is also a cultural issue. If a company or a nation is not prepared to anchor this conviction in its culture, it cannot be successful in the end. That's why we at ALTANA are establishing the necessary links between our management programs and our corporate culture.

What considerations played a part in the decision for a combined heat and power plant at your site in Hartenstein near Nuremberg?
Tricia Schaffrik: We took the decision in an environment of rising electricity prices, when the use of combined heat and electricity production was supported by subsidies. And not least of all, we sought to develop our own ideas on how to reduce CO_2 emissions. Building the plant was a big investment for us. We want to make our contribution, there's no doubt about that. But we also have to think and act economically as a company.

What other measures have you taken?
Tricia Schaffrik: Since 2007 we have pursued several projects, first and foremost the switch from oil to natural gas, but also the reduction of compressed-air leaks, heat recovery from compressors, as well as the use of highly efficient motors and controlling them via frequency converters. The successes achieved are the low-hanging fruit, as it were, which we are able to harvest quickly. However, we've reached a point where it is becoming more and more difficult to identify further savings potential. At bottom, the methods used to successfully manufacture our products have not changed for around 100 years. But now we have to change these established processes to further increase our energy efficiency.
Benoît Lebot: That's music to my ears! The determination to take the next step, to initially improve every single plant and then to take a step back again, in order to understand the entire process and its consequences for climate protection, to be able to take appropriate action … This attitude and approach illustrate what it's all about. We have to transform into a knowledge-based economy. The most important untapped potential is that which is in our heads. And there are already a number of instruments, including ISO 50001…

… a worldwide valid standard of the International Organization for Standardization (ISO), which aims to support

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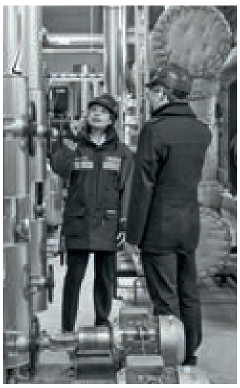
Benoît Lebot is the Executive Director of IPEEC (International Partnership for Energy Efficiency Cooperation) in Paris, whose members include 17 of the G20 countries. Lebot studied civil engineering. Before joining IPEEC in 2014, he worked for the United Nations Development Program (UNDP).

Tricia Schaffrik studied mechanical engineering at West Point Military Academy and completed her master's degree in St. Louis (U.S.). She began her career at ALTANA in a branch of the ELANTAS division in the U.S. Since 2015, she has been head of Global Engineering Services in the ECKART division in Hartenstein near Nuremberg.



RELIEF FOR THE ENVIRONMENT
CHP AT ECKART

In 2017, ALTANA already reached its goal of reducing its specific CO_2 emissions by 30 % in the period from 2007 to 2020. The investment in a combined heat and power plant (CHP) at ECKART made a decisive contribution.

- 30 % CO_2-EMISSIONS[1]

The new combined heat and power plant helps ECKART reduce its energy costs by up to 700,000 Euros a year. In addition, CO_2 emissions can be lowered.

organizations and companies in the development of systematic energy management systems …

Benoît Lebot: … precisely. It is a very good method of enabling energy management in every system. But it is used much too seldom.

Ms. Schaffrik, what is ECKART's attitude to ISO 50001?

Tricia Schaffrik: ECKART has been ISO 50001 certified since 2012. This instrument helped us have a more structured approach to energy and sustainability management. It is a very good approach for determining our position regarding energy efficiency and future action. But here too we have to deal efficiently with the personnel resources used for this.

What could help? Perhaps a software?

Tricia Schaffrik: I'm not an advocate of a global approach to hardware, software, or platforms. Why? Because as an American in Germany I know that national, cultural, and methodological differences should not be underestimated. Like Mr. Lebot, I'm an advocate of knowledge exchange, of best practice and personal commitment. That's important for success. That's what we need.

What can best practice look like?

Tricia Schaffrik: We have to measure and understand the processes completely, in other words, we have to know where, how much, and what kind of energy is used at every minute of the day. With this understanding and the data in real time, we can decide where to best use the heat and electricity that are generated. We can share this experience in the company – as well as at regional forums – and transfer it to other applications.

Benoît Lebot: Your remarks, Ms. Schaffrik, very aptly show that we can only change the energy system if we understand it. The exact same thing is true when it comes to climate protection goals. We have already been able to pick a few low-hanging fruits. But we also have to find the ones that are hanging higher or that are difficult to recognize. That's why we need knowledge-based approaches, access to data. Only when we pick the other fruit, too, can we reach our global climate-protection goals.

[1] Total amount in relation to the gross value added.

»COMPANIES WITH GREATER DIVERSITY ARE OFTEN MORE INNOVATIVE AND PROFITABLE.«

Christian Berg
Managing Director of the AllBright Foundation in Germany

»WE HAVE GREAT POTENTIAL.
LET US BE EVEN BOLDER!«

Dr. Anette Brüne
Head of Strategic Business Development
BYK-Chemie GmbH

Mr. Berg, due to your position at the foundation you know the circumstances in Germany and in Sweden very well. Why are there fewer women in German companies than in Swedish ones?

Christian Berg: Equality has been a greater focus in Sweden than in Germany since the 1970s. This has a lot to do with the tighter job market, but also with gender-equality policies. So the gender roles known in Germany are not very pronounced in Sweden. Also, economic change is a factor in Sweden. The diversity issue is not limited to the question of men or women, but is also a matter of competitiveness. Companies want to have the best people, and that means both the best women and the best men.

Dr. Brüne, you are one of the women in ALTANA's leadership team. Where is there room for improvement?

Dr. Anette Brüne: We have increased the share of women in leadership positions to around 21 percent worldwide. At the top level, in particular, we have to intensify our efforts even more.

Why?

Dr. Anette Brüne: As a chemical company, we are male dominated. Also, the share of women in the ALTANA Group as a whole is only 30 percent. We have to hire, develop, and promote more women so that they can move up into leadership positions. Furthermore, the existing role models in top management are not sufficient. It was and remains a very homogenous group, still male dominated, with very similar manager types. But the process of cultural change has been set into motion. Men are opening their circles more and more. They are realizing that it is beneficial to work with women in mixed teams. And many of them are actively participating in our mentoring program for women.

Is it only because of the men?

Dr. Anette Brüne: Not at all. The women also have to want to take on responsibility and have the confidence to advance. They have to be encouraged to do so. A push-and-pull situation is ideal.

What is more promising, top down or bottom up?

Dr. Anette Brüne: In many companies, including our own, this change can only be brought about from the top down. The top management has to want a change.

ALTANA intends to increase the number of women in leadership positions to 30 percent by 2025. Is this quota necessary?

Dr. Anette Brüne: I personally was skeptical at first. I thought there were enough well-trained women who could forge ahead if they wanted to. But then I saw that there was hardly any progress. So I think the quota is very helpful for initiating this change and provoking discussion.

Christian Berg: That has also been our experience. There has to be a certain amount of pressure. Homogeneous groups do not necessarily change voluntarily, even if the mindsets are good and the men are pioneers. The management has to be involved and committed. Bringing women into leadership positions has to be a management issue! There have to be clearly defined goals and they have to be controlled.

What advantages do companies have that change their structures?

Christian Berg: According to studies, companies with greater diversity in leadership positions, in other words with more women, different nationalities, and so on in these roles, are often significantly more innovative and profitable. You know, typical homogenous thinking is a big disadvantage. Because if everyone thinks the same way, no one questions anything. Yet it is only when things are called into question that room can be created for

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Christian Berg is the managing director of the Swedish AllBright Foundation in Germany, which works to increase the number of women and promotes diversity in business leadership positions. Previously he had been a diplomat for almost ten years at the Swedish Embassy in Berlin.

Dr. Anette Brüne is the head of Strategic Business Development at BYK and a member of the Supervisory Board of the parent company, ALTANA AG. Brüne, who has a PhD in chemistry, has worked for ALTANA since 2003.

MORE WOMEN IN MANAGEMENT
LEADING WOMEN @ ALTANA

ALTANA wants more diversity in top management positions. Within the framework of LEADING WOMEN @ ALTANA, programs such as Mentoring for Women aim to improve the share of women in top management.

30 % SHARE OF WOMEN

In Sweden, the topic of diversity is not limited to the question of man or woman, but is also a matter of competitiveness. Swedish companies want the best people, which means the best women and the best men.

new ideas and approaches, and the risk of wrong decisions being made can be reduced. In addition, companies can offer not only women, but also special talents in general, as well as lateral thinkers, sufficient room for development. Many Anglo-Saxon investors have already recognized these key success factors. If there are no mixed teams in the company's management, they are reluctant to make investments. Even if the company is very profitable and innovative today, the signs for the future are not good.

What are the most promising measures a science-driven company like ALTANA can take to promote diversity?
Christian Berg: Corporate culture plays a key role. ALTANA is working hard on its corporate culture. And it's also important that the men are not forgotten. They should be motivated, say, to take parental leave like the women, or to use flexible work models. Because then employees with and without children, both younger and older people, can feel welcome in a company and develop further.
Dr. Anette Brüne: We have adapted to employees' changing needs, and in the process introduced trust-based working time. At ALTANA's biggest sites in Germany, mobile working is permitted, and people can work in home offices. Moreover, we offer various individualized part-time models, for example after the birth of a child.

What are the next measures?
Dr. Anette Brüne: Mobile working should be extended to other sites. There are still areas in which the time employees are actually in the office is still a key factor. At the same time, we are working increasingly in international project teams, across sites and time zones. Future success means changing the way management thinks and acts.

What form should this take?
Dr. Anette Brüne: ALTANA's management should be result and solution oriented. The leadership style should be cooperative and motivating. Managers should have a trusting attitude toward employees, giving them the freedom to work independently. We are on the right track, but there is still potential for improvement. Let us be even bolder!

»GIVING PEOPLE TIME. THAT TRANSCENDS LEGAL REGULATIONS.«

Dr. Kalyani Mandke
Chairwoman of Suhrud Mandal, an NGO specialized in educating hearing-impaired children

» WE DERIVE ENERGY AND MOTIVATION FROM SOCIAL ENGAGEMENT. «

Shirish Dabir
Head Legal & Company Secretary
at ELANTAS Beck India

Dr. Mandke, how important is corporate social engagement in India?

Dr. Kalyani Mandke: In India, the gap between rich and poor is very, very wide. International nongovernmental organizations, NGOs for short, want to and can help to bridge this gap, for example, in the two central fields of education and health. But involvement at the level of ideas alone is not sufficient. Successful support work also requires knowhow and financial resources. By cooperating with companies, we can help things take a turn for the better. Let me add this: We often see that companies' involvement starts to flag when the company is faced with major internal challenges. This has never been the case at ELANTAS Beck India!

Why is that, in your opinion?

Dr. Kalyani Mandke: Each person works for his individual happiness, for her very personal goals. But it is equally important to give something back to society. Because society enabled us to reach our goals. The two things go hand in hand. Giving people some of your time makes a difference in life. That gives helping people a new perspective, indeed even meaning in their lives.

Mr. Dabir, what are the most important reasons for social engagement, in your view?

Shirish Dabir: Dr. Mandke rightly observed that social engagement is very important to us. We use society's resources. So it is our responsibility and duty to give something back to society in return. We at ELANTAS Beck India have been involved in certain social-engagement activities for a decade; however, we have been very actively involved now for nearly three years.

What is the focal point of your support?

Shirish Dabir: Here in Indian society, there are strong needs, particularly about getting a decent school education. Many people are trapped in a vicious circle. Families with very little money cannot offer their children a good education. Later, being poorly educated, these people do not earn enough money to pay for a good education for their own kids. So, improving educational standards is our most important objective. This should also be seen in the context of the ALTANA's general focus on funding education and science.

And how important is health as a social objective?

Shirish Dabir: Very important! India's Prime Minister has initiated a countrywide "Clean India Mission" to improve people's health and hygiene. It's a good initiative for a noble cause, because many people live in slums below the poverty line. As a result, the standards of health and hygiene are dangerously low. Helping to improve these standards is another, equally important objective for us alongside education.

Dr. Mandke, has ELANTAS Beck India set the right priorities?

Dr. Kalyani Mandke: Yes! And I'll tell you why. Almost 20 percent of the Indian population lives below the poverty line. The illiteracy rate is around 66 percent. Having recognized this, ELANTAS Beck India is concentrating on improving education as well as health and hygiene. Focusing – that's the right path. Because financial resources and the employees' time and ability to help are limited.

How long should projects be accompanied in your experience?

Dr. Kalyani Mandke: Three to five years is a good time span. The fact is that you can't get any result in just one year. And over this period of time there's no need to worry that the activities are just a drop in the ocean.

Dr. Kalyani Mandke is an audiologist who has had her own clinic in Pune, India, for 35 years. She is also the Chairwoman of "Suhrud Mandal". The NGO runs four schools for hearing-impaired children and has taken a number of measures to improve their future opportunities.

Shirish Dabir has more than 30 years of experience in the industry. The business graduate and lawyer has worked for more than 11 years for ALTANA's subsidiary ELANTAS Beck India in the fields of Legal and Compliance and is also responsible for the company's social engagement.



ELANTAS BECK INDIA
PROMOTING EDUCATION IN INDIA

ELANTAS Beck India and Suhrud Mandal have worked together since 2012. The ALTANA subsidiary supports the NGO financially with a total of almost 5.4 million Indian Rupees and with donations in kind such as computers.

400 CHILDREN HELPED

More than 400 children attend schools of the NGO, which specializes in providing education to hearing-impaired students. School materials especially developed by Suhrud Mandal enable hard-of-hearing children to learn.

Since 2014, companies in India have been legally obliged to be socially committed. What role does this play in the activities of ELANTAS Beck India?

Shirish Dabir: We were socially committed even before this law came into force. For example, we supported Suhrud Mandal for the first time in 2012, when we gave them the paint for painting their school building. ELANTAS Beck India has always helped whenever there were any natural disasters afflicting the country. Our employees even donate money from their own pockets in such cases. So you can see that we have always lived up to our social responsibility. The only difference to the time before the law came into effect is that our activities are now more structured and better organized.

How are you proceeding exactly?

Shirish Dabir: We have framed a policy, identified the focus areas of our support, and formed a decision-making committee. The CSR team then obtains references and further information, also locally. New project suggestions are evaluated and presented to the decision-making committee, consisting of two independent directors and the managing director of ELANTAS Beck India, for the final decision.

Dr. Mandke, what in your opinion are the success factors for cooperation between companies and NGOs?

Dr. Kalyani Mandke: The most important success factor is indeed financial support. In most cases, the companies give us the freedom to decide how to use the money. The disadvantage is that while many companies make resources available, they later lose interest in our work. But the companies and their employees could also benefit from closer cooperation. As I said, social commitment not only changes the world of the needy for the better, but also opens up new perspectives for those who provide assistance. More companies should become aware of this.

Shirish Dabir: I agree completely. Through this kind of even closer cooperation between companies and nongovernmental organizations we gain more insight into the tasks involved and can derive a lot of energy and motivation to work with more zeal on behalf of our company for such social causes.

Group Management Report

The 2017 fiscal year was successful for ALTANA. In an increasingly challenging market environment – primarily due to rising raw-materials prices – we were able to increase our sales significantly and our earnings slightly. Through acquisitions of business activities and promising technologies, as well as high investments in our core business, we paved the way for further profitable growth. Our excellent financial position will enable us to implement our growth strategy in the years to come by making the necessary investments.

Group Basics

Organization and Legal Structure

The ALTANA Group is a global supplier of specialized chemical products and related services for different branches of industry and application fields. In the 2017 fiscal year, the Group's 67 consolidated subsidiaries and associated companies achieved sales of approximately € 2.2 billion. The ALTANA Group employs about 6,200 people.

ALTANA's activities are grouped into four divisions, each of which has its own management and organizational structure. The divisions and the Group companies assigned to them are decentralized and empowered to largely make market-, location-, and product-related decisions themselves. The divisions are active worldwide and have their own production sites and sales offices as well as research and development laboratories in the regional markets that are important for them.

ALTANA AG, headquartered in Wesel, is a stock corporation in accordance with German law. As the ALTANA Group's managing company, it assumes strategic control of the Group and the divisions. ALTANA AG is led by the Management Board, whose members act on their own responsibility and are solely committed to the interests of the company. The Management Board's activities are monitored by the Supervisory Board, whose members also advise the Management Board. More information on ALTANA AG's management and control system is provided in the Corporate Governance section of this report.

All of the shares in ALTANA AG are held by SKion GmbH, Bad Homburg v. d. H., Germany, an investment company owned by Susanne Klatten.

The decentralized organizational structure combines the individual operating units' ability to act swiftly and cater to the needs of markets and customers with the advantages of a financially strong and internationally active group. The organization is designed to adapt flexibly to changed market conditions and a volatile economic environment. In addition, new activities can be integrated into the organization in a short time.

Business Activity and Divisions

As a globally active specialty chemicals group, ALTANA focuses its core activities on sophisticated markets and customers who need individual solutions.

A significant share of the ALTANA Group's product and service portfolio encompasses input materials for the production of coatings, printing inks, and plastics. In addition, ALTANA manufactures printing inks and coatings for special applications, insulating resins for the electrical and electronics industries, sealants for packaging, and measuring and testing instruments.

Activities of the Divisions

BYK

The BYK division is one of the leading international suppliers of special-purpose ingredients, so-called additives, used in coatings and paints, plastics, gas and oil exploration, and other industrial applications. The division's products, most of which are used in only very small amounts, have a decisive influence on the properties of their customers' end products or enable customers to improve their manufacturing and industrial processes.

Wetting and dispersing additives, one of the division's main product groups, help improve the distribution of pigments and filling materials, and enable them to function better, for example in coatings and plastics. With the help of defoamers and air-release additives, foaming is prevented during the manufacture of coatings and paints as well as in end customers' applications. Surface additives are used to produce special properties such as shiny, matte or especially smooth surfaces. Rheology additives improve, for example,

Business divisions and product portfolio

ALTANA

BYK	ECKART	ELANTAS	ACTEGA
Paint additives	Coatings	Wire enamels	Closures
Plastics additives	Graphic arts	Electrical	Flexible packaging
Industrial applications	Cosmetics and personal care	Electronic	Labels
Exploration technology oil/gas	Plastics industry	Engineering materials	Paper-based packaging
Measuring and testing instruments	Functional applications		Publication and commercial
			Rigid packaging
			Specialty consumer goods

the flow behavior of coatings and plastics. The division also manufactures measuring and testing instruments that are used to determine surface properties, color shades, and optical effects.

BYK-Chemie GmbH, based in Wesel, is the management company of the division. In addition, it is the division's biggest production and development site for additives and the ALTANA Group company with the highest sales.

BYK also produces at other sites in Germany, the Netherlands, Great Britain, as well as in China and the U.S. All of the measuring and testing instruments are manufactured at a site in southern Germany (Geretsried).

The division markets its products under the brands BYK (additives) and BYK-Gardner (instruments), primarily to customers in the coatings, printing inks, and plastics industries. Due to its comprehensive portfolio, BYK is a system supplier and partner of coatings manufacturers and plastics processors in particular. On the basis of its great problem-solving expertise, BYK has also attained an important market position in many other industrial application fields in recent years.

The division sells its products in the important regions via its own companies and branches. In addition, a dense network of dealers and agents markets its products worldwide. BYK generates the highest share of its sales in Europe, followed by Asia and the Americas. In terms of countries, the U.S. make the largest contribution to sales, followed by China and Germany.

BYK is among the most innovative suppliers in its markets. It continually expands and supplements its product portfolio. To gear its innovation activities closely to the needs of the markets, the division has its own network of development laboratories, which cooperate closely with customers in the respective regions. At the same time, new fields of application are continually tapped for existing or new products.

ECKART

ALTANA concentrates the development, production, and sale of effect pigments in the ECKART division. Customers use these products to achieve visual and functional effects, primarily in coatings, plastics, printing inks, cosmetics, and construction materials. The principal raw materials are aluminum, copper, and zinc. Aside from metallic effect pigments, other pigments are offered based on artificial substrates. The division's portfolio is supplemented by effect printing inks and services.

Aluminum-based effect pigments comprise the largest part of ECKART's business. Customers use them particularly to achieve silver metallic effects, for example, for car paints or on graphic arts products. Aluminum pigments are also used for functional purposes, for example, in the manufacture of aerated concrete. Bronze effect pigments generate golden effects in paints, printing inks, and plastic products. Customers use zinc pigments in special paints to achieve functional properties, particularly for corrosion protection.

ECKART GmbH is the division's operating management company. It produces a large part of the effect pigments it sells worldwide in southern Germany (Hartenstein and Wackersdorf). Other manufacturing sites are located in Switzerland and Finland, as well as in China and the U.S.

The manufacturing process is characterized by a very high degree of value creation. In a number of successive steps, all kinds of pigments are made, refined chemically, and in some cases processed into press-ready printing inks.

The effect pigments are marketed predominantly via the division's own sales structures, but also by sales partners. ECKART's most important customers include international manufacturers of coatings, printing inks, and plastics.

Other important customers are manufacturers in the construction industry and the cosmetics sector. ECKART achieves half of its sales in Europe, primarily in its largest individual market, Germany. Its next-largest sales regions are Asia and the Americas.

As an important manufacturer of metal effect pigments, ECKART continually pushes forward the development of new product qualities and opens up new fields of application on the basis of sophisticated technological expertise and many years of knowhow.

ELANTAS

The companies in the ELANTAS division offer their customers a high level of expertise in the field of electrical insulation materials. As one of the world's leading suppliers of such products, the division's portfolio concentrates on coatings for insulating magnet wires as well as special resins and coatings for impregnating and protecting electrical and electronic components.

ELANTAS has its own holding structure under the management of ELANTAS GmbH, based in Wesel. The latter controls the division's activities and supports its operating subsidiaries, which develop and produce insulating materials in Germany, Italy, China, India, Malaysia, the U.S., and Brazil.

The division's products are marketed worldwide. Among its most important customer groups are magnet-wire manufacturers, which need materials to insulate wires made of copper or aluminum. The division also supplies insulating resins and coatings directly to manufacturers of electrical and electronic components.

ELANTAS' most important sales region by far is Asia, and particularly China. A high proportion of global manufacture of electrical and electronic components and consumer goods is concentrated in this region. The division has had its own production sites in China and India for years. After China, its most important sales markets are India, the U.S., and Italy.

On the basis of comprehensive expertise in the manufacture and application of liquid insulating systems, the division is steadily expanding its activities. It seeks to tap new application fields and thus growth potential by developing new insulating materials and applying specific polymerization knowhow.

ACTEGA

The ACTEGA division's portfolio is tailored to the needs of the packaging and graphic-arts industries. It produces specialty coatings, printing inks, adhesives, and sealants used by customers to achieve functional and visual effects.

ACTEGA is managed by the holding company ACTEGA GmbH, based in Wesel. Subsidiaries in Germany, France, Spain, China, the U.S., Brazil, Canada, and Chile manufacture and sell the division's products. Its research and development activities are also decentralized, oriented to the competencies of the individual companies in the relevant application areas.

Important product groups of the division include water-based coatings and printing inks, as well as sealants and adhesives used to make packaging materials. A focal point of its product portfolio is the specific needs of the food industry with its high quality requirements. In addition, there is a demand for ACTEGA's printing inks and overprint varnishes among customers in the graphic-arts industry. The division's largest sales region is Europe, followed by the Americas. Its most important individual markets are the U.S. and Germany.

In recent years, the division has concentrated on application fields and sales regions with above-average growth potential, making acquisitions in these areas and divestments in others.

Together with the packaging industry, and in direct contact with brand manufacturers, ACTEGA develops new and improved functionalities. Its innovation activities primarily aim to improve the safety and shelf life of packaged foods.

In the 2017 fiscal year, the ACTEGA division entered new fields of business with high growth potential with the acquisition of innovative technology projects, especially the acquisition of the metallography technology of the Israeli company Landa Labs and a technology portfolio of the U.S. company NuLabel technologies.

Important Influences on Business Development

ALTANA's different sales markets are influenced by various short-, medium-, and long-term trends.

Short- and medium-term fluctuations in demand result mainly from economic developments. The current development of consumer behavior is not the only factor. Our customers' expectations regarding the short-term development of the end markets downstream in the value chain also have a significant impact on their purchase behavior. This appraisal largely determines how much storage is reserved along the value chain.

In addition, actual and expected changes in the prices of essential raw materials impact the sales situation. When raw-materials prices continually rise, customers look for alternative input materials and thus influence overall sales or the product mix. The same applies to significant changes in other cost components that have a strong influence on the price of products. This price sensitivity of the markets is also reflected in short-term changes in demand, when for example stronger price fluctuations are expected for significant raw-materials markets.

The competitive situation in the different product-specific market segments can have similar effects on customer behavior. The entry of new manufacturers into a market or withdrawal of existing manufacturers from a market and the competitors' prices can impact demand.

Long-term changes in demand for the Group's products and services are brought about on the one hand by global megatrends and the economic growth of certain regions. On the other hand, product and technological developments continually open up new sales potential or lead to product segments being discontinued.

In the course of a year, seasonal fluctuations in demand result from lower customer activity during the summer months and at the end of the year.

Strategy and Control System

Strategy

Current market requirements, and market demands expected for the future, determine the ALTANA Group's corporate action. The success of our customers is at the center of our business activities. We can only be successful in the competitive environment in the long run if we offer our customers added value.

Our top financial priority is to sustainably increase the company's value. To achieve this aim, we consistently gear ALTANA to profitable growth in future-oriented specialty chemicals markets.

At ALTANA, profitable growth is based on several pillars. The primary ones are to expand our operating activities in existing markets and to open up new adjacent sales segments. ALTANA's four divisions occupy significant competitive positions in their respective sales markets. This positioning is an important prerequisite for our being identified and acknowledged by market participants as a competent supplier of customized solutions. In addition to ALTANA's comprehensive product portfolio, innovation plays a key role in its high level of problem-solving expertise.

To enable customers to create new applications and strengthen their portfolio, ALTANA continually pushes forward its own research and development activities. To this end, our employees' knowhow and experience are just as important as investments in new technologies.

To continually expand our specialized portfolio, we regularly supplement our operating growth by acquiring new companies or business activities. As a result, for example, new value-creation steps are integrated into the Group or access to new markets and technologies is granted.

In recent decades, the ALTANA Group has increasingly geared its activities to international markets. As a consequence, the Group has been able to benefit from the strong growth rates of emerging countries and to accompany many customers as they build production structures in these regions. Furthermore, ALTANA's global orientation enables it to recognize local demand trends quickly and to examine whether the applications developed subsequently have sales potential in other regions too.

Control System and Goals

ALTANA's control system is fundamentally oriented to the goal of a sustainable increase in the company's value. A number of ratios, mainly financial, are derived whose developments are analyzed and for which target values are determined. The most important key performance indicators are ALTANA Value Added (AVA), sales growth, earnings before interest and taxes (EBIT), the EBITDA margin, and capital expenditure.

A change in the company's value in a given period is calculated by using the financial ratio ALTANA Value Added. The absolute AVA is calculated by subtracting the cost of capital employed in the Group from the operating earnings. The relative AVA constitutes this difference in proportion to the capital employed. It is calculated by subtracting the cost of capital from the return on capital employed (ROCE).

The calculation of the operating earnings starts with earnings before interest and taxes, which are adjusted for acquisition-related and one-time special effects and from which a calculated tax burden is deducted.

The capital employed, in turn, encompasses those components of the assets and liabilities needed to achieve operating earnings. The cost of capital is determined from the weighted average of cost of debt and cost of equity.

We regularly examine the weighted average cost of capital but only adjust it for the calculation of the AVA if it exceeds or falls below a certain range. In the last few years, we set our weighted average cost of capital at 8 %.

AVA and ROCE are used for measuring the company's success and for determining variable compensation components. In addition, they are used as criteria for making strategic and operative decisions at the Group holding, divisional, and individual company levels.

Our goal is to achieve a sustainable positive AVA, that is, to achieve operating earnings that exceed the cost of capital. In each of the last few years, we have managed to generate a clearly positive AVA.

Sustainable profitable sales growth forms the basis for a long-term increase in our operating earnings and thus in the value of the company. ALTANA's goal is to outperform the general market growth in the most important sales segments and thus to obtain market shares.

In the long term, we aim to achieve average annual operating sales growth of 5 %. We seek to generate additional growth through acquisitions, either by acquiring supplementary activities at the level of our existing divisions or through the possible integration of new business activities.

But growth should not be achieved at the expense of profitability. Therefore, control of the EBITDA margin is very important for the ALTANA Group (EBITDA = earnings before interest, taxes, depreciation and amortization). The long-term target range for the EBITDA margin of the Group is 18 % to 20 %. Derived from this are long-term target margins for our four divisions, which may deviate from the average target value for the Group due to the different business activities and market characteristics. In the last few years, the Group margins achieved were within or, in some years, even above the target range.

In addition to achieving long-term sales and earnings momentum, another focus to successfully increase the value of the company is control of the operating capital. The main factors of influence in this context are the development of fixed assets and of net working capital.

On average over several years, our investments in property, plant and equipment and intangible assets have been approximately 5 % to 6 % of our sales. Due to this continuity, sharp increases in operating capital and resulting short-term fluctuations of the AVA can be minimized. In addition, every important investment is examined regarding its short- and long-term effects on the company's value.

On account of the great importance of net working capital for the development of operating capital, for a few years continual measures have been taken to optimize capital tied up in inventories as well as trade accounts receivable and payable. These financial performance indicators are analyzed and controlled by calculating ratios depending on sales and the cost of sales.

Apart from the aforementioned essential financial control parameters, there are other financial key indicators that help us analyze and control profitable growth and the company's value. The most important ones are cost figures (cost of materials, personnel expenses, etc.).

To guarantee that all activities are geared uniformly to the Group's strategy, we also use non-financial key performance indicators. These indicators, however, are not directly relevant for control and focus on a qualitative evaluation of activities whose financial measurability is limited. They include data for evaluating innovation and sustainability, analyzing sales markets, and gauging customer satisfaction.

Integrated Planning Processes

All of the key performance indicators relevant for control are compiled and analyzed within the framework of standardized reporting processes. To be able to use these key parameters effectively to control our strategy and possible short- and medium-term measures, there is an integrated planning process embracing different planning levels and dimensions.

The planning cycle also has a strategic-planning component, which combines the analysis of the essential performance indicators for future business development at the product-group level with a detailed representation of the changes expected in the market environment.

From this, strategic measures are derived enabling us to react to expected developments at an early stage. These measures, developed in the strategic-planning process, include not only fields of activity on current sales markets, but also concrete goals and planning steps for entry into new fields of business or application areas and changes in the portfolio of business activities.

The decisions taken within the framework of strategic planning enter into our subsequent medium-term financial planning. The latter delineates our growth and profit ability goals for the coming three years and the effects of the expected business development on ALTANA's asset and financing structure. This is used to derive possible measures for our financing strategy. Our medium-term financial planning is supplemented by scenario analyses, which transparently reflect the sensitivities of the key performance indicators to relevant, predominantly cyclical changes in the market environment. From this, we derive levels of reaction for possible countermeasures.

Business Development

General Business Setting

Overall Economic Situation

In 2017, the global economy developed more dynamically than in the previous years. The International Monetary Fund (IMF) estimates that the world economy grew by 3.7 % last year (previous year: 3.2 %). Again in 2017, the emerging countries grew more strongly than the established economic nations, whose growth increased more significantly, however. The higher momentum of the advanced economic nations was primarily driven by the U.S. and the eurozone. The key economic indicators in the sales regions for ALTANA's business developed at different levels in 2017.

At 2.3 %, the eurozone posted stronger growth than in 2016 (1.5 %). The most important European economies showed a dynamic economic development. The German Federal Office of Statistics estimates that Germany's economic performance improved at a higher rate than in the previous year, increasing by 2.2 % (previous year: 1.9 %). But other important economic nations in the eurozone, including France and Italy, also posted more robust growth.

According to current IMF forecasts, the economic dynamics in the countries of the Americas were generally positive in 2017, after being very heterogeneous in the previous years. The economic performance of the U.S. accelerated, growing by 2.3 % in the year under review compared to 1.5 % in the previous year. The economic growth in the important Latin American economies developed at a low level, although the recessive trends were reversed in some countries. The Brazilian economy achieved slight growth of 1.1 % in 2017, following years of recession (previous year: -3.5 %).

Growth in Asia stabilized. The growth rates of the large emerging economic nations China and India were roughly on a par with the previous year (6.8 % and 6.7 % compared to 6.7 % and 7.1 % in 2016) and were the engines of the very positive economic development in Asia. The countries of the ASEAN-5 economic region also picked up on the positive trend of the previous year, with growth of 5.3 % (previous year: + 4.9 %). The IMF expects the performance of the Japanese economy to improve in 2017, with an increase of 1.8 % in its gross domestic product compared to the previous year (+ 0.9 %).

Industry-Specific Framework Conditions

According to estimates by the American Chemistry Council (ACC), global chemical manufacture increased by 2.5 % in the past fiscal year, thus achieving higher growth than in 2016 (2.2 %).

In 2017, Germany, Europe's largest chemical manufacturer, increased its production volume by 2.5 %, according to estimates by the German Chemical Industry Association, after stagnating in the previous year. The German chemical industry particularly benefited from a positive development of demand in China, as well as from the enhanced dynamism of the European chemical industry. Sales in the industry rose by as much as 5.5. % due to rising prices. The ACC forecasts that other European countries also had a clearly positive development in chemical production, including France (+ 4.7 %), Italy (+ 3.6 %), and Switzerland (+ 1.9 %).

According to estimates by the American Chemistry Council, the production volume in the U.S. was at the previous year's level, however. In Latin America, chemical production decreased steadily by 1.8 %, despite the attractive overall economic data.

The chemical sector in the Asia-Pacific region was again the engine of global growth in the year under review. The ACC estimates that chemical production in the region grew by 4.6 %, a considerably higher increase than in the previous year (+ 3.6 %). All of the important economic nations in Asia showed a dynamic economic development. Chemical manufacture in China grew by 5.5 %, while Japan increased its chemical production by 4.4 %. In India, the amount of chemical goods produced increased by a substantial 7.7 %.

In the course of the first half of the year, the price of crude oil fell from around 55 U.S. dollars to below 45 U.S. dollars in June. In the following months, however, the price rose continuously, reaching its year high of around 67 U.S. dollars at the end of the year. The average price in 2017 was therefore significantly higher than in the previous year.

Important Events for Business Development

ALTANA's earnings and financial situation as well as its assets in 2017 were influenced by non-operating effects.

In March, ALTANA further expanded its business with additives solutions for the global plastics market by acquiring U.S. and German PolyAd companies. The activities were integrated into the BYK division. Furthermore, the ELANTAS division was strengthened by the integration of the insulating-resin business of Solvay at the American site in Olean in June. In November, ELANTAS expanded even more through the acquisition of wire-enamels activities in China. These changes in the Group's consolidation scope had an effect on control-relevant key performance indicators.

The acquisition of novel technologies, which are to be developed to the stage of market readiness in the coming years, had a decisive influence on the Group's key performance indicators. The acquisition of metallography technology from the Israeli company Landa Labs is an example.

In 2017, the development of the exchange rates between the euro, our Group currency, and other currencies important for ALTANA had an impact on sales and earnings development. The average exchange rate was 1.13 U.S. dollars for one euro, slightly higher than in the previous year (1.11 U.S. dollars for a euro). Effects from changed exchange-rate relations resulted from an increase in the average exchange rate between the euro and the Chinese renminbi from 7.35 renminbi to 7.63 renminbi.

While the changed average exchange rates for the year had a limited effect on the items on the income statement in 2017, differences in the exchange rates on December 31, 2017, had noticeable effects on the balance-sheet items compared to the previous year. The year-end exchange rate of the U.S. dollar was 1.20 U.S. dollars for one euro, considerably higher than the exchange rate at the end of 2016 (1.05 U.S. dollars for one euro).

Business Performance

Group Sales Performance

Group sales amounted to €2,247.0 million in 2017, an 8 % or 171.6 million increase over the previous year (€2,075.3 million). Non-operating effects generally had a positive influence on the sales growth. The acquisitions of the PolyAd companies (BYK division) and the integration of the new activities acquired in the U.S. and China into the ELANTAS division resulted in a sales increase of 2 % compared to the previous year. The integration of the Addcomp companies into the BYK division in the middle of 2016 also made a contribution, as they were incorporated in the Consolidated Financial Statements for a full year for the first time in the 2017 fiscal year. In contrast, Group sales decreased slightly due to the sale of the ACTEGA Colorchemie group completed in 2016. The positive acquisition effects were partially offset by burdens due to exchange-rate changes. Slight sales drops resulted particularly from the changed relations of the euro to the Chinese renminbi and to the U.S. dollar, amounting to 1 %. Adjusted for these non-operating effects, operating sales growth was 7 % up on the previous year. As a result, we achieved operating sales growth above the range of 2 % to 5 % that we had anticipated for 2017 at the beginning of the year.

Key figures

	2016	**2017**	Δ %	Δ % op.[1]
in € million				
Sales	2,075.3	2,247.0	8	7
Earnings before interest, taxes, depreciation and amortization (EBITDA)	453.0	470.0	4	1
EBITDA margin	*21.8 %*	*20.9 %*		
Operating income (EBIT)	328.7	335.9	2	1
EBIT margin	*15.8 %*	*14.9 %*		
Earnings before taxes (EBT)	299.8	306.0	2	1
EBT margin	*14.4 %*	*13.6 %*		
Net income (EAT)	210.1	234.6	12	
EAT margin	*10.1 %*	*10.4 %*		

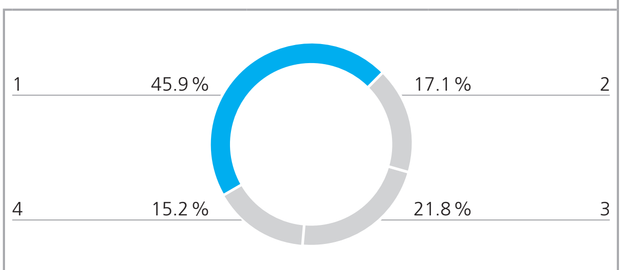
[1] Operating deviation, i.e. adjusted for acquisition and divestment as well as exchange-rate effects. This adjustment also applies to other sections of this management report.

The main driver of the operating growth was an increase in sales volumes. The effects of price changes and product-mix shifts did not have a significant impact on the sales level compared to the previous year. But these influences developed unevenly within the Group.

The regional volume and sales structure shifted only slightly vis-à-vis 2016. Accounting for 38 % of total Group sales (previous year: 38 %), Europe continued to be ALTANA's most important sales market. Both nominal and operating sales in Europe were significantly higher than in the previous year. Sales developed dynamically in all ALTANA's important sales markets in Europe. Only in Great Britain and a few Eastern European countries were sales lower than in 2016.

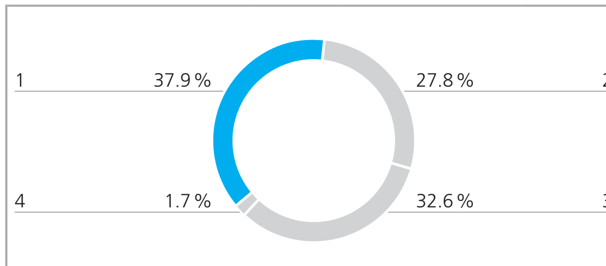
Sales in the Americas climbed by 6 % after business had shrunk in the previous year. Adjusted for positive acquisition and slightly negative exchange-rate effects, operating sales grew by 2 %. Operating sales in the U.S. – still ALTANA's

Sales by division



in € million	2016	**2017**	Δ %	Δ % op.
1 BYK	909.1	1,030.4	13	9
2 ECKART	361.9	385.3	6	7
3 ELANTAS	452.1	488.7	8	7
4 ACTEGA	352.2	342.6	-3	0
Total	**2,075.3**	**2,247.0**	**8**	**7**

Sales by region



in € million	2016	**2017**	Δ %	Δ % op.
1 Europe	798.6	852.3	7	6
thereof Germany	*263.2*	*275.7*	*5*	*4*
2 Americas	587.2	623.6	6	2
thereof U.S.	*398.8*	*436.3*	*9*	*3*
3 Asia	652.3	733.5	12	13
thereof China	*336.0*	*399.0*	*19*	*20*
4 Other regions	37.2	37.6	1	1
Total	**2,075.3**	**2,247.0**	**8**	**7**

largest sales market, accounting for 19 % of total sales – rose by 3 %. A main reason for this increase was the strong recovery of oil and gas exploration activities. On account of higher crude-oil prices, new wells were developed in the U.S. As a consequence, the demand for specialty products from the BYK division was higher than in the previous year. However, sales in Brazil and other important Latin American markets did not reach the previous year's levels. Overall, the Americas accounted for 28 % of global Group sales, the same percentage as in the previous year.

Asia was responsible for 33 % of Group sales in 2017 (previous year: 31 %). Recording operating growth of 13 %, Asia was the biggest growth driver of all the regions, as was the case in the previous year. Sales in China, in particular, developed extraordinarily well, achieving operating growth of 20 %. With an 18 % share of total sales, China is the Group's second-largest sales market. Other Asian countries also made positive contributions to the sales growth, most notably South Korea, Japan, and Thailand. Sales with customers in India, ALTANA's second-biggest sales market in Asia after China, were roughly on a par with the previous year's level. This very dynamic development of demand, especially in China, was the primary reason that the growth goals forecast at the beginning of 2017 were surpassed.

Sales Performance of BYK

In 2017, the BYK division boosted its sales by 13 %, or €121.2 million, to €1,030.4 million (previous year: €909.1 million). As a result, it showed the highest momentum within the ALTANA Group. This sales increase was driven, among other things, by the integration of the PolyAd companies acquired in 2017, as well as the prorated effects from the acquisition of the Addcomp activities in 2016. Adjusted for these effects and slightly negative burdens from exchange-rate changes, operating sales growth totaled 9 %.

In all markets and regions, BYK benefitted from increased demand. The sales volume was noticeably higher than in the previous year. An essential factor in the sales growth was the revival of demand in oil and gas exploration activities. The development of business with additives for the coatings and plastics industries, as well as sales of measuring and testing instruments, was stronger than the relevant markets.

In terms of regions, the division's growth was driven very strongly by Asia, and especially by growing demand among customers in BYK's second-largest sales market, China. The demand for special products used to manufacture especially environmentally friendly coatings and paints drove the sales growth in China. Substantial sales growth was also generated in other important Asian countries, above all in South Korea, Japan, Thailand, and India. While sales in Europe did not grow at the same pace as the Asian sales region, the sales growth in this important core region for BYK also reached a very high level. Only in a few smaller sales markets in Eastern Europe did sales fail to reach the previous year's level. The sales development in the Americas was positive. The sales increase was especially noticeable in the U.S., the division's largest single sales market. The expansion of oil and gas exploration activities had a particularly positive effect on business performance. The trend reversal in this market segment that started in the previous year continued due to rising crude-oil prices. An increasing scarcity of raw materials in the course of the year limited growth in some product groups.

Sales Performance of ECKART

Sales in the ECKART division grew by 6 % to €385.3 million (previous year: €361.9 million). Adjusted for slightly negative exchange-rate effects, operating sales increased by 7 %. The sales volume of effect pigments was the main driver in the past fiscal year. The division also benefitted slightly from a shift in the product portfolio.

In 2017, the largest proportion of the products was sold to customers in the coatings, paint, and plastics industry, with sales in this segment exceeding the previous year's level significantly. ECKART also expanded its activities in the cosmetics sector last year, picking up on the momentum of the previous year. In the graphic-arts and functional-applications segments, too, sales rose in year-to-year terms. Only sales with customers in the graphics industry did not quite reach the previous year's level.

In 2017, the demand for the division's products was positive in all regions. Asia was the biggest regional growth engine, followed by the Americas. Europe also achieved sales growth.

Sales Performance of ELANTAS

In 2017, sales in the ELANTAS division increased by 8 %, or €36.6 million, to €488.7 million (previous year: €452.1 million). Adjusted for the sales increase due to the acquisitions in the U.S. and China completed in the course of the year, as well as for negative exchange-rate effects, operating sales growth was 7 % higher than in the previous year. Demand for the division's insulating materials showed a favorable development in 2017. The resulting increase in the sales volume was partially offset by lower price levels, however.

The positive sales performance was reflected in all of the important fields of business. The division's biggest product segment, wire enamels, accounted for the largest share of the sales growth. But the electric segment also showed a dynamic development of demand.

In regional terms, the division's core region Asia underwent the strongest operating sales development. In 2017, Asia accounted for more than half of the division's total sales. The sales achieved in China, ELANTAS' most important market, showed an extraordinarily positive development. In other Asian economies, too, sales were up on the previous year. In India, however, there was slightly lower demand for ELANTAS' products. The business development in Europe was very positive. Sales rose in many markets. In the division's important sales markets in the Americas, however, sales decreased in 2017, especially in the U.S. and Brazil. But ELANTAS expanded its sales volume in Mexico.

Sales Performance of ACTEGA

With sales of €342.6 million, the ACTEGA division did not reach the previous year's level (€352.2 million). But the decrease in nominal sales of 3 %, or €9.6 million, is due exclusively to the sale of the ACTEGA Colorchemie group completed in April 2016 and negative effects from exchange-rate changes. Adjusted for these non-operating effects, sales in 2017 were slightly lower than the previous year's level. An increased sales volume was set against negative effects from a changed product mix and lower price levels.

The stagnation of operating sales was due to a restrained development of demand in nearly all of the important sales segments.

In 2017, the regional sales structure of the ACTEGA division did not change significantly, but the development in the core regions was non-uniform. Operating sales increased in the division's largest region, Europe. In Europe, positive sales impetus came, among others, from Germany, Italy, Spain, and many Eastern European countries. In the Americas, the operating sales volume lagged behind the previous year. In ACTEGA's two largest single markets in the region, the U.S. and Brazil, lower demand led to sales decreases. In Asia, however, the division slightly increased its sales in 2017. But sales declines in the division's largest sales market in the region, China, offset the sales increase in other countries.

Earnings Situation

The operating sales development was accompanied by a positive earnings development. Earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 4 %, or €17.0 million, to €470.0 million (previous year: €453.0 million). Adjusted for acquisition and exchange-rate effects, operating earnings increased by 1 %. ALTANA achieved an EBITDA margin of 20.9 % in the 2017 fiscal year (previous year: 21.8 %).

The slight decline of the EBITDA margin compared to the previous year was in line with our expectations. At the beginning of 2017, we had forecast an EBITDA margin that after the good year 2016 would be oriented more closely to our strategic target range of 18 % to 20 %.

The most important cost factor for ALTANA, raw-materials and packaging costs, developed negatively relative to sales. The materials usage ratio, the ratio of raw-materials and packaging costs to sales, increased in the course of 2017 to 41.5 % (previous year: 39.7 %). This trend burdened all four divisions.

Other cost factors important for ALTANA's earnings largely developed in proportion to sales. Personnel expenses rose by 6 %. The ratio of total personnel expenses to sales fell to 21.3 % (previous year: 21.8 %).

In 2017, the structure of functional costs did not change significantly vis-à-vis 2016. The ratio of production costs to sales dipped slightly below the previous year's level. Although maintenance costs increased disproportionately due to high capacity utilization, other kinds of costs important for the development of the total product costs increased only moderately, most notably depreciation and amortization and personnel expenses.

In 2017, selling and distribution expenses increased compared to the previous year, but the relative ratio to sales declined. Due to an orientation of sales activities to direct business with customers in certain activities, the sales commissions increased only slightly in a year-to-year comparison despite the dynamic sales development, and personnel expenses rose disproportionately to the sales development. On the other hand, freight charges directly dependent on sales increased due to the higher sales volume, and advertising costs were also up on 2016.

Of all functional cost areas, research and development expenses showed the strongest growth in 2017. On account of the continuous expansion of development activities in nearly all of our divisions, as well as the buildup of activities to further develop the metallography technology we acquired, the ratio of research and development costs to sales rose slightly from 6.2 % to 6.3 %. This trend was additionally driven by initiatives in application-oriented research and intensified activities in the development of new technologies that can be used to market innovative products.

In 2017, administrative expenses recorded the lowest increase of all functional cost areas, and the ratio of administrative expenses to sales sank further. This positive development was primarily due to stable personnel expenses, by far the most important cost position within administrative expenses.

The balance of other operating income and expenses improved considerably. This development is mainly due to

Multi-period overview of the earnings situation

Sales (in € million)

2013	1,765
2014	1,952
2015	2,059
2016	2,075
2017	**2,247**

EBITDA (in € million)

2013	336
2014	397
2015	391
2016	453
2017	**470**

one-off earnings from the reimbursement of a share of the costs from the Renewable Energies Law (EEG), as well as higher insurance refunds.

Earnings before interest and taxes (EBIT) reached €335.9 million, surpassing the previous year's level (€328.7 million).

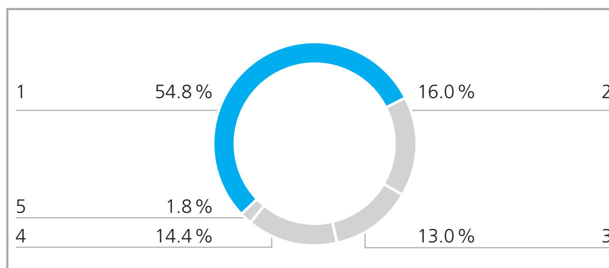
The financial result was €-8.6 million, unchanged from the previous year. On the other hand, the result from companies accounted for using the equity method worsened, from €-20.3 million in 2016 to €-21.3 million in the 2017 fiscal year. This decrease is due to the fact that the Israeli Landa Corp. posted a higher loss for the year. The company's 2017 fiscal year was burdened by higher expenses for the preparation of a broad market introduction of new products.

Earnings before taxes (EBT) rose to €306.0 million (previous year: €299.8 million), and net income (EAT) to €234.6 million (previous year: €210.1 million). Despite the increase in earnings, income tax did not reach the previous year's level. Here, positive effects from the U.S. tax reform are reflected, above all from the recalculation of deferred tax liabilities.

Asset and Financial Situation

Capital Expenditure

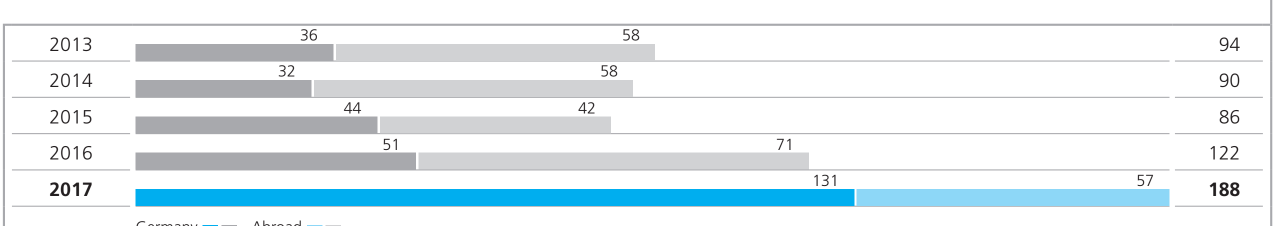
Capital expenditure by division



in Mio. €	2016	**2017**	Δ %
1 BYK	52.0	58.3	12
2 ECKART	17.2	17.1	-1
3 ELANTAS	30.9	13.8	-55
4 ACTEGA	18.4	96.9	> 100
5 Holding	3.6	1.9	-46
Total	**122.1**	**188.0**	**54**

In the past fiscal year, ALTANA invested a total of €188.0 million, €65.9 million or 54 % more than in the previous year (€122.1 million). The investment ratio, or the ratio of investments to sales, was 8.4 % and thus above the target range of 5 % to 6 % we had forecast for 2017. The increase over

Capital expenditure ALTANA Group (in € million)



the previous year and the surpassing of the target range were mainly due to the purchase of metallography technology from the Israeli company Landa Labs and the acquisition of a technology portfolio for labels and packaging in the U.S.

Overall, €91.6 million were invested in intangible assets (previous year: €15.7 million). In addition to the two technology acquisitions, the investments in intangible assets resulted in particular from the expansion of ERP systems at different Group sites. Investments in property, plant and equipment amounted to €96.4 million in the past business year (previous year: €106.4 million).

In the last fiscal year, the regional distribution of investments concentrated on Europe again, especially on the two biggest German Group sites in Wesel (BYK) and Güntersthal (ECKART). Furthermore, the metallography technology was acquired by a German Group company. Overall, 80 % of the total investments in property, plant and equipment and intangible assets were made in Europe (previous year: 57 %). The Americas accounted for 14 % of our worldwide investments (previous year: 18 %). The share of investments in Asia fell in the past fiscal year from 25 % to 6 %.

In 2017, the BYK division invested a total of €58.3 million (previous year: €52.0 million), mainly to expand production and laboratory capacities at the division's biggest sites in Germany and the U.S. Investments were also made to expand its new site in Shanghai in order to bundle the region's sales and research activities at one site in China in the future. Another large investment involved a facility for carrying out automated product tests for additives at the Wesel site.

The investment volume in the ECKART division was €17.1 million and thus on a par with the previous year's figure (previous year: €17.2 million). The largest share by far was invested in the division's biggest site in Güntersthal, followed by sites in the U.S. and Switzerland.

In 2017, the ELANTAS division invested less in property, plant and equipment and intangible assets than in the previous year (€13.8 million compared to €30.9 million in 2016). But in 2016, the investment activities were strongly influenced by the acquisition of a manufacturing site in Tongling, China. In the past fiscal year, the investment activities focused on the division's two sites in Europe as well as India and the U.S.

The ACTEGA division invested the highest share of all of the Group's divisions, €96.8 million, and much more than in 2016 (€18.4 million). The division's acquisitions of the metallography activities and the technology portfolio for labels and packaging in the U.S. were integrated in the ACTEGA division, strongly influencing the development of the total investments. The other capital expenditure was distributed relatively evenly across the division's sites and mainly comprised investments in research and production sites.

Balance Sheet Structure

Key figures

	2016	**2017**	Δ %
in € million			
Total assets	3,053.9	3,147.7	3
Shareholders' equity	2,082.2	2,214.2	6
Net debt (-)/ Net financial assets (+)[1]	25.7	-78.0	–

[1] Comprises cash and cash equivalents, short-term financial assets, marketable securities, loans granted, debt, and employee benefit obligations.

In the course of the 2017 fiscal year, the ALTANA Group's total assets climbed from €3,053.9 million to €3,147.7 million. The increase of €93.9 million, or 3 %, is mainly the result of increased investment activity as well as the acquisitions made in the course of the year. This rise was partially offset by the changed exchange-rate relations compared to December 31, 2016, particularly the strong euro in relation to the U.S. dollar.

Intangible assets rose to €1,056.9 million (previous year: €922.8 million). The increase was primarily due to the acquisition of the PolyAd business activity, the acquisitions in the ELANTAS division, and ACTEGA's technology purchases. This was offset by the change of exchange-rate relations on the balance-sheet date. Property, plant and equipment decreased slightly to €774.4 million (previous year: €781.1 million), primarily on account of exchange-rate effects.

On December 31, 2017, non-current assets totaled €2,021.6 million (previous year: €1,831.0 million), €190.5 million higher than in the previous year. Their share in total assets was 64 % on the balance-sheet date (previous year: 60 %).

The change in current assets was influenced particularly by the change in the amount of cash and cash equivalents and short-term financial assets, as well as a change in net working capital. In the course of the year, cash and cash equivalents decreased to €275.7 million due to company and technology acquisitions (previous year: €375.6 million). The short-term financial assets that at the end of 2016 were still used as a time-deposit investment with a term of more than three months were also used as financing in 2017.

Both inventories and trade accounts receivable increased in the course of the growth of business activity. The ratio of the total net working capital, in relation to the business development of the previous three months, and taking into account trade accounts payable, was 101 days and thus at the level of the end of 2016 (previous year: 102 days). The increase in the ratio of liabilities had a positive effect. Total current assets decreased by €96.7 million to €1,126.1 million (previous year: €1,222.8 million).

On the liabilities side, changes arose primarily due to the earnings-related increase in equity. Group equity climbed by €132.0 million, or 6 %, to €2,214.2 million (previous year: €2,082.2 million). The increase is attributable to the surplus in the 2017 fiscal year, which was partially offset, however, by negative effects from exchange-rate changes. The equity ratio climbed to 70 % on December 31, 2017 (previous year: 68 %). At the end of 2017, liabilities from promissory loans remained an essential component of the debt. These liabilities were reduced further in the past fiscal year by the scheduled repayment of a tranche (€32.0 million). Total non-current liabilities decreased to €486.6 million (previous year: €564.2 million). In addition to the reduced debt, this can also be attributed to a decrease in deferred tax

Structure of consolidated balance sheet

Assets	Dec. 31, 2016		**Dec. 31, 2017**	
	€ million	%	€ million	%
Non-current assets	1,831.0	60	2,021.6	64
Inventories, trade accounts receivable and other current assets	737.5	24	828.8	27
Cash, short-term financial assets, and cash equivalents and marketable securities	485.3	16	297.3	9
Total asset	**3,053.9**	**100**	**3,147.7**	**100**

Shareholders' equity and liabilities	Dec. 31, 2016		**Dec. 31, 2017**	
	€ million	%	€ million	%
Shareholders' equity	2,082.2	68	2,214.2	70
Non-current liabilities	564.2	19	486.6	15
Current liabilities	407.5	13	446.9	14
Total shareholders' equity and liabilities	**3,053.9**	**100**	**3,147.7**	**100**

liabilities, which sank in the course of the corporate tax reform in the U.S. The share of total non-current debt dropped from 18 % to 15 %. The amount of current debt on the balance sheet increased from €407.5 million to €446.9 million on December 31, 2017. This development was due to the expansion of liabilities from trade accounts payable on account of the expansion of business activity and the increase in current debt in the course of the reclassification of the promissory note tranches due in 2018 (€64 million).

The net financial debt, comprising the balance of cash and cash equivalents, short-term financial assets, current marketable securities, loans granted, debt, and employee benefit obligations, reached €78.0 million at the end of 2017, after net financial assets of €25.7 million were disclosed in the previous year.

Principles and Goals of Our Financing Strategy

We generally aim to finance our operating business activities from the cash flow from operating activities. The same applies to the need for capital expenditure, which caters to the continual expansion of business activities.

As a result, our financing strategy is oriented to keeping the cash and cash equivalents generated within the Group centralized. In addition, a financing framework is sought that enables ALTANA to flexibly and quickly carry out acquisitions and even large investment projects beyond the accustomed scope.

To successfully implement these goals, we manage nearly all of the Group's internal financing centrally via ALTANA AG. To this end, cash pools are set up for all of the important currency areas.

At the end of 2017, ALTANA's liabilities totaled €192 million due to the issuance of two promissory note loans in 2012 and 2013 (€ 350 million in total). The outstanding promissory note loans are divided into tranches with fixed interest rates and different maturities. The loans will be repaid by 2020. Furthermore, there is a general syndicated credit facility of €250 million. The term of this credit facility will last until 2022.

This financing structure offers ALTANA the flexibility it needs to appropriately take advantage of short-term or investment-intensive growth opportunities. The distribution of the maturities of the financing instruments we use enables us to optimally control repayment of liabilities with inflows from operating cash flow.

We continue to use off-balance-sheet financing instruments to a very limited extent. These include purchasing commitments, operating leasing commitments, and guarantees for pension plans. Details on the existing financing instruments are provided in the online Consolidated Financial Statements.

Liquidity Analysis

Key figures

	2016	**2017**	Δ %
in € million			
Cash flow from operating activities	376.7	302.3	-20
Cash flow from investing activities	-234.3	-325.1	-39
Cash flow from financing activities	-185.4	-67.4	64

In the course of 2017, the level of cash and cash equivalents fell by €99.9 million to €275.7 million (previous year: €375.6 million). Cash inflow from operating activities, amounting to €302.3 million, did not reach the previous year's level (€376.7 million). The decrease in operating cash flow vis-à-vis 2016 resulted from an increase in net working capital in the course of the strong expansion of business activity. On the other hand, the higher consolidated net income was influenced by non-cash earnings components (primarily in the area of income tax positions and provisions). The lower operating cash flow compared to the previous year did not meet our expectations, since at the beginning of the year we had anticipated the cash inflow would be roughly the same as in the previous year.

Compared to 2016, the cash outflow from investing activities increased significantly to €325.1 million (previous year: €234.3 million). This increase was particularly driven by acquisitions and technology purchases made in 2017.

The cash flow from financing activities amounted to €67.4 million in 2017 (previous year: €185.4 million). The current debt outflows concerned the scheduled repayment of a promissory note tranche (€32.0 million) and the reduction of the debt of the PolyAd activities acquired. In the 2017 fiscal year, ALTANA AG did not pay a dividend.

Value Management

Key figures value management

	2016	**2017**
in € million		
Operating capital (annual average)	2,344.2	2,509.7
Operating earnings	270.8	284.8
Return on capital employed (ROCE)	*11.6%*	*11.3%*
Weighted average cost of capital	*8.0%*	*8.0%*
ALTANA Value Added (relative AVA)	*3.6%*	*3.3%*
ALTANA Value Added (absolute AVA)	83.3	84.0

ALTANA determines the change in the company's value via the key figure ALTANA Value Added (AVA). In the 2017 fiscal year, we made a very positive contribution to our company's value again.

The Group's average capital employed rose to €2,509.7 million (previous year: €2,344.2 million). This increase in capital largely resulted from company acquisitions and technology purchases. At €284.8 million (previous year: €270.8 million), operating earnings increased due to the improved earnings situation in the 2017 fiscal year. To guarantee the comparability of the key figures in value management, in 2017 they were adjusted for the positive effects of the tax reform in the U.S.

In 2017, the return on capital employed (ROCE) was, at 11.3 %, at an unchanged high level, though it did not quite reach the previous year's level (11.6 %). With an unchanged cost of capital rate of 8.0 %, the relative AVA reached 3.3 % (previous year: 3.6 %).

Analogous to the expansion of the operating capital, the cost of capital rose to € 200.8 million (previous year: € 187.5 million). As a result the absolute AVA amounted to €84.0 million in the past business year (previous year: €83.3 million).

Thus, the decrease of value key figures forecast for 2017 on account of company acquisitions did not only concern the relative AVA. The slight increase in the absolute AVA vis-à-vis 2016 exceeded our expectations and was attributable to the positive business performance.

Overall Assessment of Our Business Performance and Business Situation

In the course of the year, the overall economic framework conditions developed positively.

In this environment, ALTANA successfully expanded its business activities in its important target markets and achieved high operating growth. Due to continuously rising raw materials prices, profitability fell compared to the previous year.

Our balance-sheet structures remained robust at the end of 2017. As a result, sufficient financial headroom is available for further growth.

Innovation and Employees

Innovation

ALTANA's products and services are geared to offering our customers special solutions and giving them a competitive edge. Our customers usually integrate us in their product development process at an early stage. To be able to maintain or consolidate our position as one of the leading specialty chemicals companies, we have to steadily grow our competencies and continuously expand our own product portfolio.

In the Group's divisional research and development facilities, our product portfolio is steadily developed further. In addition to existing applications in current or new markets, activities to develop new applications for these markets are a focal point. To be able to tap into new fields of business, we identify the needs of our customers and incorporate them in the development of new solutions.

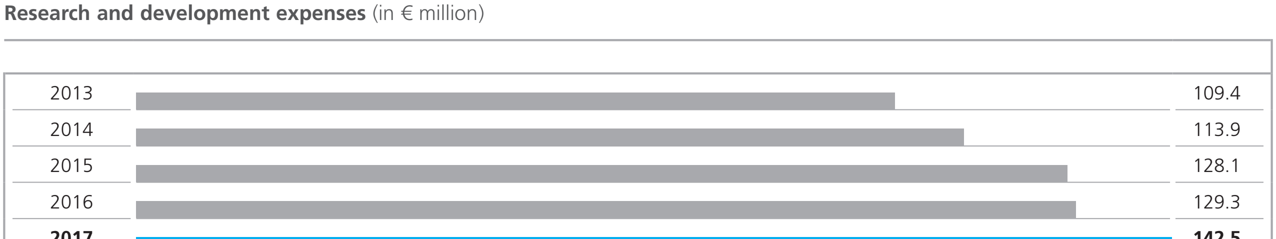
To interlink the Group's diversified knowhow and competencies across industries and technologies, selected research and development projects are initiated and coordinated centrally at the Group level. Via external networks and close cooperation with universities and research institutes, external impetus is absorbed and the possibility of using it in the Group is examined. In the 2017 fiscal year, we intensified these activities. A special focus was on the action field "digitization." We launched our first projects in this area, which invest in the digitization of processes along the entire value chain, as well as automated application-technology reviews that supplement and support research and development. In addition, we strengthened our company in a targeted manner through new competencies in the fields of software development and data analysis, both by hiring new employees and with acquisitions.

In 2017, ALTANA pushed ahead its entry into new sales markets by acquiring innovative technologies in the field of printing as well as labels and packaging in order to generate growth potential and expand its product portfolio in the future. ALTANA intends to develop these activities to marketability in the coming years.

Examples of undertakings that were pushed forward centrally via ALTANA's holding company in 2017 were projects in the field of printed electronics and the strategic digital printing partnership with the Israeli Landa Corp. In closer cooperation with the new central department Corporate Venturing, technology and market potential will be examined and entry into new attractive sales markets developed. In the next few years, our divisions should benefit from this wide-ranging development potential in different ways.

The basis of our innovative strength is a worldwide research and development network encompassing 1,102 employees at present. In the year under review, expenses for research and development activities amounted to €142.5 million (previous year: €129.3 million). The continued high share of research and development expenses in sales of 6.3 % (previous year: 6.2 %) is yet another expression of our innovation focus.

Research and development expenses (in € million)



Employees in research and development

BYK	481
ECKART	221
ELANTAS	176
ACTEGA	218
Holding	6
Total	**1,102**

Employees

In the course of 2017, the number of people employed by the ALTANA Group climbed by 219, or 4 %, to 6,186 (previous year: 5,967). The increase was primarily due to acquisitions made in 2017 (+111 employees) and the expansion of business activities.

In the BYK division, the number of employees rose by 145 to 2,200 people (previous year: 2,055). The PolyAd companies in Germany and the U.S. acquired at the beginning of 2017 accounted for a significant share of the increase. In addition, the division's workforce grew against the background of the expansion of its additives business in Germany, the U.S., and China.

The number of employees in the ECKART division decreased by 32 to 1,716 people in 2017 (previous year: 1,748) due to company restructuring initiated in 2015. The reduction primarily concerned the German sites in Hartenstein and Wackersdorf. The division dissolved its own sales organization in Mexico in 2017 and it was integrated into the BYK division. Most of the employees switched to the corresponding BYK company.

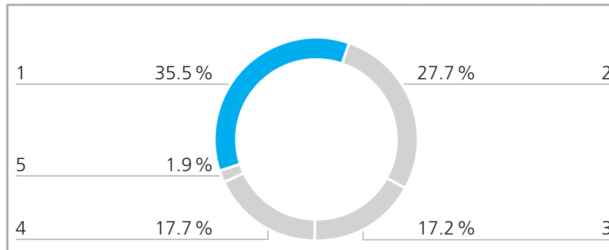
In the course of 2017, the workforce of the ELANTAS division increased by 85 to a total of 1,061 people (previous year: 976). The acquisitions made in the U.S. in the course of the year accounted for the main share of the increase. The number of employees in Germany also increased due to the expansion of business activities.

ACTEGA's headcount rose by 13 employees to 1,094 (previous year: 1,081). The main reason for this was the technology acquisitions in Germany and the U.S. made in the course of the year. However, ACTEGA reduced the personnel at its site in Brazil on account of restructuring measures.

The functional structure of the workforce did not alter significantly in 2017. With 52 %, or 3,198 people (previous year: 3,114), most of the employees continued to work in production. In 2017, the number of people employed in research and development rose by 81 to 1,102 (previous year: 1,021), accounting for the highest percentage increase.

The headcount in marketing and sales, as well as administration, increased by a total of 54 people in the course

Employees by division



	Dec. 31, 2016	**Dec. 31, 2017**	Δ %
1 BYK	2,055	2,200	7
2 ECKART	1,748	1,716	-2
3 ELANTAS	976	1,061	9
4 ACTEGA	1,081	1,094	1
5 Holding	107	115	7
Total	**5,967**	**6,186**	**4**

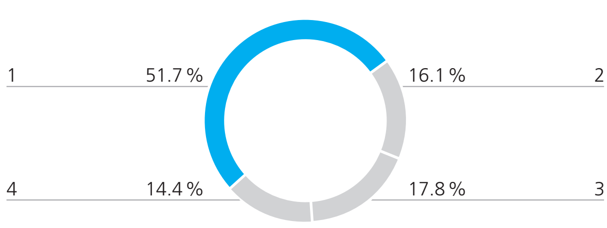
of 2017. In 2017, administrative functions continued to comprise the smallest share of the Group's workforce, with 889 people working in this area (previous year: 873).

In 2017, all of the regions exhibited a positive increase in workforce numbers. In terms of the regional structure, there were no major shifts, among other things due to the acquisitions made in 2017. The European Group companies continued to employ by far the largest number of people worldwide, with a headcount of 3,927 (previous year: 3,850). At the end of the year, 3,196 people worked in Germany (previous year: 3,126), the majority of them at ECKART's and BYK's largest production and development sites, in Hartenstein and Wesel, respectively. The number of staff in the Americas increased the most, primarily on account of the acquisitions made in the U.S. The number of employees in the U.S. climbed from 1,376 to 1,477 at the end of 2017. The staff numbers in the Asian Group companies also increased, from 741 employees in the previous year to 782 in the year under review.

At the end of the 2017 fiscal year, 1,627 women and 4,559 men worked at ALTANA. On the balance-sheet date, 89 % of all employees had an unlimited employment contract and 11 % a limited employment contract. This ratio was the same for both genders. Of the women employees, 77 % worked full-time and 23 % part-time at the end of 2017. 98 % of the male employees worked full-time. Apart from its own employees, 239 people from employment agencies worked for the ALTANA Group on December 31, 2017.

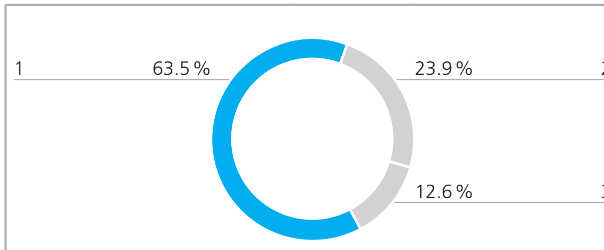
ALTANA competes internationally for specialists and managers. Like all companies in the chemical industry, in the years to come the ALTANA Group, particularly in Europe, will enter a phase that due to the demographic development

Employees by functional area



	Dec. 31, 2016	**Dec. 31, 2017**	Δ %
1 Production and logistics	3,114	3,198	3
2 Marketing and sales	959	997	4
3 Research and development	1,021	1,102	8
4 Administration	873	889	2
Total	**5,967**	**6,186**	**4**

Employees by region



	Dec. 31, 2016	**Dec. 31, 2017**	Δ %
1 Europe	3,850	3,927	2
thereof Germany	*3,126*	*3,196*	*2*
2 Americas	1,376	1,477	7
thereof U.S.	*1,095*	*1,208*	*10*
3 Asia	741	782	6
thereof China	*443*	*476*	*7*
Total	**5,967**	**6,186**	**4**

makes precise succession planning indispensable already today. To be able to hold our own in this environment, in 2017 we began to strategically reposition ALTANA's human-resources activities in the project "HR Transformation." The initial focus was on an evaluation of how ALTANA should reorient its personnel-related services and processes in the future and what a new organization should look like. The project was launched in 2017 with an analysis of the actual situation to ascertain future organizational needs. All measures introduced to strengthen ALTANA's corporate culture and to further develop our human-resource management are carried out based on our Guiding Principles. By concentrating on the values that are enshrined in these principles and communicating them transparently, we ensure that our staff management and our actions have a common orientation.

Human-resource development is very important in ALTANA's agenda for the future, the Keep Changing Agenda. "Mobilizing people" is one of the strategic thrusts for the coming years. This includes promoting diversity, effective succession planning, and strengthening international mobility. Since 2016, these requirements have been pursued by the ALTANA holding company's Leadership & Talent Management department to ensure that structured succession planning can be implemented even more effectively in the future.

Declaration of Corporate Governance Pursuant to Section 289f (4) of the German Commercial Code (HGB)

Promoting women in management positions remained a focus in the 2017 fiscal year. By intensifying measures that had been introduced in the past, and with new instruments, we further anchored the expansion of diversity in our human-resource management. One focus was promoting women. The ratio of women in ALTANA's national and international management development programs has increased significantly in recent years. In addition, our further education program includes special offers for women. The mentoring program launched in the previous year as a pilot project was reissued and extended to other Group sites in 2017. Furthermore, various informal platforms were created to promote general dialog on this issue. Among them are regular meetings of women in management positions that focus on strengthening the network, and workshops for further development of family-friendly employment models intended to contribute to continual improvement of the general working conditions at ALTANA.

ALTANA's medium- to long-term goal is to increase the share of women in management positions to the percentage of women in the entire workforce.

In keeping with legal requirements regarding equal participation of women in management positions in private business and the public service sector that went into effect in April 2015, ALTANA AG's Supervisory Board specified in September 2015, in accordance with section 111 (5) of the German Stock Corporation Act, a target of a 25 % share of women in the company's Supervisory Board before the first target-achievement period ended on June 30, 2017. For the Management Board, which was initially reorganized within the framework of the generation change and which has no women members, the Supervisory Board did not plan any changes regarding the specification of targets for the first target-achievement period. ALTANA's Supervisory Board, comprised of six shareholder representatives and six employee representatives, had three women and nine men at the end of the target-achievement period. As expected, there were no changes in the gender-related makeup of the Management Board at the end of the target-achievement period.

In accordance with the legal specifications of section 76 (4) of the German Stock Corporation Act, the Management Board was required to define targets for the share of women at the two management levels below the Management Board of ALTANA AG. Until the end of the first target-achievement period on June 30, 2017, a target of 10 % for the first management level and 30 % for the second management level was resolved. At the end of the target-achievement period on June 30, 2017, the share of women in the first management level below the Management Board of ALTANA AG was 17 %. On the second management level, the share of women was 57 %. Thus, the targets set were exceeded significantly.

At the end of the first target-achievement period, new targets were established by the Supervisory Board and the Management Board of ALTANA AG. For the Supervisory Board, a target of 25 % was resolved by the end of the new target-achievement period on June 30, 2020. For the Management Board, neither personnel changes nor an expansion of the body are planned by the end of the new target-achievement period. As a result, it will continue to have no women members. For the first management level under the Management Board, a target of 20 % women is to be achieved by the end of the new target-achievement period on June 30, 2020, and for the second management the target is 30 %. Target figures were also stipulated for the German subsidiaries subject to codetermination.

Subsequent Events

No events subject to reporting requirements occurred after the balance-sheet date.

Expected Developments

Future Orientation of the Group

We do not plan on making any fundamental changes to the Group's strategy or organizational structure in the next two years. The focus on specialty markets and the offer of innovative chemical solutions will continue to drive our business development.

We do not expect our entry into new market segments or application areas to lead to any significant changes in our sales structure in the medium term. We also expect the balanced regional sales distribution to basically remain stable.

Acquisitions, however, could lead to changes in our sales and market structures. Bolt-on acquisitions and particularly the integration of a new business division could result in a shift.

Economic and Industry Outlook

The world economy is expected to continue to grow at a high level in 2018. The International Monetary Fund (IMF) forecasts an increase of 3.9 % in world economic output, slightly higher than the 2017 level (3.7 %).

This development should be driven primarily by stronger growth momentum in the emerging countries, especially by the economies in Latin America, the Middle East, and Africa. The highest momentum is again forecast for the emerging Asian economies. The IMF estimates that the growth rates in China and India will remain very high (6.6 % and 7.4 %, respectively) and thus to have a positive influence on global growth.

Increased growth is forecast for the U.S. (2.7 % in 2018 compared to 2.3 % in 2017). The IMF expects that following the recession Brazil will experience a sustained upswing (growth of 1.9 % after 1.1 % in 2017). In Europe, the stable development of economic output is expected to basically continue in 2018, with growth of 2.2 %, though at a slightly lower level than in the past fiscal year (2.4 %).

Against the background of the global economic outlook, we expect the general chemical sector in 2018 to achieve slightly higher growth than in the previous year. The American Chemistry Council (ACC) forecasts that worldwide chemical production will increase by 3.2 % in 2018, after an expected 2.5 % last year. This growth will be driven by the chemical industry in the emerging countries and in the established economic nations.

We assume that in this market environment general demand on the markets relevant for ALTANA will basically be positive, although the regions will show different developments. The extent to which changes in storage levels along the value chain will influence the actual demand for the products of our divisions largely depends on the expected short- to medium-term development. Stock-level changes can lead to significant effects.

The development of crude-oil prices cannot be predicted reliably. We expect that the price-level increase that began in 2017 will continue in the coming years. The availability, pricing, and consumption volume of chemical products are subject to the influence of the crude-oil market, albeit to different extents. In addition, the expectations of market participants in terms of the future development of oil prices can result in significant changes in the level of storage along the value chain in the chemical industry.

As in the previous years, the exchange-rate relations important for ALTANA may continue to show pronounced volatilities in 2018. The development of regional interest rates and economic output, as well as political influences, can be of decisive importance for exchange-rate fluctuations. Since the intensity and direction of the exchange rates cannot be predicted, it is not possible to make concrete statements about the influence.

Expected Earnings, Asset, and Financial Situation

Expected Sales and Earnings Performance
On the basis of the growth anticipated for the global economy, we expect the demand for our products and services to exhibit a positive development in the new fiscal year. We expect our operating sales growth, i.e. sales growth adjusted for exchange-rate and acquisition effects, to range from 2 % to 5 %. The main driver for this growth should be the higher sales volume. But due to the fact that the crude-oil price level will be passed on in part, positive sales effects should also result from price changes.

Nominal sales in 2018 should be higher than operating growth due to the acquisitions completed in 2017 and can be additionally influenced by exchange-rate changes. For the most part, operating sales in the divisions should develop in the same growth range as Group operating sales.

In terms of the important functional cost factors, we do not foresee significant shifts of cost ratios in relation to sales. We expect the materials cost ratio to increase further on account of rising raw materials prices.

For personnel expenses and other fixed cost figures, we project a relative increase at the same level as or slightly lower than sales growth.

Against this background, we anticipate that in 2018 the EBITDA margin will continue to decline slightly in the direction of our long-term target range of 18 % to 20 %.

After 2018, we expect stable growth momentum with basically the same or slightly higher profitability.

Expected Asset and Financial Situation
There should not be any significant shifts in the balance-sheet structure in 2018. In the next two years, our capital expenditure for property, plant and equipment and intangible assets should be above our long-term target range of 5 % to 6 % due to strategic growth projects. The development of the absolute values of net working capital should be analogous to the general business development, though we are striving to slightly improve the ratios.

Based on the anticipated business performance, we should achieve liquidity surpluses from operating activities. These surpluses will be used primarily to finance investments and for bolt-on acquisitions. In addition, we plan to repay the promissory note loans on schedule from 2018 through 2020.

We project the value management key figures to decrease slightly in 2018 due to the acquisitions and technology purchases in 2017. This decline will be a consequence of the full-year effect of acquisitions on operating capital.

Risks

Management and control of the ALTANA Group are geared to the strategy that has been defined and the target levels derived from it. Due to changes in the economic environment or internal factors of influence, it might not be possible to implement the strategy successfully or to achieve targets in the planned time frame or to the planned extent. To be optimally prepared for such situations, ALTANA systematically identifies, evaluates, and considers risks within the framework of decision-making processes.

To anchor our risk policy at all decision-making levels, we established a Group-wide risk management system that brings together various information, communications, and monitoring systems. Core elements of our risk management include strategic corporate planning, internal reporting, our internal control system, compliance organization, and risk management in the strict sense, i.e. the identification, documentation, and evaluation of risks including the derivation of appropriate precautionary measures and countermeasures.

Our strategic corporate planning is closely tied to our medium- to long-term financial planning. The extent of the fulfillment of our targets is examined in monthly reports on the company's business performance and in our short-term financial planning. Deviations can be recognized and countermeasures introduced if necessary.

Our internal control system, which is oriented to the standards of the internationally recognized COSO model, defines organizational measures for preventing damage from being done to the company, among other things. In connection with our established compliance organization, it aims to prevent possible violations of guidelines and laws on the part of employees.

At ALTANA, risk management in the strict sense is viewed as the systematic compilation, evaluation, documentation, and communication of relevant risks. Thus it is an essential component of the company's system for early risk recognition in accordance with section 91 (2) of the German Stock Corporation Act. This system was voluntarily examined by the auditor.

The audit deemed the system capable of recognizing risks that can endanger the existence of the company at an early stage.

Risks that are identified are evaluated in a uniform way. So-called evaluated risks are assessed based on the probability of its occurring and the potential damages. Individual risks can be rated based on this assessment. Risks rated as very high are risks which could cost the company €25 million or more in the next 12 months. Individual risks that could cost the company between €12 million and €25 million are rated as high risks; risks that would cost between €5 million and €12 million are categorized as medium risks, and risks that would cost less than €5 million are deemed low risks. The prioritization resulting from the assessment determines focal points for the development and initiation of countermeasures to prevent or reduce the potential effects of risks.

The individual risks and risk fields described in the following pages could have a material adverse effect on the Group's earnings, financial, and asset situation in the years to come and thus give rise to a negative deviation from the forecast development. For individual risks categorized as "medium" and "high" we address changes in our appraisal compared to the previous year. In 2017, risks categorized as "very high" were not identified.

Economic and Industry Risks

The development of the general economic conditions worldwide has a decisive impact on our business performance. The performances of the economies of the U.S., China, and Germany – industrial nations important for ALTANA – have a particularly strong impact on the direction and intensity of demand for our products.

A global economic crisis leading to an economic collapse would bring about significant sales decreases with corresponding influences on our earnings. Recessions limited to certain regions in sales markets important for us could also significantly impair our business performance. With the global orientation of our sales activities, we try to shape our dependence on regional or national markets in such a way that the effects of geographically confined economic crises on the Group are limited.

Thus, our most important individual market currently accounts for only roughly 20 % of total Group sales. The distribution of our business activities in the core regions of Europe, Asia, and the Americas also has a balanced structure.

At the same time, we continually update our appraisal of the regional economic development in our internal reporting system to be able to react to foreseeable effects by controlling our procurement, production, and sales activities. We react to long-term shifts in regional economic performance by adjusting our sales and local production and organizational structures.

In addition to general economic risks, there are market-related sales risks concerning individual product groups or application areas. Particularly medium- to long-term trends that structurally lead to a decrease in demand in our target markets can mean that we will not achieve our growth and profitability targets. We try to control industry-related sales risks by broadly diversifying our offer. We supply many different industries, which in turn sell their end products in various markets. Therefore, our dependence on the underlying consumer segments is limited. We estimate that no single consumer segment (e. g. the automotive industry) accounts for more than 20 % of our sales.

The analysis of our industry-specific and application-related sales is a component of our annual strategy process. In addition, we examine changes in future growth potential arising from demand trends and technological developments, and adjust our strategic orientation in the divisions if necessary.

The occurrence of a global economic crisis or the emergence of regional economic crises are two significant economic and industry risks that are rated as "high" or "medium" risks. In the 2017 fiscal year, we changed our assessments of the probability of these risks occurring and of the potential damages. We assess the risk of both of these things to be lower than in the previous year.

Sales Risks

Sales risks result mainly from intensified competition or shifts in customer structure. They include sales risks for individual products or product groups due to specific demand trends.

This can lead to decreasing sales revenues, which can be caused by declining sales volumes or falling prices. Since in many cases we cannot adjust the cost structure in the short term, this can lead to a drop in profitability.

We counter sales risks by continually optimizing our product and service portfolio, above all on the basis of our innovative ability. In the process, it is decisive that we cooperate closely with our customers at an early stage of development work to adapt to market needs. With our innovation strategy, we can counter increased competition in our markets.

A loss of, mergers of, or backward integration of customers can lead to major changes in the customer structure. Due to our very diversified customer structure, however, these risks are limited. In addition, we cooperate closely with our core customers within the framework of our key account management.

In the year under review, we only slightly changed our assessment of the probability of occurrence and loss potential from sales risks.

Risks from Company Acquisitions and Investments

Apart from operating growth, acquisitions of companies, business activities, and individual technologies play a key role for the implementation of the strategy for profitable growth at ALTANA. Depending on the size of the activities acquired, inadequate integration can place a burden on the Group's earnings situation and limit its financial headroom. In addition, a business performance that is worse than what was expected when the acquisition was made can lead to impairments of assets with a negative impact on earnings.

To minimize the effects of the risks from company acquisitions, we examine our acquisition targets systematically and comprehensively and analyze them in detail in a multi-stage approval process.

In 2017, we assessed the risk of impairments of assets from acquisitions, which we classify as a medium risk, as being slightly higher than in the previous year. This resulted from increased loss potential – due to the high number of acquisitions we made in the past fiscal year – with a decreased probability of occurrence.

Procurement Risks

Limited availability of certain raw materials or substantial raw materials price increases that we cannot or can only partially pass on to the markets in the short term constitute the primary procurement risks. These can have a negative impact on the Group's earnings situation.

We continually analyze the situation on the raw materials markets that are relevant for ALTANA. By doing so, we can identify price trends and structural shifts on the part of suppliers at an early stage and devise suitable measures. We take this knowledge into account when we arrange supply contracts. In addition, we take account of the volatility of raw materials prices in our customer relations. To be able to pass on price increases to the markets in the short term, we use the flexibility of price mechanisms and price lockup periods.

Financial Market Risks

Financial market risks primarily concern short-term and significant changes in exchange-rate relations and interest rates, as well as default risks and the covering of financial-resource needs.

Due to exchange rate fluctuations, the translation of foreign currency positions into the Group currency, the euro, can have a negative effect on the Group's sales and earnings performance (translation risks). Such negative effects can also result from business conducted in a foreign currency (transaction risks). As in the previous year, we categorize translation risk as being a medium risk. Interest rate changes influence financing costs. Defaults on trade accounts receivable or financial receivables can also have a negative effect on the Group's earnings situation and its financial resources. If there is a lack of availability of financial resources for the implementation of acquisitions or major investment projects, we might not reach our strategic targets.

We safeguard against material transaction risks by concluding forward foreign-exchange contracts in cases where we assume that the underlying business can be realized with a sufficient degree of certainty. The total amount expected is safeguarded in different tranches to offset short-term exchange rate fluctuations.

More information on our evaluation and accounting procedures for hedges can be found in the online Consolidated Financial Statements on page 55 ff. (note 28).

To minimize credit default risks, we systematically examine the credit rating and payment behavior of our counterparties. The latter include customers, the banks we do business with, and other business partners where payment default can have an influence on our financial situation.

We safeguard availability of financial resources through central control and monitoring of our Group-wide financial resources. In addition, by utilizing various financing instruments, we centrally provide a financial resources framework that covers medium-term needs going beyond the planned financial cash inflow from our operating business.

We assess financial market risks to be higher than in the previous year due, in particular, to the increased volatility on the currency markets. Continued high cash inflows from operating business activity and the existing general financial resources framework suffice to cover the expected cash outflows for investments, repayments, and dividends.

Innovation Risks

ALTANA's position as an innovation and technology leader is a major success factor for the company. It is important for a supplier of highly specialized chemical products to continually introduce new products on the market and to be perceived by our customers as a competent and innovative partner. If this was no longer the case in the future, risks could result for our sustainable growth, the attainment of our profitability targets, and ALTANA's positioning in the relevant markets. The same applies if competitors patent knowhow that we use but have not protected, as we would then no longer be able to use it, or only at additional cost.

With our innovation culture, which is put into practice at all levels of our organization, we highlight the importance of innovation and safeguard its status. Both at a decentralized and a Group level, we continually evaluate and control our research and development activities based on financial and non-financial criteria. By investing above-average amounts in research and development and focusing on product adjustments and new developments, we can continually introduce products on the market that are tailored to customers' individual and current needs and thus heighten our competitive edge.

It is important to protect knowhow we develop with patents to convert our knowledge edge into economic success. This includes safeguarding technologies as well as methods and product properties we currently use so that other companies cannot patent them.

In 2017, there was no significant change in our assessment of innovation risks in comparison to the previous year.

Other Risks

Production risks concern technical disruptions or human failure in production that can be harmful to people or the environment. Our goal is to minimize the effects of machine failure on the value chain by operating production lines independently from one another. It is compulsory for our staff to receive training in the clearly defined process and quality standards in the areas in question. In addition, we conclude property damage as well as plant and equipment breakdown insurances.

Information technologies form the basis of nearly all of ALTANA's business and communications processes. Breakdowns or other disruptions of IT systems can lead to far-reaching impairments in all of the Group's value-added stages, which can have significant effects on business performance (IT risks). In addition, potential risks arise from data loss or theft of business secrets. ALTANA attaches great importance to smooth availability of IT applications and services.

To guarantee this, corresponding processes and organizational structures have been established. Emergency plans are in place in case of significant disruptions or losses of data.

Delivery of faulty products can cause damage to people, property, or the environment and thus cause liability risks. This can have significant effects on the Group's asset situation. We minimize this risk by standardizing production processes to a large extent and by taking comprehensive quality-control measures. In addition, we continually conduct analyses to assess the hazardous potential of our input materials and products, and we conclude insurances.

Changes in political and regulatory framework conditions can lead to restrictions on trade or foreign-exchange transactions. Due to political unrest, it can be more difficult or even impossible to access the Group's assets in the country or countries in question. On account of regulatory adjustments, it might no longer be possible to process or sell certain products or ingredients, or only with strong restrictions. We continually examine the political environment in the countries important for us and take current tendencies into account when evaluating business relationships. We only make direct investments in countries in which we assume the political environment is highly stable. We actively take part in legislative procedures and discussions focusing on changes in the regulatory environment. As a result, we can anticipate possible new requirements early on.

Legal violations (compliance risks) can give rise to liability risks or tarnish our reputation, which can have a significant effect on the Group's earnings and asset situation. We counter these risks within the framework of our compliance management system, inter alia by regularly informing and training our employees about relevant legal requirements.

An important basis for long-term success are competent and committed employees. Should we no longer be able to recruit or retain suitable specialists or managers in the future, risks could arise for the successful implementation of our strategy (personnel risks). To counter these risks, ALTANA offers a sophisticated work environment and an attractive compensation system, which is supplemented by various pension plans and wealth creation schemes. Moreover, we regularly offer further education and training programs to budding junior staff members, as well as to specialized and managerial staff.

Compliant Group Accounting

Essential accounting-related risks arise particularly when extraordinary or non-routine issues are handled. These include the first-time consolidation of acquired companies or parts of companies as well as the recording of the sale of Group assets. Accounting of financial instruments is also subject to risks due to the complex evaluation structure. Risks also arise from fraudulent acts.

At ALTANA, a separate department of the Group's holding company coordinates and monitors Group accounting. A core component of the control system are the guidelines, process descriptions, and deadlines that this department defines centrally for all companies, guaranteeing a standardized procedure for preparing the financial statements. For complex issues, the instruments needed for uniform accounting are retained centrally for all Group companies. For recording extraordinary processes and complex special issues, we regularly obtain external reports, advice, and statements.

The financial statements of the individual Group companies are prepared decentrally by the local accounting departments. Hence the individual companies are responsible for preparing the financial statements, in keeping with Group guidelines and country-specific statutory accounting requirements.

The work steps needed to prepare the financial statements are defined such that important process controls are integrated. These include guidelines pertaining to the separation of functions and allocation of responsibilities, to control mechanisms, and to IT system access regulations. The respective management explicitly confirms to the Group's management that the annual financial statements are correct and complete. In addition, important financial statements are audited by the company or Group auditors in charge.

The local accounting statements are recorded and consolidated via standardized formats and processes in a central IT system. At the divisional and holding company levels numerous manual and IT-assisted control mechanisms are applied. They encompass an analysis and a plausibility examination of the registered data and the consolidated results by Group accounting as well as by the controlling department and other departments with expertise in this area. Required corrections of the information in the financial statements are generally made at the level of the individual company to ensure the data are uniform and are transferred.

The company auditor and the Group auditor examine issues, processes, and control systems relevant for the generation of financial statements. The auditor reports on the audit directly to the Supervisory Board and the Audit Committee. In certain cases, audits are carried out by the central Internal Audit department.

After each process related to the preparation of the financial statements, optimization potential identified at the different levels is analyzed and necessary adjustments of the processes are made.

Opportunities

The identification and evaluation of opportunities for our future business development is integrated into the different planning, analysis, and control processes.

Within the framework of strategic planning, we analyze demand trends as well as market and technology developments with regard to options for action that could enable ALTANA to create value. In addition, the divisions continually examine possibilities of developing new sales markets. During the financial-planning process, the effects of action options are evaluated and discussed so that we can optimally exploit future opportunities. Finally, possible opportunities for short-term business development, along with the attendant risks, are dealt with in detail at all levels of management.

Below, major opportunities are described that could lead to ALTANA's surpassing its short-, medium-, or long-term goals. The order corresponds to our assessment of the effects on our business performance.

Economic and Industry Development

Should the economic environment in the established industrial regions important for ALTANA, and particularly in the U.S. and Europe, develop better than we anticipated, unexpected growth impetus could arise. As a result, demand for our products and services could develop more positively and exceed our forecast. The same applies to growth in the important emerging countries in Asia and South America. If the growth rates in these nations were higher than expected, we might be able to benefit from this to a disproportionately high extent due to our market positions.

In addition to regional factors, growth impetus can also result from individual branches of industry. Further potential could be opened up, in particular, if the automotive sector and the construction industry showed a positive development, or if there was a trend reversal concerning the use of silver and gray colors in the consumer sector.

Innovation

We have to continually streamline our product and service portfolio to be able to continue to pursue our strategy for profitable growth in the long term. Should ALTANA manage to enhance its innovativeness more quickly than expected or to increase its share of new products for which there is a high demand beyond the target level, there would be even better prospects for growth. The same applies if we entered new markets or opened up new application fields for our products.

Company Acquisitions and Portfolio Measures

Acquisitions play a key role in ALTANA's long-term value creation. In recent years, we have continually advanced the Group strategically due to acquisitions. At the same time, we cleansed our portfolio of those activities that were not in line with our strategic aims and for which there were no long-term value-creation perspectives within the Group.

In the future, we intend to continue to boost our growth by acquiring companies and activities. This is an essential prerequisite for us to achieve our strategic growth targets. Should opportunities arise in the future that exceed our expectations, these new activities could help us strengthen our market positions and open up new market segments. This, in turn, could help us achieve our strategic targets more quickly.

Synergies

The ALTANA Group is decentralized to a large extent. Still, in some areas of the value-creation chain and in certain management functions, central units support the divisions and play a coordinating role. To the extent that we manage to push forward the networks within the Group more strongly than expected, this may spawn further potential to improve efficiency.

The Management Board's Overall Statement on the Anticipated Development of the Group Including Its Overall View of the Risk and Opportunity Situation

In 2018, we expect the global economy to continue to grow dynamically. In this environment, we expect ALTANA to achieve operating sales growth of 2 % to 5 %, with slightly lower earnings profitability. But acquisitions that were made will temporarily weaken the value management key figures.

We believe that the risk of burdens from a muted or even recessive development of the global economy or in important core regions continues to exist. In addition, considerable risks to our short-term sales and earnings performance are posed by the higher price volatility on the raw materials markets and by short-term exchange-rate fluctuations.

Overall, we have not found any risks that could endanger the continued existence of the company. The risks we face are set against numerous opportunities that could enable us to achieve sales and earnings performance surpassing our forecasts.

In sum, we expect to be able to successfully implement our strategy to sustain profitable growth in the coming years as well.

Products

We want to be leading in everything we do. This particularly concerns our innovative products, which contribute to conserving resources and protecting the climate. We help our customers manufacture with low emissions and energy-efficiently. Furthermore, we help them enhance the safety of their products, for example with our completely chromium-free zinc flakes.

Sustainable Product Strategy

ALTANA offers companies around the world specialty chemicals solutions that make products used in daily life better and more sustainable. We convince our customers with added value and give them a competitive edge through our work. Some solutions improve, for example, the functions of end products and increase their lifetime. Others optimize our customers' value chain in terms of energy and resource consumption. And still others enable our customers to reduce the amount of critical substances in their end products or to replace them with less critical ones. Innovative, environmentally friendly, safely processable products play a key role. They help ALTANA's customers implement their own sustainability concepts. Based on this understanding of sustainability, the Group continuously leverages new fields of business and paves the way for further profitable growth.

Due to their strong customer orientation, many ALTANA companies gear their innovation strategies systematically to a catalog of sustainability criteria at a very early stage of product development. This includes responsible handling of resources (water, energy, and raw materials) as well as the goal of developing products whose effects on the environment are as low as possible without detracting from the product's function. This is reflected by the increasing number of coatings, additives, and pigment formulations that are conceived for water-based applications and therefore do not contain organic solvents.

Another aim of ALTANA's product strategy is to replace critical components with less critical ones whenever possible. For products that need classifications due to national or international hazardous substance regulations, ALTANA's companies have special data sheets on hand that provide consumers with important information on safe storage and further processing. Moreover, certified lifecycle analyses are available for certain products.

The Keep Changing Agenda from 2016 will support the ALTANA Group's sustainability strategy in the future, among other things. A central action field of the future agenda is "Take the lead in sustainability." To achieve this goal, new criteria were defined in 2017 in purchasing and research and development; in the initiative to improve corporate processes, called ALTANA Excellence; in M&A; and related to investment. In addition to economic aspects, these ALTANA projects address ecological and social topics. For example, planned product innovations are analyzed early on within the framework of the stage-gate process, a model for innovation and product development, taking into account possible environmental effects.

Also, ALTANA is working on establishing ongoing exchange between research and development experts within the Group and the Environment, Health & Safety department (EH&S) on the issue of sustainability. Joint regional and global workshops and special Intranet platforms are the basis of this exchange.

In addition, the companies in the ALTANA Group are invited to propose projects with high environmental relevance. From more than 25 ideas, ALTANA selects the most important ones and treats them as so-called "sustainability lighthouse projects" with a high priority.

Pigments for Food Contact

More and more food packaging is printed using ink that contains metallic-effect pigments. This packaging has to comply with the specifications of the packaging and food industry and the EU regarding consumer and health protection. Therefore, ECKART set up a special production facility at its Hartenstein site to manufacture aluminum-based metallic-effect pigments for printing inks. In this method, the pigment specialist uses alcohol to prevent health-endangering substances from migrating from the packaging into the food. The pigment pastes manufactured using the method, such as the new Rotovario FPG (Food Packaging Grade) series, are produced in accordance with international standards, including Good Manufacturing Practice (GMP) regulations. The formulations made using these pigments also meet the requirements for indirect food contact laid down in the Swiss Ordinance on Materials and Articles in Contact with Food.

Products Promoting Climate Protection

An important part of ALTANA's understanding of sustainability is the development of products that enable customers to save energy and thus contribute to climate protection. BYK's Viscosity Control Technology (VCT) is a good example. It combines thickening and diluting additives to make the processing of reactive resins (duroplastics) more energy efficient. One of the most important applications is the manufacture of wind turbines. The additive combination used in resins for bonding rotor blades has a positive influence on the entire value chain, from faster and more effective manufacture, to space-saving transport, to reduced waste generation.

Wherever possible, the ALTANA Group refrains from using solvents in products and in their manufacture. This reduces emissions of ecologically harmful volatile organic compounds (VOC). In the 2017 reporting year, ALTANA made further progress. For example, ACTEGA Foshan became the first Chinese company to develop a VOC-free coating expressly for the Asian market. The water-based coating is used for paper-based blister packaging, for which there is an ever-growing demand. The packaging is used for tablets, batteries, and toothbrushes, among other things.

Impregnating agents used to insulate electric motors have to withstand strong mechanical and thermal loads. Solvents were long regarded as being indispensable for the manufacture of the resins employed. With the new ELAN-Guard family, ELANTAS PDG is offering the first impregnating-resin product line with significantly reduced amounts of solvent or even completely VOC-free compositions for hermetically sealed motors. Specifically for coils in tractor units, ELANTAS Zhuhai developed a VOC-free polymer that enables crack-free impregnation.

The additives and instruments specialist BYK also expanded its VOC-free portfolio, adding a number of wetting and dispersion additives and defoaming agents. Several defoamers are suitable for coating systems that meet the specifications of the EU Ecolabel.

Use of Biotechnology

It is not only the products themselves that can contribute to sustainability, but also the processes used to manufacture them. In additives manufacture, BYK makes use of biocatalysts if this results in significant energy consumption advantages. An example is the manufacture of an additive with improved surface properties used in the automotive industry. The biocatalyst employed is based on renewable raw materials and enables a much lower production temperature. The additive can be synthesized at 60 °C instead of the 110 °C hitherto.

Replacement of Critical Substances

In the year under review, ALTANA succeeded in replacing further critical substances. An example are chromium compounds that are used, among other things, as corrosion protection in galvanized and hot-zinc dipped connecting elements such as screws, bolts, and other fastening components, say, in the automotive industry. Since chromium compounds are suspected of posing hazards to human health, chemical regulations such as REACH have recently begun strongly restricting their use. The effect-pigment specialist ECKART offers an alternative to the aforementioned methods, namely, special, completely chromium-free zinc flakes. They ensure lasting corrosion protection in the corresponding paint and coating systems with lower material consumption, as thinner layers are needed. The zinc flakes are also used in mounting components for wind turbines. Further advantages for users: Processing primers using zinc flakes requires less energy compared to galvanized coatings. In addition, no wastewater is produced in the coating process.

Safety and Health

ALTANA relies on a uniform safety culture. Various technical and organizational measures as well as training programs contribute to enhancing work safety and anchoring the issue firmly in our employees' minds. Our top priority is to reduce the number of accidents. We are constantly working on minimizing hazards and improving the protection of our employees' health.

A Focus on Occupational Safety

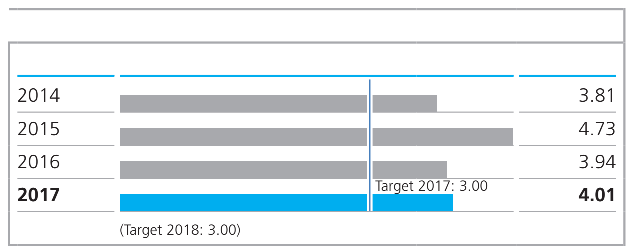
For ALTANA, the health and safety of employees is its top priority. Various technical and organizational measures that we implement to protect employees from hazards according to the respective sites' production conditions as well as to the laws and regulations in effect at the location. ALTANA also relies on training and other measures to achieve a uniform safety culture.

Since 2007, ALTANA has used the Work Accident Indicator (WAI) as the most important key performance indicator observing occupational safety at all sites and has been steadily improving it. The indicator provides the number of occupational accidents and lost work days and sets them in relation to the total working hours. On the basis of this data, ALTANA's Management Board and the EH&S department define three WAI values each year as targets that apply to all of the companies in the ALTANA Group.

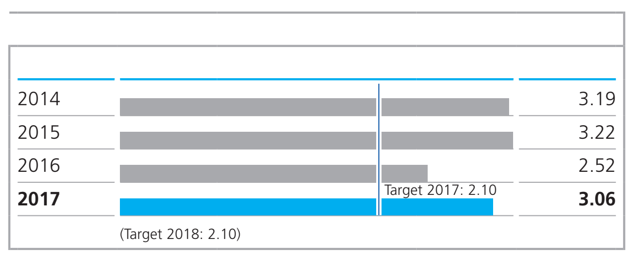
In 2017, as in the previous year, there were no fatal accidents. Some sites achieved remarkable results in terms of occupational safety. For instance, BYK Tongling and ELANTAS Beck India at the Ankleshwar and Pimpri sites, respectively, have not recorded any lost work time due to accidents for more than ten years. The following sites have been accident-free for more than four years: ECKART Zhuhai (seven years), ACTEGA Rhenacoat and ELANTAS Tongling (each six years), ACTEGA Foshan (five years), and ELANTAS Europe in Ascoli Piceno (four years).

In spite of this excellent development, ALTANA did not reach the safety targets it set itself for the year under review and did not improve its accident statistics. Analyses of the accidents show that there were technical and organizational causes in only a few cases, and in most cases the reasons were behavior-based.

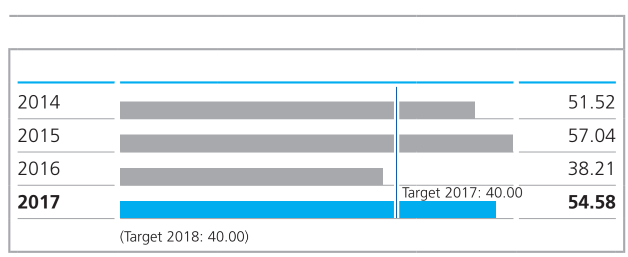
WAI 1 (number of occupational accidents with lost work time of one day or more per million working hours)



WAI 2 (number of occupational accidents with lost work time of more than three days per million working hours)



WAI 3 (number of lost work days due to occupational accidents per million working hours)



ALTANA is using this result as an opportunity to rely even more on further training in the future. In addition to the further development of technical and organizational measures, behavior-based safety training serves to sharpen employees' awareness of safety issues and train them to behave appropriately in any given situation. Also, ALTANA's staff magazine regularly discusses special accident incidents and strategies for avoiding them. Moreover, all sites have established efficient processes for prompt analyses of accidents performed by employees and managers.

Incidents in Detail

Based on the definition of the German Chemical Industry Association (VCI), we had a total of 12 significant incidents in 2017 (previous year: 13). One employee was injured; no third parties were harmed. Nine incidents involved the release of chemicals; the other three were fires. In eight of the nine cases in which chemicals were released, the chemicals were caught by special basins or tanks installed expressly for such incidents. In one case, there was leakage but no catchment basin, but this had no adverse ecological impact.

Worldwide Safety Measures

Given the high level of technical and organizational safety measures, in the year under review only selected precautions were necessary to further improve ALTANA's safety culture and health protection. This progress included an automation measure in the processing of solid raw materials at the Quattordio site (ELANTAS Europe), which reduces production employees' contact with chemicals.

Further investments in health protection concerned the reduction of volatile organic compounds (VOC) in the ambient air of production buildings. In this regard, ECKART made significant progress at its Schererville, Vétroz, and Zhuhai sites, and ACTEGA at its Sedan site. With the help of closed systems, optimized extractor systems and automation measures reduced the corresponding emissions considerably.

At its Vigo site, ACTEGA optimized the noise protection of its extractor systems and installed lifting devices to ensure improved ergonomic conditions. By investing in hydraulic lifts, ELANTAS decreased the use of forklifts at its site in Zhuhai.

The company suggestion scheme (CSS) continues to play a key role in the improvement of ALTANA's safety culture. In 2017, hundreds of employees around the world took part once again. Their suggestions helped improve ergonomic conditions and occupational safety, and promoted sustainable resource consumption. In addition, some suggestions enabled costs to be cut.

A Focus on Safety Communication

To continue to sharpen safety awareness in the long term, the ALTANA Group primarily relies on targeted communication. In the year under review, some companies had their first experiences with communication-oriented safety training. Serving as an example, ELANTAS Europe organized a so-called "safety walk" at each of its Italian sites. During the walk, local managers and employees identify possible risks of accidents and together train safe behavior for these situations.

The cross-site two-day safety coaching of ACTEGA North America is geared to managers, plant managers, and foremen. With the support of external partners, the participants learn target-group-related conversation and communications strategies with which they can address the topic of safety in a team locally. On account of the extremely positive response, we will carry out this or a similar type of coaching at other sites as well to continually improve safety behavior.

Health Protection

Protecting the health of the workforce is a key issue for all ALTANA Group companies. In Germany, annual health days have been established at many sites. On these days, employees receive medical checkups and can obtain information about healthy nutrition. ACTEGA North America initiated a safety-focused cross-site action week focusing on health and safety, e. g. with first-aid courses.

Moreover, employees worldwide have access to a manifold sports, nutrition, fitness, and relaxation offer, which at many branches is available all year round.

Environment

Environmentally friendly management is a key component of ALTANA's corporate strategy. Our goal is to steadily reduce the energy consumption at all sites and in all areas. We also implement this objective in other environmentally relevant areas, such as waste and the consumption of drinking water.

Climate Targets Reached Ahead of Time

ALTANA controls the Group's environmental protection performance with the help of self-defined environmental key figures that set the company's energy and resource consumption in relation to gross value added and specify upper limits for consumption for each reporting period. The data on CO_2 emissions, water consumption, and waste volumes, which have been collected since 2007, document the Group's continuous progress.

In 2017, the ALTANA Group's energy consumption amounted to around 697,200 megawatt-hours after 638,900 megawatt-hours in the previous year. Nevertheless, ALTANA achieved an important climate goal three years earlier than planned. The specialty chemicals company reached its long-term goal of reducing its specific CO_2 emissions from 2007 to 2020 by 30 % to 0.21 kg/€. The Group achieved this aim through its selection of electricity providers. Nearly all of our German sites now obtain around half of their electricity, amounting to 310 g/KWh, from renewable energy sources. In addition, projects to improve energy efficiency were implemented at various sites (see the following pages). As a result, absolute CO_2 emissions were reduced by 7 % to 187,500 tons.

In 2017, the ALTANA Group further improved its record regarding the volume of hazardous waste it produced in relation to gross value added. At 19,300 tons, the amount of hazardous waste was not only below the targeted upper limit, but also slightly under the previous year's level (around 19,400 tons). The amount of non-hazardous waste rose from 8,700 to 11,700 tons, thus exceeding the target value for 2017. The triggers are process changes and warehousing measures, such as the disposal of products and raw materials that have passed their sell-by date.

ALTANA's water consumption record was also positive in 2017. The drinking-water consumption was below the upper limit set for the year, decreasing by 3 % to 1,239,600 cubic meters.

In the period under review, ALTANA increased its production of finished goods to 534,800 tons, needing 601,800 tons of raw material. Of the latter amount, 441,700 tons were fossil raw materials, 23,500 tons renewable raw materials, and 136,600 tons non-fossil and non-renewable raw materials. 48,100 tons of water were also used as raw material.

Detailed information on the Group's resource and energy consumption (differentiated based on electricity, natural gas, and oil) and on ALTANA's environmental key performance indicators can be found in the document "Sustainability Key Performance Indicators and Management Approaches" on our website www.altana.com/sustainability_performance_indicators_2017.

In 2017, 81 % of the Group's 48 manufacturing sites fulfilled the ISO 14001 standard. New sites are not yet certified in accordance with ISO 14001 and have three years to become certified. But these sites are already included in the total number of 48 manufacturing sites.

And ten sites have energy management systems that have been certified in accordance with ISO 50001.

Significant Progress in Climate Protection

The optimization of manufacturing plants has made an important contribution to the ALTANA Group's good climate-protection development. This progress will enable us to further reduce our energy consumption – and thus CO_2 emissions – in the coming years. For example, ACTEGA prepared a comprehensive package of measures to improve energy usage at its Bremen site.

At the center is the control of the cooling tower with its eight pumps, which supply the various product lines for thermoplastic elastomers, as well as the laboratory, with

Environmental performance indicators ALTANA

	2014	2015	2016	2017
CO_2 (Scope 1 + Scope 2) (kg/€)	0.30	0.27	0.24	0.21
Drinking water (l/€)	1.85	1.87	1.52	1.36
Hazardous waste (g/€)	25.32	23.57	23.33	21.24
Hazardous waste for disposal (g/€)	5.95	6.92	7.04	4.20
Non-hazardous waste (g/€)	12.59	13.22	10.49	12.89
Non-hazardous waste for disposal (g/€)	6.12	6.36	5.16	5.62

The key performance indicators are calculated from the absolute values related to the gross value added.
Scope1: direct emissions; Scope 2: indirect emissions

cooling water. Instead of having to operate all of the pumps at the same time, as has been the case so far, in the future it will be possible to control one or more pumps in accordance with needs. Thus, pumps not needed on weekends or during the late shift can be switched off. As a result, the annual electricity consumption of the sealants supplier will decrease to a total of 550 megawatt-hours (corresponding to 170 tons of CO_2) in 2018. In parallel, around 50,000 less liters of water will be consumed per year.

ECKART also contributes to environmental protection. An example is its nitrogen consumption. The effect-pigment specialist uses nitrogen as protective gas and produces some of it itself at its Wackersdorf site. A compressor was converted to speed control in the nitrogen production system, reducing the electricity consumption significantly. As a result, CO_2 emissions decreased by almost 100 tons.

At its Grevenbroich site, ACTEGA is investing in the optimization of its production plants to improve energy efficiency. To this end, the company is reconstructing the bead mills for pigment grinding as well as the agitators in which the components for packaging coatings are mixed.

On the basis of a comprehensive energy-efficiency analysis, BYK improved the exhaust air cleaning system at its site in Gonzales by incorporating thermal afterburning. The system is used to burn ethanol-containing process gases that arise when additive powder is dried. In the process, it makes the hydrocarbons, which are regarded as volatile organic compounds (VOC), harmless. The additives and instruments specialist can now close one of the four exhaust air cleaning systems and use the resulting waste heat for steam production. With these measures, BYK can save a total of 4,800 megawatt-hours of heat (corresponding to 1,027 tons of CO_2).

Using Water Resources Even More Sparingly

Water plays an important role in many of the ALTANA Group's production processes. In the interest of the environment, the company makes an effort to use as little water as possible. In 2017, the specialty chemicals group made further progress thanks to corresponding investments. An example is the cooling system at BYK's Earth City site. The system was already optimized in the planning and implementation stages, enabling approximately 20,000 cubic meters/year of water to be avoided. This is possible because the new cooling is based on a closed system and thus a regular fresh water supply is superfluous.

At its Louisville site, BYK reduced drinking-water consumption by around a third with the help of process optimizations (from 271,600 to 185,200 cubic meters). Thanks to a new cooling circuit system, the Schkopau site decreased its consumption of surface water from 65,000 cubic meters to 7,000 cubic meters.

By means of various measures, ACTEGA is also helping conserve water resources. At its site in São Paulo, wastewater from the lab is treated such that it can be used further internally. And at its site in Lincolnton, the supplier of special coatings, printing inks, and adhesives also optimized its wastewater treatment. Instead of having the water used to clean tanks, machines, and production rooms treated by external service providers, ACTEGA does this itself now using a new method. The liquids are cleansed of color residue and solids before they are fed into the municipal sewer system.

Further Waste Management Improvement

Optimization of waste management is also a central sustainability target of the ALTANA Group. Therefore, a number of recycling measures were taken in 2017.

For example, at its Güntersthal site ECKART utilizes zinc-iron sludge from its Vetróz site as a source of zinc for its own production. Furthermore, efficiency measures introduced by the effect-pigment specialist in Germany decreased the amount of so-called gold bronze scrap by 10 %. The remaining waste is sold to third parties for smelting.

The specialist for insulation materials for the electric and electronics industry ELANTAS further improved its waste management by introducing a number of measures. At its Ankleshwar site, the distillation apparatus was optimized such that a substance is isolated and then can be used again as an intermediate. In this way, ELANTAS reduced the amount of disposable organic waste by 5 %.

At ELANTAS in Tongling, a method was developed for recycling and reusing solvents from cleaning agents that are used to clean raw-material transport containers. As a result, the amount of cleaning-solvent waste was reduced by 80 %. Last but not least, the insulating material specialist purchases raw materials in larger containers, which are subsequently reused internally. As a consequence, around 600 small barrels that can only be used once become superfluous each year.

Human Resources

Our employees are our most important resource. Therefore, ALTANA promotes their professional development, prepares them for positions of leadership, and enables its staff to participate in the company's success to motivate them to stay with the company on a long-term basis. We put particular emphasis on recruitment of young talent, specialists, and managers.

ALTANA's Employees: Our Most Important Asset

ALTANA is one of the world's leading specialty chemicals companies with great innovative strength. The some 6,200 women and men working for ALTANA companies worldwide demonstrate above-average qualifications and commitment. The culture of our group, defined in ALTANA's Guiding Principles, is informed by our four central values: openness and trust, appreciation and empowerment to act.

ALTANA offers its employees further training opportunities, promotes their professional development in a targeted manner, and supports their health with special preventive measures. This helps make us a more attractive employer. Our current employee survey from 2017, in which four out of every five employees participated, once again shows how successful these measures are.

The Intranet-based survey shows the reasons for ALTANA's employees' high satisfaction. Contributing factors include the work environment, the quality of the tasks, as well as the staff's identification with the company and its Guiding Principles. All in all, the employees' overall satisfaction is high. With a value of 5.89 on a scale of 1 to 7, the result is above the industry benchmark of 5.51. The values for "commitment" were also in the upper range, at 5.82.

Human Resource Development and Talent Management

In 2016, the ALTANA Group established the Keep Changing Agenda. Among other things, it states that from 2020 around 70 percent of all leadership positions should be filled internally. Another focus is the increased internationalization of management. The success of this approach became apparent in 2017. ALTANA has already filled a number of vacant top-management positions in the Group internally. In addition, it transferred parts of its global functions from Germany to other regions.

In 2017, ALTANA further harmonized its human-resource development program worldwide. The program "Fokus führen" (Focus on Leadership), originally developed for Germany, was also implemented in Great Britain, Italy, the Netherlands, and the U.S. It conveys ALTANA's management instruments and guidelines to the participants and enables them to carry out annual employee talks, the compass dialog (see next page). Next, the program will be rolled out in China, India, and Southeast Asia, as well as in French-speaking countries and Latin America.

For managers, this program is supplemented by a new format called Leadership PitStop. This format promotes international exchange between selected managers, enabling them to discuss personal challenges and develop new approaches to the issue of leadership.

By introducing a Group-wide talent-management function, ALTANA has created an important prerequisite for identifying existing leadership potential in its companies across the regions. ALTANA is currently examining an overall concept for worldwide talent management. With it, all instruments, from recruiting, employee development programs, and assessment centers to the next career step, are to be interlinked. ALTANA's Human Resources department evaluated the Talent Development Process (TDP) as well as the online assessment for recruiting. Both instruments have only been used in Germany thus far.

Within the framework of two pilot talent conferences held in Germany and the U.S. in 2017, potential talents were evaluated and found Group-wide and measures for the further development of these employees developed. The ALTANA Management Challenge (AMC), an assessment center with 65 participants from across the globe, also contributed to better identification of potential up-and-coming managers. During the Challenge, some development measures and concrete career steps were already established. The participants in the next Management Development Program (MDP) and the regional Development Program (DP) were also identified in this way. The several-month programs have proven to be valuable networks within the ALTANA Group for promoting exchange between regions and subsidiaries.

ALTANA initiates specially developed dialogs for all employees to promote staff development. They include a progress dialog, which the disciplinary superiors carry out at least once a year with each staff member. The progress dialog serves to assess the performances of the employees and paves the way for agreeing on targets with the employees.

If a work contract specifies that the target agreements impact the compensation of the employee in question, the target agreement dialog is supplemented by a target achievement dialog. The superiors carry out the latter dialog with the employees at least once a year as well. The three dialog elements together constitute the ALTANA compass dialog.

Women in Leadership Positions

With the Keep Changing Agenda, ALTANA has set itself the goal of significantly increasing the number of women in leadership positions. At the end of 2017, around 30 percent of ALTANA's employees in Germany were women, but only 23 percent of the managers were female. To improve this ratio, ALTANA launched a project back in 2015 in which experienced managers serve as personal mentors for potential female managers over a period of several months.

In light of the success of the mentoring project, ALTANA continued it with 29 new tandems at different sites in Germany and examined whether the project can be rolled out Europe-wide.

Recruiting

In the 2017 fiscal year, ALTANA's online recruiting was ranked among the top 30 in Germany for the third time. In 2017, the Potentialpark Group again examined 140 companies within the framework of its online talent communication study (OTaC). ALTANA improved again in the year under review, finishing in 16th place in the overall ranking (previous year: 17th place).

The ALTANA Group uses different proven instruments to recruit university graduates. In addition to the Deutschlandstipendium – Talent meets sponsorship program, they include cooperation with Rhine-Waal and Niederrhein universities. Here, ALTANA primarily promotes IT courses of study to arouse the enthusiasm of this professional group for the company. Among other things, the students have the opportunity to do an internship in the ALTANA Group.

ALTANA has participated in the Deutschlandstipendium for eight years. The 28 scholarship holders, who in the year under review were enrolled in various courses of study, not only received financial support. During a two-day meeting at the company's headquarters in Wesel, they learned more about ALTANA's corporate culture and had the opportunity to gather information about internships, degree theses, trainee programs, and mentoring offers.

Social Commitment

As a good corporate citizen, ALTANA supports and sponsors social projects focusing on education, science, and research. To strengthen our local environments and to be a good neighbor, we especially promote initiatives near our sites in Germany and abroad.

Social Commitment

The natural sciences, mathematics, informatics, and technology are among the drivers of economic development and social progress around the world. In this context, ALTANA sees itself as having a responsibility to introduce young people to these disciplines at an early stage and to kindle their enthusiasm for them. In cooperation with experienced partners from the education sector, the ALTANA Group supports concrete projects, often in the immediate proximity of ALTANA sites. To maximize lasting impact, the company usually promotes these projects over a period of several years.

Educational Coaching of Elementary School Children

In 2017, ALTANA sponsored the so-called educational coaching of schoolchildren at the Elementary School GGS Innenstadt in Wesel for the fourth year in a row. Initiated by the City of Wesel and implemented by the nonprofit Klausenhof Academy, the coaching helps elementary school children from educationally deprived classes to sustainably improve their development opportunities and school careers. In their free time, volunteer mentors give the children individual supervision. In January 2017, the partnership agreement was extended for another three years.

As in the previous years, ALTANA financed a socio-educational expert at the Klausenhof Academy. The expert assigns a “personal mentor” to each child, trains the mentors, and coordinates their work. Educational coaching has become a fixed component of the elementary school’s everyday activities. More and more children want to take part in it. The support focuses on extracurricular activities such as library visits, sports, and music. In 2017, 21 volunteer mentors each took one child under their wings.

Junior Researchers Visit ALTANA

Furthering children and adolescents’ scientific knowledge has a tradition at ALTANA. For example, employees of BYK-Chemie at our Wesel site have worked as school ambassadors for many years.

As a network partner of the House of Junior Researchers foundation, ALTANA has for many years accompanied two elementary schools and one daycare center in Wesel. The aim of the initiative, which is sponsored by the German Federal Government, is to get children interested in science. The concept includes special research days that take place in cooperation with school ambassadors at the respective school or daycare center. In 2017, air, water, and movement were the main topics. The 250 junior researchers presented their results at the traditional closing event held at the ALTANA conference center. Parents and employees were also invited.

At its Grevenbroich site, ACTEGA Rhenania again offered young people special courses on “coloristics of packaging – preferred colors at supermarkets.” On four afternoons, 10th to 13th grade students had the opportunity to make colored packaging coatings based on their own ideas. The aim was to teach the participants different methods of manufacturing and processing coatings and to give them insight into the working world.

Youth Startups Competition

For several years now, ALTANA has participated in the multistage competition “Jugend gründet” (Youth Startups), sponsored by the German Federal Government. In 2017, the specialty chemicals company offered a special prize in chemistry for the second time. Lilith Diringer, a high-school student in Karlsbad, Baden-Württemberg, received the award for her sustainable energy concept “Sweet Power.” She shows how spherical carbon particles can be manufactured from sugar-beet waste and serve as energy sources for lithium-ion batteries. The award included a several-day trip to Japan, where the prizewinner visited BYK's Amagasaki site, at which ALTANA is doing research on additives for lithium-ion batteries, among other things.

German Courses for Refugees

The German courses for refugees supported by the ALTANA Group are a tremendous success. The scientists accompanying the project, the results of which were presented in April 2017, came to the conclusion that the language courses improved the refugees' ability to communicate and become integrated into German society. It became apparent that they had begun to develop an understanding for the foreign society. A survey of selected participants revealed that the refugees saw the course as a first step into a new future. The scientific evaluation of the project, financed by ALTANA, was carried out by the Dortmund University of Applied Sciences and Arts.

In the fall of 2015, ALTANA allocated 250,000 euros via the relief coalition "Aktion Deutschland Hilft" to the charity organization Malteser Werke to support refugees. The financial support enables faculty members' salaries to be paid, rooms to be equipped, and teaching materials to be developed. The charity organization offered German courses at six sites in North Rhine-Westphalia. The courses are geared to refugees who live in central accommodation facilities. Although the refugees are registered there, they have not received a decision on their asylum application yet and thus are not yet entitled to attend a government-financed integrated course.

Since the fall of 2015, a total of 100,000 adults have voluntarily participated in the German courses, for which the Malteser Werke had developed a concept geared to the refugees' everyday living situation.

Social Engagement and Donations

In India, companies of a certain size are required each year to invest two percent of their average net profit over the last three years in social projects. ELANTAS Beck India established a number of partnerships for this purpose, which serve to promote projects in the fields of education, health, and hygiene over a longer period of time. In the Indian district of Pune, ELANTAS Beck India has for several years supported four schools for hearing-impaired children run by the charity organization Surhud Mandal (see also page 40 ff). In 2017, the nongovernmental organization (NGO) financed the printing of teaching materials that prepare the children for everyday life after school hours.

Also in the Pune district, ALTANA helped equip houses in two slum areas and in two villages with toilets. In addition, the elementary school in one of the villages was refurbished thanks to funding from ELANTAS Beck India.

In the U.S., ELANTAS PDG aids social projects in St. Louis, where it is based, and also promotes employees' personal commitment. For example, the company tops up monthly donations made by its employees to the aid organization United Way Worldwide. Furthermore, ELANTAS PDG participates every fall in the traditional World Food Day, on which employees pack food packages for people in need. At Christmastime, the company participates in a Christmas campaign for needy families in St. Louis. The employees personally bring gifts financed by the company to the families' homes.

For many years now, employees at ECKART's Wackersdorf site have collected income from Christmas parties, health days, and private donations. After two years, a large sum is amassed and used as a donation. In 2017, ECKART topped up the donation to a total of 15,000 Euros to promote the Regensburg-based VKKK (association for helping children in Eastern Bavaria suffering from cancer or physical handicaps).

Consolidated Financial Statements (condensed version)

Management Board Responsibility Statement

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

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as endorsed by the EU and in accordance with the requirements of German commercial law pursuant to section 315e of the German Commercial Code (HGB).

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

By resolution of the Annual General Meeting, the Chairman of the Audit Committee of the Supervisory Board appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as independent auditor of the consolidated financial statements. The auditors' report is reproduced on the following page. The consolidated financial statements, the Group Management Report and the auditors' report have been made available to the Supervisory Board for detailed discussion. The report of the Supervisory Board is contained on pages 14–17 of the Corporate Report 2017.

To the best of our knowledge and in accordance with the applicable reporting principles the consolidated financial statements give a true and fair view of the net assets, financial position, and results of operations of the Group and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Wesel, Germany, February 26, 2018

ALTANA AG
The Management Board

Martin Babilas | Stefan Genten | Dr. Christoph Schlünken

The auditor issued the following unqualified auditors' report on the complete consolidated financial statements, which also includes the components of the consolidated financial statements not included in this publication.

Independent Auditors' Report

To ALTANA Aktiengesellschaft, Wesel

Audit Opinions

We have audited the consolidated financial statements of ALTANA Aktiengesellschaft, Wesel, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2017 and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of ALTANA for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
– the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Other Information

The executive directors are responsible for the other information. The other information comprises the following nonaudited parts of the group management report:

– the declaration of corporate governance pursuant to § 289 f Abs. 4 HGB included in section "Innovation and Employees" of the group management report
– the corporate governance report.

The other information comprises further the remaining parts of the Corporate Report – excluding crossreferences to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
– otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315 e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
– obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
– evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
– conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty

exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
– evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315 e Abs. 1 HGB.
– obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
– evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
– perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Cologne, Germany, February 28, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Jörg Sechser
German Public Auditor

ppa. Carsten Manthei
German Public Auditor

ALTANA Group Consolidated Income Statement

	Notes	2016	2017
in € thousand			
Net sales	4	**2,075,309**	**2,246,956**
Cost of sales	5	(1,236,993)	(1,371,573)
Gross profit		**838,316**	**875,383**
Selling and distribution expenses	6	(271,341)	(288,653)
Research and development expenses		(129,328)	(142,484)
General administration expenses		(115,657)	(118,466)
Other operating income	7	14,062	23,498
Other operating expenses	8	(7,359)	(13,359)
Operating income (EBIT)		**328,693**	**335,919**
Financial income	9	7,741	7,092
Financial expenses	10	(16,367)	(15,684)
Financial result		**(8,626)**	**(8,592)**
Income from at equity accounted investments		(20,307)	(21,301)
Income before income taxes (EBT)		**299,760**	**306,026**
Income taxes	11	(89,669)	(71,382)
Net income (EAT)		**210,091**	**234,644**
thereof attributable to non-controlling interests		1,800	1,829
thereof attributable to the shareholder of ALTANA AG		208,291	232,815

ALTANA Group Consolidated Statement of Financial Position

Assets	Notes	Dec. 31, 2016	Dec. 31, 2017
in € thousand			
Intangible assets	13	922,793	1,056,943
Property, plant and equipment	14	781,068	774,405
Long-term investments	15	9,564	63,227
Investments in at equity accounted companies	16	83,388	96,705
Income tax refunds		0	169
Deferred tax assets	11	22,101	18,645
Other non-current assets	21	12,118	11,479
Total non-current assets		**1,831,032**	**2,021,573**
Inventories	17	294,572	330,170
Trade accounts receivable	18	347,602	371,911
Income tax refunds		11,768	8,671
Other current assets	21	83,546	118,113
Marketable securities	19	15,987	18,730
Short-term financial assets	20	92,890	2,074
Cash and cash equivalents		375,606	275,671
Assets held for sale		853	797
Total current assets		**1,222,824**	**1,126,137**
Total assets		**3,053,856**	**3,147,710**

Liabilities, provisions and shareholders' equity	Notes	Dec. 31, 2017	Dec. 31, 2017
in € thousand			
Share capital[1]		136,098	136,098
Additional paid-in capital		151,276	151,276
Retained earnings		1,625,205	1,864,798
Accumulated other comprehensive income		160,597	51,963
Equity attributable to the shareholder of ALTANA AG		**2,073,176**	**2,204,135**
Non-controlling interests		9,005	10,065
Shareholders' equity	22	**2,082,181**	**2,214,200**
Non-current debt	24	192,765	134,973
Employee benefit obligations	25	229,930	224,230
Other non-current provisions	26	20,574	18,366
Deferred tax liabilities	11	96,860	84,252
Other non-current liabilities	27	24,062	24,787
Total non-current liabilities		**564,191**	**486,608**
Current debt	24	36,136	69,269
Trade accounts payable		171,813	192,016
Current accrued income taxes		38,977	33,915
Other current provisions	26	111,866	104,237
Other current liabilities	27	48,691	47,465
Total current liabilities		**407,483**	**446,902**
Total liabilities, provisions and shareholders' equity		**3,053,856**	**3,147,710**

[1] Share capital consists of 136,097,896 no-par value shares.

ALTANA Group Consolidated Statement of Cash Flows

	Notes	2016	2017
in € thousand			
Net income (EAT)		**210,091**	**234,644**
Depreciation and amortization of intangible assets and property, plant and equipment	13, 14	124,327	133,637
Impairment of intangible assets, property, plant and equipment and assets held for sale	13, 14	0	451
Net result from the disposal of intangible assets and property, plant and equipment	7, 8	818	316
Net result from the disposal of subsidiaries		(82)	0
Net result from the disposal of long-term investments and marketable securities	9	0	(17)
Change in inventories	17	(5,410)	(40,673)
Change in trade accounts receivable	18	(13,359)	(32,521)
Change in income taxes	11	(3,241)	(29,746)
Change in provisions	25, 26	24,385	(528)
Change in trade accounts payable		19,925	24,702
Change in other assets and other liabilities	21, 27	(460)	(8,951)
Other		19,668	20,951
Cash flow from operating activities		**376,662**	**302,265**
Capital expenditure on intangible assets and property, plant and equipment	13, 14	(122,071)	(187,964)
Proceeds from the disposal of intangible assets and property, plant and equipment	13, 14	1,052	1,085
Acquisitions, net of cash acquired	3	(14,647)	(140,695)
Proceeds from the disposal of subsidiaries, net of cash		18,281	0
Purchase of long-term investment and investments in at equity accounted companies	15, 16	(18,353)	(30,454)
Proceeds from the disposal of long-term investments	15	82	43
Payments on long term loans		0	(54,000)
Proceeds from long term loans			98
Purchase of marketable securities	19	(19,859)	(32,456)
Proceeds from the disposal of marketable securities	9, 10	13,761	28,575
Change in short-term financial assets		(92,542)	90,652
Cash flow from investing activities		**(234,296)**	**(325,116)**

	Notes	2016	2017
in € thousand			
Dividends paid		(60,130)	(121)
Repayment of long-term debt	24	(61,247)	(1,892)
Net increase/decrease in short-term debt	24	(64,023)	(65,422)
Cash flow from financing activities		**(185,400)**	**(67,435)**
Effect of exchange rate changes		(3,466)	(9,649)
Change in cash and cash equivalents		**(46,500)**	**(99,935)**
Cash and cash equivalents as of January 1	2	(422,106)	375,606
Cash and cash equivalents as of December 31	2	**375,606**	**275,671**
Additional information on cash flows included in the cash flows from operating activities			
Income taxes paid		(103,373)	(114,219)
Interest paid		(5,983)	(8,260)
Income taxes received		13,386	4,500
Interest received		5,263	4,754
Dividends received		952	1,061

Reference to the Consolidated Financial Statements

The consolidated financial statements to the Corporate Report 2017 are provided online at www.altana.com/consolidated_financial_statements_2017.

Consolidated Financial Statements

Multi-Year Overview

Key figures at a glance

in € million	2008	2009	2010	2011
Sales	1,341.7	1,181.7	1,535.4	1,616.7
Earnings before interest, taxes, depreciation and amortization (EBITDA)	242.9	208.4	314.1	308.0
EBITDA margin	*18.1 %*	*17.6 %*	*20.5 %*	*19.1 %*
Operating income (EBIT)	170.3	53.5	230.2	217.0
EBIT margin	*12.7 %*	*4.5 %*	*15.0 %*	*13.4 %*
Earnings before taxes (EBT)	158.7	39.0	218.2	207.7
EBT margin	*11.8 %*	*3.3 %*	*14.2 %*	*12.8 %*
Net income (EAT)	103.4	11.0	152.3	147.5
EAT margin	*7.7 %*	*0.9 %*	*9.9 %*	*9.1 %*
Research and development expenses	72.1	70.6	82.0	87.7
Capital expenditure on intangible assets, property, plant and equipment	107.9	54.0	73.8	93.5
Cash flow from operating activities	204.5	224.6	238.6	170.0
Return on Capital Employed (ROCE)	*9.4 %*	*7.6 %*	*12.2 %*	*11.2 %*
ALTANA Value Added (AVA)	20.2	(5.4)	64.2	53.2
Total assets (Dec. 31)	1,749.6	1,707.8	1,943.6	2,001.9
Shareholders' equity (Dec. 31)	1,178.4	1,177.6	1,364.2	1,417.1
Net debt (-) / Net financial assets (+)[1] (Dec. 31)	(99.3)	(55.0)	79.7	(26.8)
Headcount (Dec. 31)	4,791	4,789	4,937	5,313

[1] Comprises cash and cash equivalents, current financial assets, marketable securities, loans granted, debt, and employee benefit obligations.

Sales by division

in € million	2008	2009	2010	2011
BYK	450.5	419.9	541.2	581.9
ECKART	350.7	282.3	356.6	346.8
ELANTAS	326.5	272.7	377.4	390.9
ACTEGA	214.0	206.8	260.2	297.0

Sales by region

in € million	2008	2009	2010	2011
Europe	664.8	555.1	683.7	740.8
thereof Germany	*231.0*	*188.0*	*234.5*	*258.5*
Americas	305.9	267.7	361.5	373.3
thereof U.S.	*203.7*	*178.4*	*242.0*	*243.2*
Asia	325.7	317.9	439.0	447.7
thereof China	*152.9*	*164.3*	*224.2*	*228.5*
Other regions	45.3	41.0	51.2	54.9

Change in country allocation as of 2012

2012	2013	2014	2015	2016	2017
1,705.3	1,765.4	1,952.3	2,059.3	2,075.3	2,247.0
323.2	335.7	397.4	390.9	453.0	470.0
19.0%	*19.0%*	*20.4%*	*19.0%*	*21.8%*	*20.9%*
226.9	229.1	267.7	251.3	328.7	335.9
13.3%	*13.0%*	*13.7%*	*12.2%*	*15.8%*	*14.9%*
217.2	212.6	251.8	227.8	299.8	306.0
12.7%	*12.0%*	*12.9%*	*11.1%*	*14.4%*	*13.6%*
154.7	151.6	179.2	158.0	210.1	234.6
9.1%	*8.6%*	*9.2%*	*7.7%*	*10.1%*	*10.4%*
102.3	109.4	113.9	128.1	129.3	142.5
89.8	94.3	90.4	85.6	122.1	188.0
274.5	258.8	298.2	346.1	376.7	302.3
10.8%	*9.9%*	*10.3%*	*10.1%*	*11.6%*	*11.3%*
50.0	38.7	51.9	49.2	83.3	84.0
2,121.3	2,546.0	2,756.2	2,964.5	3,053.9	3,147.7
1,498.2	1,565.6	1,745.5	1,935.6	2,082.2	2,214.2
68.2	(303.6)	(280.1)	(114.2)	25.7	(78.0)
5,363	5,741	6,064	6,096	5,967	6,186

2012	2013	2014	2015	2016	2017
618.4	691.5	856.7	870.0	909.1	1,030.4
340.5	334.6	332.2	349.7	361.9	385.3
412.5	414.6	431.2	463.2	452.1	488.7
333.9	324.7	332.1	376.4	352.2	342.6

2012	2013	2014	2015	2016	2017
751.7	745.2	795.1	795.6	798.6	852.3
266.1	*262.4*	*276.7*	*269.8*	*263.2*	*275.7*
412.0	438.4	527.1	607.1	587.2	623.6
268.4	*289.5*	*365.0*	*416.1*	*398.8*	*436.3*
509.6	547.4	593.0	618.9	652.3	733.5
252.5	*287.8*	*309.8*	*315.6*	*336.0*	*399.0*
31.9	34.3	37.0	37.7	37.2	37.6

Global Compact: Communication on Progress (COP)

By participating in the UN initiative Global Compact, we commit to respecting human rights, creating socially compatible working conditions, promoting environmental protection, and fighting corruption.

Principle	Page	Measure taken
Human Rights		
Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights	10–11, 91 SPI + MA[1], pp. 11, 29–32	ALTANA's Guiding Principles and leadership guidelines, Compliance Management System, women in leadership positions
Principle 2 Make sure that they are not complicit in human rights abuses	8, 10–11 SPI + MA[1], pp. 25–26, 29–32	Code of Conduct, Sustainability assessments, search for suppliers, supplier agreements
Labor		
Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	10–11 SPI + MA[1], p. 32	Compliance Management System, Corporate guideline HR
Principle 4 The elimination of all forms of forced and compulsory labor	10–11	Compliance Management System
Principle 5 The abolition of child labor	8, 10–11, 93–94 SPI + MA[1], pp. 25–26	Sustainability assessments, Compliance Management System, support of education initiatives
Principle 6 The elimination of discrimination in respect of employment and occupation	8, 10–11 SPI + MA[1], pp. 29–31	Compliance Management System, training, sustainability assessments and audits, surveys
Environment		
Principle 7 Businesses should support a precautionary approach to environmental challenges	78–80, 86–88 SPI + MA[1], pp. 4–9, 15–17	Sustainable product development, energy and environmental management systems, environmental key performance indicators system with targets, energy efficiency analyses
Principle 8 Undertake initiatives to promote greater environmental responsibility	86–88, SPI + MA[1], pp. 4–9, 20–25	Process optimizations, capital expenditure, environmental key performance indicators system with targets
Principle 9 Encourage the development and diffusion of environmentally friendly technologies	78–80, SPI + MA[1], pp. 33–34	Product and technology innovations, alternatives to critical materials
Anti-Corruption		
Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery	8, 10–11 SPI + MA[1], p. 32	Code of Conduct, Compliance Management System, training and audits

[1] Sustainability Performance Indicators and Management Approaches 2017 (Online document)

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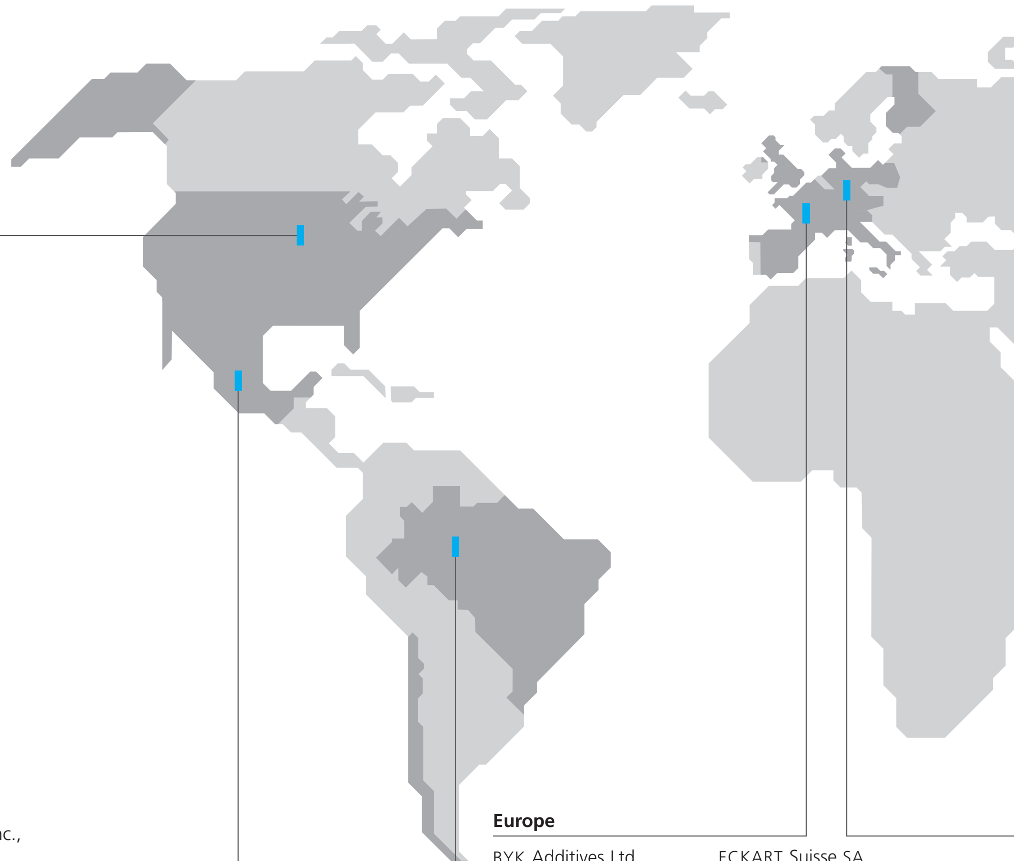

U.S.

BYK USA Inc.,
Wallingford, CT
■ ■ 100 %

BYK Gardner USA,
Columbia, MD
■ 100 %

PolyAd Services LLC,
Earth City, MO
■ ■ 100 %

ECKART America Corp.,
Painesville, OH
■ ■ 100 %

ELANTAS PDG Inc.,
St. Louis, MO
■ ■ 100 %

ELANTAS New York Inc.,
Olean, NY
■ 100 %

ACTEGA North America Inc.,
Delran, NJ
■ ■ 100 %

ACTEGA North America
Technologies Inc.,
East Providence, RI
100 %

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S. de R.L. de C.V.,
Cuautitlán Izcalli (MEX)
■ 100 %

ECKART de México Industrias,
S. de R.L. de C.V.,
Cuautitlán Izcalli (MEX)
■ 100 %

South America

ACTEGA Premiata Tintas
e Vernizes Gráficos Ltda.,
São Paulo (BRA)
■ ■ 100 %

ACTEGA Terra Chile Ltda.,
Santiago de Chile (CHL)
■ 100 %

ELANTAS Isolantes Elétricos
do Brasil Ltda.,
Cerquilho (BRA)
■ ■ 100 %

Europe

BYK Additives Ltd.,
Widnes (GBR)
■ ■ 100 %

BYK Netherlands B.V.,
Deventer (NLD)
■ ■ 100 %

ECKART Benelux B.V.,
Uden (NLD)
■ 100 %

ECKART France SAS,
Saint-Ouen (FRA)
■ 100 %

ECKART Italia Srl.
a Socio unico,
Rivanazzano (ITA)
■ 100 %

ECKART Pigments KY,
Pori (FIN)
■ 100 %

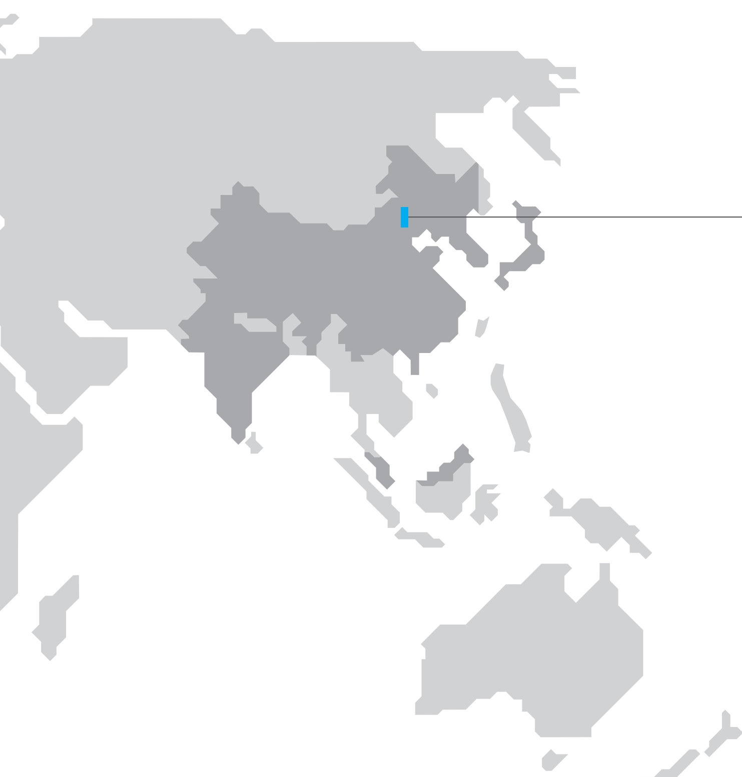
ECKART Suisse SA,
Vétroz (CHE)
■ 100 %

ELANTAS Europe Srl.,
Collecchio (ITA)
■ ■ 100 %

ACTEGA Artística S.A.U.,
Vigo (ESP)
■ ■ 100 %

ACTEGA Rhenacoat SAS,
Sedan (FRA)
■ ■ 100 %

as of January 1, 2018



Asia

BYK Asia Pacific Pte Ltd.,
Singapore (SGP)
■ 100 %

BYK Japan KK,
Tokyo (JPN)
■ 100 %

BYK Additives (Shanghai) Co., Ltd., Shanghai (CHN)
■ 100 %

BYK (Tongling) Co., Ltd.,
Tongling (CHN)
■ ■ 100 %

BYK Korea LLC,
Gyeonggi-do (KOR),
■ 100 %

ECKART Asia Ltd.,
Hong Kong (CHN)
■ 100 %

ECKART Zhuhai Co., Ltd.,
Zhuhai (CHN)
■ ■ 100 %

ELANTAS Beck India Ltd.,
Pune (IND)
■ ■ 75 %

ELANTAS Malaysia Sdn Bhd,
Kuala Lumpur (MYS)
■ ■ 100 %

ELANTAS (Tongling) Co., Ltd.,
Tongling (CHN)
■ ■ 100 %

ELANTAS (Zhuhai) Co., Ltd.,
Zhuhai (CHN)
■ ■ 100 %

ACTEGA Foshan Co., Ltd.,
Shunde (CHN)
■ ■ 100 %

Germany

ALTANA AG, Wesel

ALTANA Management Services GmbH,
Wesel
100 %

BYK-Chemie GmbH,
Wesel
■ ■ 100 %

ECKART GmbH,
Hartenstein
■ ■ 100 %

ELANTAS GmbH,
Wesel
100 %

ACTEGA GmbH,
Wesel
100 %

BYK-Gardner GmbH,
Geretsried
■ ■ 100 %

PolyAd Services GmbH,
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