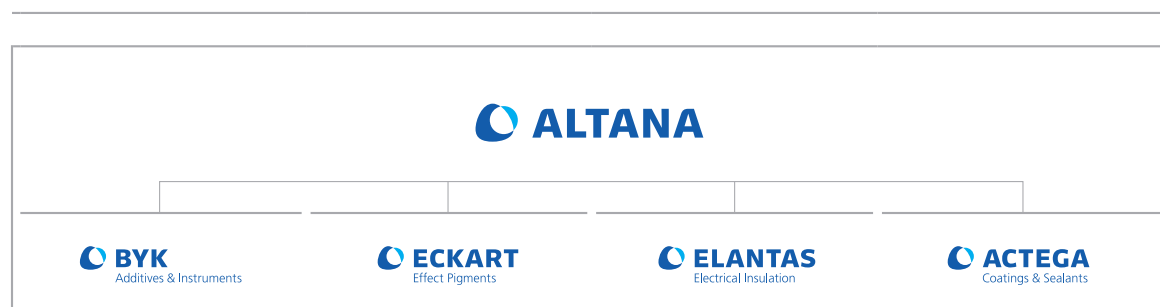


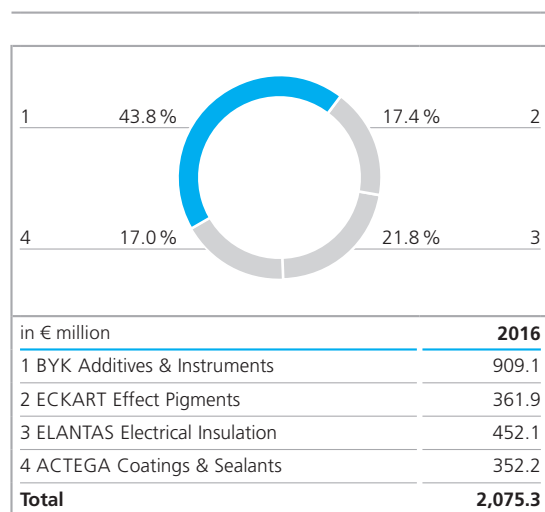


Group Profile 2016

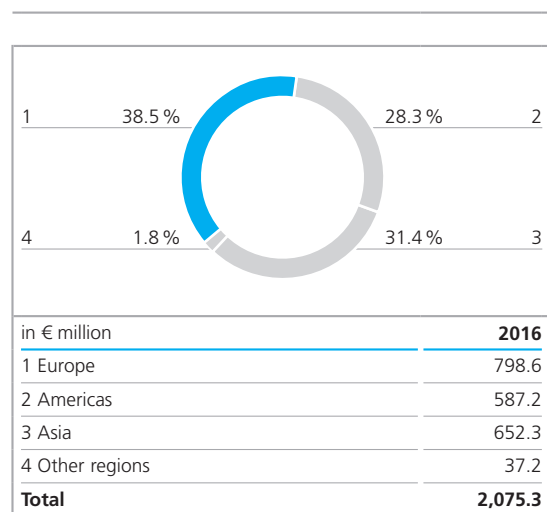
ALTANA's divisions



Sales by division



Sales by region



Key figures at a glance

	2015	2016	Δ %
in € million			
Sales	2,059.3	2,075.3	1
Earnings before interest, taxes, depreciation and amortization (EBITDA)	390.9	453.0	16
<i>EBITDA margin</i>	19.0 %	21.8 %	
Operating income (EBIT)	251.3	328.7	31
<i>EBIT margin</i>	12.2 %	15.8 %	
Earnings before taxes (EBT)	227.8	299.8	32
<i>EBT margin</i>	11.1 %	14.4 %	
Net income (EAT)	158.0	210.1	33
<i>EAT margin</i>	7.7 %	10.1 %	
Research and development expenses	128.1	129.3	1
Capital expenditure on intangible assets and property, plant and equipment	85.6	122.1	43
Cash Flow from operating activities	346.1	376.7	9
<i>Return on capital employed (ROCE)</i>	10.1 %	11.6 %	
ALTANA Value Added (AVA)	49.2	83.3	69

	Dec. 31, 2015	Dec. 31, 2016	Δ %
in € million			
Total assets	2,964.5	3,053.9	3
Shareholders' equity	1,935.6	2,082.2	8
Net debt (-)/Net financial assets (+) ¹	(114.2)	25.7	N/A
Headcount	6,096	5,967	-2

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

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

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Legal Disclaimer

This Annual and Sustainability Report is a translation of the Geschäfts- und Nachhaltigkeitsbericht. The translation was prepared for convenience only. In case of any discrepancy between the German version and the English translation, the German version shall prevail.

This report contains forward-looking statements, i. e. current estimates or expectations of future events or future results. The statements are based on beliefs of ALTANA as well as assumptions made by and information currently available to ALTANA. Forward-looking statements speak only as of the date they are made. ALTANA does not intend and does not assume any obligation to update forward-looking statements to reflect facts, circumstances or events that have occurred or changed after such statements have been made.

Ladies and Gentlemen,

In 2016, ALTANA again achieved profitable growth and at the same time paved the way for a sustainable and successful future.

In an environment that was anything but easy, we generated operating growth of two percent and, notwithstanding a divestment and negative exchange-rate effects, also recorded nominal sales growth.

We did so with a healthy mixture of continuity and change. In March, we sold ACTEGA Colorchemie, which can now develop significantly better within the Siegwirk group. Conversely, in July we acquired Addcomp Holland B.V., adding two new sites to our BYK division.

At the same time, we continued to invest above-average amounts in research and development amounting to six percent of sales. Examples of the targeted expansion of our innovation activities are the doubling of the laboratory capacities of ACTEGA Rhenania in Grevenbroich and the inauguration of our cross-divisional Printed Electronics center at ELANTAS in Hamburg.

In the future, we will continue to rely on the innovative ability and other strengths that characterize our company: our proximity to customers, our focus on leading positions in growing specialty chemicals markets, and our corporate culture, which includes the ability to change that ALTANA has successfully demonstrated time and time again.

To exploit ALTANA's potential even better in the long run, we developed an agenda for the future together with the Executive Management Team in the first months of 2016. In the process, we took into account feedback we received from managers and employees from the entire organization. Under the motto "Keep Changing," our agenda depicts the strategic thrusts that will be crucial for ALTANA's further development in the next five to ten years.



The ALTANA Management Board (from left to right):

Stefan Genten, Martin Babilas (Chairman), Dr. Christoph Schlünken

With this step, we are actively shaping our future in an environment that will continue to offer manifold opportunities, as well as challenges. In the coming years, we anticipate restrained worldwide economic growth overall, as well as the possibility to stand out from this trend as an innovation-driven specialty chemicals company.

With the Keep Changing Agenda, we are creating the prerequisites for accelerating our growth, especially under our own steam. We want to create sustainable value – for our customers, employees, our shareholder, and society as a whole. We consistently align our entire organization accordingly. And we want to advance our capabilities to the next level. This includes leveraging digitization at ALTANA. In mid-2016, we created the new Digital Transformation department for this purpose.

The people at ALTANA are the key to our success. They are the ones who effect and shape changes and experience them as personal enrichment. To tap our potential completely, however, we need even more diversity and mobility within the ALTANA Group. Thus, we are paying particular attention to further promoting talent consistently around the world.

Finally, we want to differentiate ourselves from the competition to an even greater extent through innovations, but also increasingly through sustainability, beyond our products and our customers' manufacturing processes. Outside of our laboratories, too, we can only be successful in the long run if we firmly anchor ecological and social aspects in our company. This is our understanding of sustainability and we have ourselves measured on this basis.

The fact that we received the Gold Status in the renowned EcoVadis sustainability rating shows that we have already achieved a high standard. In 2016, we further improved all our key accident figures compared to the previous year. Above all, the lost work time due to accidents was significantly reduced. We also continued to improve our environmental key figures in the divisions. To the same extent to which we are advancing economically, we want to steadily optimize our results in the areas of environmental protection and safety. Hence, we are setting ourselves increasingly ambitious goals in these fields, too.

ALTANA's first integrated Annual and Sustainability Report is an expression of our definition of sustainability, according to which the three dimensions of economy, ecology, and social commitment are inextricably intertwined. As a member of the U.N. Global Compact, the world's most important and largest initiative promoting responsible corporate management, ALTANA actively supports the goals of this undertaking.

The foundations of our actions are the health and safety of our employees. On this basis, we strive to ensure that our customers are successful and satisfied. In doing so, we consider the effects of our activities on the entire value chain, the environment, and society as a whole. You can read about how people at ALTANA concretely implement this awareness of sustainable thinking and action in the magazine section of this report.

We would like to warmly thank our employees for their contribution to the success and development of ALTANA in the 2016 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

Integrated Annual and Sustainability Report 2016

With this report on the 2016 fiscal year, ALTANA is presenting an integrated annual and sustainability report for the first time. 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 (condensed 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 integrated report 2016 updates the content that was published in the 2015 Annual Report (published on March 17, 2016) and the 2015 Sustainability Report (published on June 30, 2016). At the same time, it serves as annual Communication on Progress (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.

As in the previous year, all financial and human resource information in the 2016 Group Management Report and the Consolidated Financial Statements refers to the period from January 1 to December 31.

The reporting period for the environmental key performance indicators changed. They are based on values that were collected between July 1, 2015, and June 30, 2016 (previous year: October 1, 2014 to September 30, 2015). 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 315a of the German Commercial Code (HGB). As in the previous years, this procedure 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_2016.

In addition, this report is based on the G4 guidelines of the Global Reporting Initiative (GRI) in the "Comprehensive" option. The report is also based on the International Integrated Reporting Council's (IIRC) reporting framework. In 2016, ALTANA did not have the key performance indicators for the G4 specifications tested by an independent auditor. Detailed information is available online at www.altana.com/sustainability_performance_indicators_2016.

Information on the selection of content relevant to GRI G4 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 GRI G4 criteria that ALTANA provides information about is available online at www.altana.com/gri_index_2016.

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, which was sharpened again in the 2016 fiscal year:

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.

The group of ALTANA's most important stakeholders comprises our customers, our employees, and our shareholder. It also includes suppliers and other business partners, public authorities, associations, nongovernmental organizations, and our neighbors at the different locations.

To define the important sustainability issues for this report, we conducted a survey in 2016. Of the 46 sustain-

ability criteria of the Global Reporting Initiative (GRI), 29 were initially selected as criteria relevant for ALTANA. In a second step, these criteria were presented to 27 stakeholders who were asked to tell us which criteria they thought were the 15 most important ones and to rank them. Representatives of stakeholder groups (management, employees, customers) took part in the survey.

The results are shown in the current materiality matrix (see graphic on the next page). It shows the 11 most important criteria from the point of view of the stakeholders and documents the different priorities.

They include occupational health and safety, economic performance, emissions, effluents and waste, customer health and safety, products, energy, materials, water, procurement practices, as well as environmental protection expenditures and investments.

This overview does not contain GRI criteria resulting from the survey that ALTANA adheres to as a matter of course. This includes, for instance, unconditional implementation of all legal specifications in the countries and regions in which ALTANA is active, fulfillment of legal guidelines regarding environmental protection and product safety, condemnation of child labor, adherence to human rights, and the non-discrimination requirement.

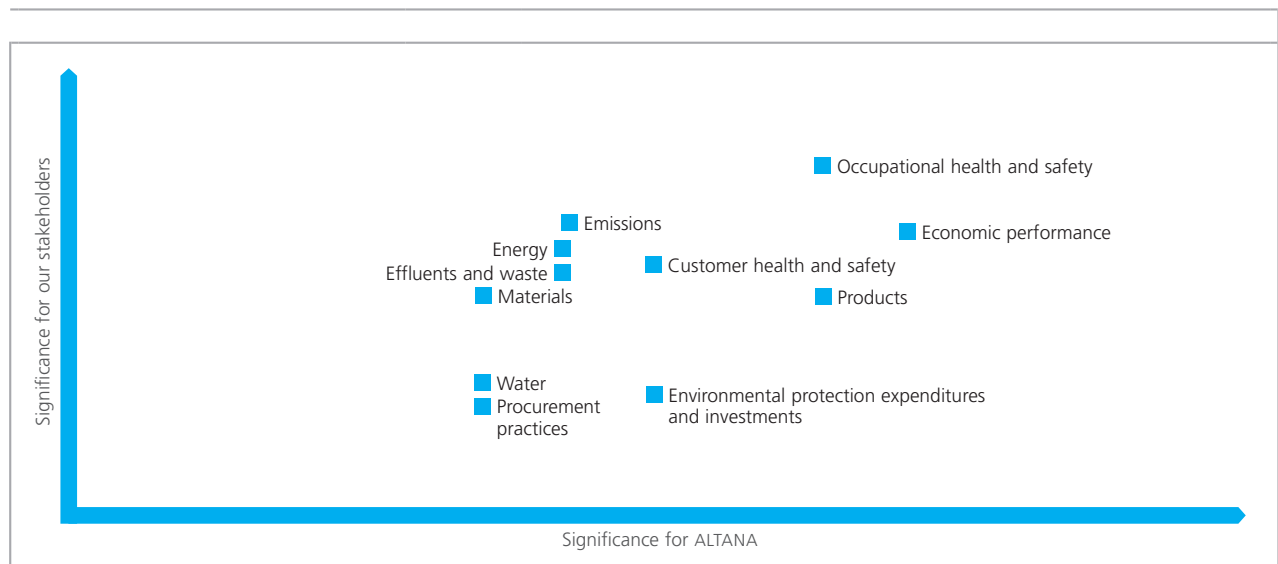
Overall, the analysis shows that nearly all important aspects have similar relevance for internal and external stakeholders.

ALTANA will regularly update this materiality analysis in the future.

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 external evaluations increasingly. The audits of the rating company EcoVadis

ALTANA Materiality Matrix



and the Together for Sustainability (TfS) initiative of the chemical industry play a special role.

In 2016, ALTANA had itself evaluated by EcoVadis for the second time and was awarded the Gold Status. As a result, the Group improved significantly compared to 2015, when it received Silver Status. 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 ratings platforms for the chemical industry. 20,000 companies are now registered with it.

The Group used the good result as impetus to prepare all of its sites for an EcoVadis audit. In the year under review, six sites in Germany, Italy, Spain, and China completed their preparations; all of the other sites will follow, step by step, in the next few years.

The TfS audit is based on a globally uniform sustainability standard and thus is also one of the most important rankings in this area. ECKART was the Group's first company to successfully complete this several-day audit at its site in Zhuhai, China, at the beginning of 2016. The company swiftly implemented the few improvements suggested in the report in the course of the year.

Decentralized Responsibility Structures

To achieve its strategic targets, ALTANA relies on the Group's proven decentralized structures, for which the holding company sets the framework. These structures include binding group guidelines for environmental protection, health, and safety.

The managing directors of the respective companies bear entrepreneurial responsibility for the implementation of the strategic targets. Among other things, they are required to continuously reduce the environmental effects of their business activities. They are also in charge of anchoring the Environment, Health & Safety (EH&S) department in the company's organization and for setting up a corresponding cross-site reporting system for the centrally prescribed key performance indicators. In 2016, BYK was the first division to create a worldwide EH&S organization with responsible persons for each site. Furthermore, the managing directors are also responsible for the introduction and certification of suitable management systems with which environmental protection and occupational safety can be practiced on the basis of international guidelines at the different sites.

Independently of this decentralized organization of responsibility, the holding company is committed to providing knowledge and expertise on sustainability. This is the task of ALTANA's Corporate EH&S specialist department. In addition, special, cross-divisional expert platforms foster the exchange of information on the relevant EH&S topics (for example energy, sustainability performance, and food contact) and the development of best-practice models that show efficient implementations. Consequently, in the future we will be able to offer our customers even better service around sustainability at ALTANA.

Corporate Governance

ALTANA considers good corporate governance a basis for sustainable success. Therefore, 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 Supervisory and Management Boards deal with the recommendations and suggestions of the German Corporate Governance Code and examine which of them 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 the vast majority of the applicable recommendations of the German Corporate Governance Code in the current version of May 5, 2015. This especially applies to 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 and the independence 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 three or five years. The selection criteria include experience, business competence, as well as expertise in ecology and social responsibility. Considerations regarding diversity also play a role. 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 some 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, important business incidents, as well as plans for the Group's future development including 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. They are elected for a period of five years. The Management Board reports to the Supervisory Board regularly, without delay, and comprehensively on all issues relevant for the company regarding business development, risks, conflicts of interest, 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 10 % 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 page 60 ff. 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 therefore is very important for ALTANA.

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, environmental protection, safety, corruption, and discrimination. Together with the company's Guiding Principles, the Code of Conduct provides orientation for responsible corporate action. The Code of Conduct and the 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. In 2016, 439 staff members worldwide took part in such training programs.

The Compliance Management System aims to help ensure compliance within the Group. In keeping with ALTANA's structure, it is decentralized. ALTANA has established a Compliance Committee with people responsible for the different compliance areas that provides a framework, makes

competencies available, and creates forums and platforms for local managers responsible. It also calls for concrete measures to be taken to ensure compliance and establishes minimum standards. The Compliance Management System includes the ALTANA Compliance Hotline that gives employees the opportunity to report illegal behavior, if need be, anonymously and regardless of levels of hierarchy. The Internal Audit department is also part of the Compliance Management System. In 2016, specially developed compliance tests were carried out for the first time.

ALTANA joined the U.N. Global Compact initiative, whose members are voluntarily committed in their corporate policy 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 U.N. aims.

Corporate Bodies and Management

The Management Board

Martin Babilas

Chairman

Responsibility:

- ELANTAS Electrical Insulation Division
- ACTEGA Coatings & Sealants 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 Additives & Instruments Division
- ECKART Effect Pigments 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 Electrical Insulation

Dr. Stephan Glander

President Division BYK Additives & Instruments

Dr. Andreas Jerschensky

Head of Corporate Development/M & A

Dr. Roland Peter

President Division ACTEGA Coatings & Sealants

Dr. Wolfgang Schütt

President Division ECKART Effect Pigments

The Supervisory Board

Dr. Klaus-Jürgen Schmieder
Chairman

Ulrich Gajewiak¹
Deputy Chairman

Susanne Klatten
Deputy Chairwoman

Dr. Anette Brüne¹

Dr. Monika Engel-Bader

Armin Glashauser¹

Olaf Jung¹

Klaus Koch¹

Werner Spinner
(until March 17, 2016)

Dr. Lothar Steinebach

Dr. Antonio Trius

Stefan Weis¹

Dr. Matthias L. Wolfgruber
(since March 17, 2016)

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
Werner Spinner (until March 17, 2016)
Dr. Antonio Trius (since March 17, 2016)
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

¹ Employee representative

Details on the corporate bodies can be found on page 63 f. of the online Consolidated Financial Statements (www.altana.com/consolidated_financial_statements_2016).

Report of the Supervisory Board

The Supervisory Board of ALTANA AG closely followed the work of the Management Board again in 2016. 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 regularly informed by the Management Board through oral reports in meetings, supplemented by documents on the respective agenda items, as well as through regular written reports. In addition, 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 2016 fiscal year, the Supervisory Board held four regular meetings. 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. Furthermore, the Supervisory Board repeatedly dealt in depth with the strategy of ALTANA and its individual divisions. Other issues addressed by the Supervisory Board included ALTANA's Key Account Management, the efficiency program ALTANA X, and the company's investment in Landa Corporation. At its December meeting, the Supervisory Board resolved to renew Dr. Christoph Schlünken's Management Board contract for five more years until October 31, 2022. At this meeting, the Supervisory Board also dealt extensively with corporate planning for the next years and with the budget for 2017, which it approved.

Meetings of the Committees

The Human Resources Committee met twice in the year under review. It dealt primarily with issues pertaining to compensation and extending the Management Board appointment of Dr. Schlünken. The Audit Committee also 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



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

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 2016 fiscal year.

Annual Financial Statements

The annual financial statements of ALTANA AG, the consolidated financial statements for the year ended December 31, 2016, and the management report of ALTANA AG as well as the Group management report were audited by PricewaterhouseCoopers Aktiengesellschaft 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 properly fulfills its function.

The financial statement documentation, the Annual and Sustainability Report, the reports of PricewaterhouseCoopers Aktiengesellschaft 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, and, following its final examination, has no grounds for objection. At its meeting of March 16, 2017, 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 2016 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

Werner Spinner, a shareholder representative in the Supervisory Board of ALTANA AG, stepped down from his post as of March 17, 2016. With effect on the same date, the Annual General Meeting appointed Dr. Klaus-Jürgen Schmieder again, and Dr. Matthias L. Wolfgruber for the first time, as members of the Supervisory Board of ALTANA AG. At its meeting of March 17, 2016, the Supervisory Board appointed Dr. Klaus-Jürgen Schmieder again as the Chairman of the Supervisory Board, and Dr. Antonio Trius as a member of the Audit Com-

mittee. At the Supervisory Board meeting of December 8, 2016, Dr. Christoph Schlünken's membership in the Management Board of ALTANA AG was renewed for a period of five years, until October 31, 2022.

The Supervisory Board would like to thank Werner Spinner for the good, trustworthy cooperation over the last nine years. The Supervisory Board plenum would also 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 16, 2017

For the Supervisory Board



Dr. Klaus-Jürgen Schmieder
Chairman

“OUR INVESTMENTS PAY OFF – FOR EMPLOYEES, CUSTOMERS, AND THE ENVIRONMENT”

Dr. Susan W. Graham, Managing Director of ELANTAS PDG

Successful Modernization

When ALTANA acquired The P.D. George Company in St. Louis, U.S., in 1996, all of the participants knew that the new subsidiary had great potential but that extensive investments had to be made. The facilities at the over 80-year-old site were antiquated and did not meet ALTANA’s standards.

Today the company is one of the Group’s model enterprises, supplying the ELANTAS division with a wide range of products in the NAFTA region. The products insulate live electrical wires and protect, for example, motors, circuit boards and sensors from vibrations and heat.

The investments that have been made not only make the work at the plants more

profitable, but also safer. “The employees see that their employer doesn’t only talk about safety in training,” says Dr. Susan W. Graham, who has been the Managing Director of ELANTAS PDG since 2004. “Our safety culture is lived by everyone here.” And this has paid off. Although sophisticated chemical substances are processed, the number of occupational accidents with lost work time has steadily decreased.

The Success Is Not a Coincidence

From 2005 to 2012 alone, ALTANA invested 35 million dollars to modernize the site. A total of 11 million dollars were earmarked for a new blending facility, the largest single investment to date in an ELANTAS company. The employees at the plant manufacture insulating resins for





In 2016, ELANTAS PDG was named a “Top Workplace” for the fourth year in a row. It has approximately 180 employees who view themselves as a community, and a low turnover rate among staff. This is thanks in large part to the leadership team led by Dr. Susan W. Graham. Since the beginning of 2004, Graham, who has a doctorate in chemistry, has headed ELANTAS PDG and has helped shape the company's transformation. In 2015, the renowned industry association IEEE granted her the Golden Omega Award, honoring her for her corporate governance and her commitment to the electrical and electronics industry as well as to the betterment of the community where the plant is located, in St. Louis. Previously the prize had been given to such illustrious personalities as Dave Packard from Hewlett Packard and James van Allen, who discovered the eponymous radiation belts around Earth.

customers in keeping with the required application. “The old plant was something like an oversized kitchen blender,” says Susan Graham. “And as in a home kitchen, liquids invariably sprayed out.” After eight years of operation, the new blending facility is still one of the cleanest areas on the grounds. Separate tanks for each raw material in the plant minimize the risk of cross contamination in the end product. This means less cleaning and fewer filter changes, which saves time, reduces waste, and improves the safety for the employees. Customers can rely on faster delivery and top quality.

Targeted acquisitions have also expanded the technological basis, for example for the manufacture of resins used to impregnate parts in heavy electric motors. With the new emulsion reactor, ELANTAS PDG has, since 2005, manufactured a water-emulsified insulating material that does not need organic solvent. This not only protects the environment, but also enhances occupational safety for the employees and makes it easier for customers to process the material because they no longer have to deal with solvent.

Innovations flourish in this climate. With ELAN-Film™ flexible electric insulation, the ELANTAS Group has had a new and promising product since 2016. It was

developed in St. Louis, where researchers, put simply, managed to coat flexible plastic films with liquid wire enamel. This film insulates entire wire bundles from one another and at the same time shields them from the motor's steel core. By the way, ELAN-Film™ insulation is produced at a U.S. facility of ECKART Effect Pigments in Schererville, Indiana. The sister company had purchased a pigment manufacturer there, but had no use for its coating plant. ELANTAS PDG certainly did.



HIGHEST POSSIBLE TECHNICAL STANDARDS

The history of ELANTAS PDG began in 1919, when Pericles Demetrius George founded The P.D. George Company and made resins for the then just emerging electrical industry. In 1996, ALTANA acquired the company and made extensive investments to upgrade the site. This, together with an active safety culture, made ELANTAS PDG one of the ALTANA Group's most efficient and safest sites. Nearly 19 thousand tons of insulating material were shipped to customers in 2016. It helps enable electrical and electronic devices – both everyday household appliances and large industrial machines – to be used safely and for a long time.

“WE SET STANDARDS AND OPEN UP NEW MARKETS FOR OUR CUSTOMERS”

Dr. Stephanie Arzt, Key Account Management, BYK-Gardner

One in a Million

Night Blue, Pompeii Gray, or Frozen Bronze – these may sound like the current trend colors in the fall/winter collection, but they are not. They are the latest and most fashionable metallic car colors. The days are over when customers could order any color as long as it was black. Today, customers can choose from thousands of shades. Shimmering glitter tones are at the top of consumers' wish lists right now. But the challenge begins when the car has to be repainted after getting a scratch.

The human eye can differentiate about ten million colors. However, perception is a very subjective matter, influenced by the surrounding colors, the degree of

brightness, and the eye itself. Above all, our perception of metallic colors changes, depending on the angle they are viewed from.

For such cases, AkzoNobel, one of the world's leading paint manufacturers, has relied on the spectrophotometers of BYK-Gardner for more than ten years. For determining metallic colors, in particular, the two companies developed a special multi-angle spectrophotometer for car repair shops around ten years ago. It records the paint finish with a fixed light source and analyzes the color using detectors from different measuring angles. In this way, data are obtained for perfect color matching. In 2011, the time had come to develop a new generation of devices.





In 2011, Stephanie Arzt began working in ALTANA Corporate Innovation as a participant in the so-called Cross Divisional Development Program. She was involved in numerous projects and became acquainted with different ALTANA divisions. These experiences were advantageous to Arzt, who holds a PhD in chemistry, when she switched to Key Account Management two years later. "I really enjoy collaborating closely with customers and developing new solutions with them," Dr. Arzt has benefited in the Effect Pigments and Additives segments not least of all from the coatings expertise of her colleagues at ECKART and BYK, who also supply to AkzoNobel.

From Idea to Successful Product

BYK-Gardner wanted the new spectrophotometer to be more precise and handier than its predecessor, yet affordable for smaller paint shops and compatible with AkzoNobel's color-matching software Mixit. Research and development employees of the two companies got down to work. BYK-Gardner was responsible for the design concept and measurement optics, and programmed the interface to the user software. AkzoNobel developed the operating concept, the user menu, and the touchscreen. In 2014, AkzoNobel brought the Automatchic Vision (AMV) onto the market. "We set new standards with the device," says Dr. Stephanie Arzt, key account manager at BYK-Gardner. "Due to the new technologies employed, we were able to achieve even more precise measurement accuracy and user friendliness."

The AMV is the very first WiFi-capable multiangle spectrophotometer. It is placed right on the vehicle. The data recorded can then be sent via WLAN to the repair-shop computer. Subsequently, the software determines the exact color formulation in just a few seconds, even when it comes to very sophisticated metallic colors.

From Supplier to Partner

Like most global companies, AkzoNobel has significantly reduced the number of its suppliers in recent years in order to bundle its purchasing volume, to harmonize processes, and to cut costs. In this chain, ALTANA considers itself a partner that supports AkzoNobel with knowhow and innovative ability. The keyword is cooperation. "We are close to our customers, think along with them, and identify and use optimization opportunities," says Dr. Stephanie Arzt, describing the cooperation. Research and development are particularly important: ALTANA invests six percent of its sales in work on new products and applications every year, far above the industry average. With an eye to the future, the teams at AkzoNobel and BYK-Gardner are discussing new application areas for the AMV outside the automotive refinish sector. The objective: to set new standards once again.



TEAMWORK WITH CUSTOMERS

A scratch in car paint is annoying enough. So it is all the more important to use the exactly right color when repainting it. In close cooperation with its longtime customer AkzoNobel, BYK-Gardner experts have developed an innovative spectrophotometer for this purpose. With Auto-matchic Vision and the appropriate software from AkzoNobel, automotive paint shops can determine the perfect color formulation within a very short time. The device has set standards: It evaluates the color from different angles of observation and transfers the data obtained via WiFi to the PC.

“INNOVATIVE SPECIALISTS FIND THEIR PLACE AT ALTANA – TO THE BENEFIT OF BOTH SIDES”

Thorsten Kröller, Head of Plastics Additives Business Line BYK-Chemie

Targeted Expansion of the Business Segment

It is a small firm but it makes life easier even for large plastics processors: The Dutch company Addcomp develops and manufactures innovative additive solutions for thermoplastic materials, plastics that can be molded into different forms using heat. Since July 2016, the company headquartered in Nijverdal, the Netherlands, with another production site in the U.S., has belonged to ALTANA's BYK Additives & Instruments division.

“The acquisition of Addcomp strengthens BYK's plastic additives segment two-fold,” says Thorsten Kröller. The head of the business line accompanied the acquisition from the very beginning. For one thing, BYK can now offer its customers

an even wider spectrum of applications from one source. Many of the purchasers are on the two manufacturers' customer lists to begin with. Addcomp's products improve the properties of nearly all thermoplastic materials, which are used primarily in the automotive industry, the construction industry, and the packaging sector. They ensure, for example, comprehensive flame protection for carpet fibers, high UV resistance, say, of seats in soccer stadiums, and high heat resistance, which is indispensable for some plastic components in the automotive sector.

In addition, BYK has acquired a sophisticated technology. The ALTANA division develops additives many of which can only be used to a limited extent in some plastics





Thorsten Kröller, the head of BYK's plastics additives business line, was involved in the negotiations with Addcomp from the very outset. It was the third acquisition for the longtime BYK staff member. Yet each one places its own requirements, says Kröller. In this case, the proximity of the Dutch ALTANA company BYK-Cera to Addcomp facilitated the talks with the acquisition candidate. Together with BYK-Cera's managing director, Dr. Wim de Blok, Kröller became the interim head of Addcomp until it is completely integrated in the BYK Additives & Instruments division.

applications due to their liquid form. With the method developed by Addcomp, now liquid and powder, low-melting and sticky products can be transformed into a solid granulate that is easier for customers to process. That expands its use in the thermoplastic segment. Furthermore, Addcomp's plants can process existing BYK additives even more precisely. Experts call this compounding. For the more unique the customer's product or manufacturing process is, the better an additive has to be tailored to its requirements.

Profits Slated for Investment in the Future

The acquisition shows once again how ALTANA defines its consistent growth strategy. The company's ongoing aim is to maintain and extend its leading position in attractive specialty chemicals markets. Therefore, ALTANA is investing in the future – not only in its own research and development or in new manufacturing facilities, but also in companies that complement its existing product portfolio or expand its expertise. "We continually have our eyes on the current market development, on technological progress, and above all on the requirements of our customers," says Thorsten Kröller. "When we see that we need to supplement our portfolio, we do so."

The acquisition also opens up excellent development perspectives for Addcomp. The company will benefit from the global structures of the financially strong ALTANA Group, for example from its broad-based research and development, application technology, and worldwide sales network. The bundling of BYK's chemistry and product competence with Addcomp's technological knowhow will lead to completely new additives for customers around the world.

The transition is running smoothly. Thorsten Kröller and the managing director of the Dutch sister company BYK-Cera will integrate the new acquisition into BYK's structures. Right after the contract was signed, BYK's management called a staff meeting for the new colleagues. What they had to say motivated the new BYK employees: The companies that ALTANA acquires are in excellent shape usually within just a few years.

A full-page photograph of a large industrial facility, likely a chemical or plastics manufacturing plant. In the foreground, three scientists in white lab coats are gathered, looking at a small sample held by one of them. The background features a complex network of pipes, a large blue vertical storage tank, and a mezzanine level with yellow safety railings and blue storage drums. The lighting is bright and industrial.

STRATEGIC EXPANSION OF THE PRODUCT PORTFOLIO

ALTANA consistently gears itself to sustainable and profitable growth. It achieves this among other things by investing in innovative technologies and applications with great benefits for customers. The companies it acquires also benefit because they can develop their potential better within the globally oriented structure. An example is Addcomp, a Dutch developer and manufacturer of innovative plastics additive solutions. The company, which is being integrated into the BYK Additives & Instruments division, adds new application fields to the existing offer.

“SUCCESSFUL TALENT MANAGEMENT FOCUSES ON EMPLOYEES, NOT ON PROCESSES”

Anne Gradl, Head of Leadership & Talent Management ALTANA

Recognize and Accept Challenges

Qualified employees are the bedrock of ALTANA's continuous growth. But demographic change and the looming lack of qualified staff will pose special challenges in the future. Against this backdrop, ALTANA's Management Board has set itself an ambitious goal: By 2020, 70 percent of all vacant management positions are to be occupied internally. In addition, by 2025 the management teams should reflect ALTANA's internationalism as well as the share of women in the total workforce. Since January 2016, Anne Gradl has headed the new Leadership & Talent Management department created for this purpose.

To prepare for her new task in advance, Anne Gradl sought exchange with the

ALTANA Executive Management Team as well as colleagues around the world. This personal exchange and ALTANA's existing human resource development instruments spawned a trendsetting, systematic talent management concept that was presented to the global management teams in 2016. Local conditions and challenges were also discussed and incorporated. "Our concept focuses on our employees whose development should be optimally and expediently based on their own abilities and interests," explains Anne Gradl. The program is a top priority for the company's management. It is to be implemented successively until 2018.

Anne Gradl has benefitted from ALTANA's existing human resource development program. Early on, her superiors recognized





For her new task, Anne Gradl is talking to colleagues around the world. She knows the requirements of the holding company and the divisions well. In 2010, the economics graduate joined the company after working for a consulting and auditing company for several years. After a two-year stint in the holding company's Corporate Development/M&A department, she became Head of Finance of an ACTEGA company. "Here the paths are short and the department borders transparent. It gives you broad insight," says Anne Gradl. She is ideal for an international position because at the beginning of her professional career she worked in the U.S. and China.

her potential and recommended her for an international junior manager program. "From this program, I still have a sustainable network of colleagues from across the globe. In addition, it was valuable for me to exchange ideas with ALTANA's Executive Management Team, which closely accompanies this program, among other things through individual mentoring," says Anne Gradl, summing up her experiences. "Working on international projects has made me even more aware of ALTANA's diversity. Due to our flexible organizational structure, employees have a number of development possibilities that I would like to utilize more strongly within the framework of the talent management concept."

Develop Potential

In the future, ALTANA's worldwide talent management intends to ensure transparency concerning internal development options and strategically important vacant positions on a global level. Furthermore, there should be targeted staff development to optimally promote high-potential employees in particular. With these measures, a structure will be created that enables staff to develop commensurate with their own ideas, interests, and skills within ALTANA and at the same time to safeguard the company's steady growth

through focused succession management. Mobility across national borders as well as business and functional areas is expressly desired.

But how are ideal candidates found for the positions? In the future, the local management teams and human resource managers will regularly engage in exchange at so-called talent conferences. They will identify positions for which successors are pending and discuss possible candidates.

But one thing will stay the same, and Anne Gradl is particularly happy about this: Talented, curious, and open-minded employees will be given freedom at an early stage so that they can experiment with and develop ideas. ALTANA's corporate values – openness, trust, empowerment to act, and appreciation – could not be lived out more concretely.

LETTING EMPLOYEES GROW

It is people who make a company successful. Our guiding principle "We are ALTANA" expresses this concisely and precisely. Demographic change and the prospect of a shortage of qualified employees make the development of junior managers a top priority for ALTANA. In the future, the new Leadership & Talent Management department will ensure that high-potential employees in the company can be identified and promoted more reliably than to date, and that suitable candidates are always available for strategically important positions.



“WE WANT TO BECOME EVER BETTER AND MORE SUSTAINABLE – COMPLETELY OBJECTIVELY”

Riko Huang, EH&S Manager ECKART Zhuhai

Living out Sustainability

The ECKART employees in the city of Zhuhai in southern China can see every day why it is worth protecting the environment. Situated on the South China Sea, Zhuhai is regarded as China's most sustainable and livable city, and this was confirmed by a city ranking undertaken by Qinghua University in Beijing and the consultancy company McKinsey. ECKART is doing its part to ensure that Zhuhai remains worth living in. For example, modern filter systems clean exhaust air. Water consumption, CO₂ emissions, and waste volumes have decreased steadily in recent years. The occupational safety there is exemplary, and a strict code of ethics guarantees fair business practices.

Still, sustainability is an elastic term that is subject to interpretation. For this reason, ALTANA uses independent audits to objectively measure its own performance in this area and to continually improve it. Riko Huang does not leave sustainability to chance either. The Environment, Health and Safety (EH&S) manager at ECKART in Zhuhai has contributed significantly to making “Made in China” a trademark of the ALTANA Group when it comes to environmental protection as well – and rightly so, as an independent sustainability audit in December 2015 attests.

BASF, a key customer of ECKART in China and the ALTANA Group as a whole, initiated this audit. ECKART Zhuhai mainly





The right man in the right place. Riko Huang is not only extremely passionate about his job as a sustainability manager, but also highly qualified. During his studies he had a dual focus: safety technology and business management. He tirelessly works to make employees even more sensitive to sustainable behavior. An information platform he initiated enables his company to engage in exchange with other ALTANA companies in China. With his knowhow, he also supports our customers and the local government regarding sustainability issues and advises companies in the region.

provides BASF with aluminum pigment pastes for automotive coatings, which give vehicles an elegant exterior. BASF has been a member of the Together for Sustainability (TfS) initiative since it was founded in 2011 by international chemical companies. Their aim is to work with qualified suppliers that meet quality, ecological, and social-behavior requirements as well as they do themselves.

Audits safeguard this. To this end, TfS uses the system of the independent and globally acknowledged rating agency EcoVadis. Its procedures are based on international standards such as the Global Reporting Initiative, the United Nations Global Compact program, and ISO 26000. The accredited auditors who work for TfS assess the companies they examine based on 32 criteria, ranging from management and environmental aspects, to health and safety, to corporate governance and social commitment.

Success Can Only Be Achieved Through a Joint Effort

At ALTANA, sustainability is an elementary factor for value-enhancing management. This issue is to be anchored more and more in the minds of employees, because it is essential for the company's success. Thus, for example, ALTANA has

participated in EcoVadis ratings several times and received EcoVadis Gold Status in 2016. As a result, ALTANA is among the top twelve percent of the comparable companies that were evaluated by EcoVadis.

In 2015, ECKART convinced the auditor in Zhuhai with its comprehensive sustainability concept. Sometimes detours lead to success, says Riko Huang. "In China, togetherness and cultivating relationships are very important. So, we also organize sports activities and excursions during which we talk about environmental issues."

ECKART Zhuhai received 144 of 200 possible points in the TfS audit, an outstanding 72 percent. The few suggestions for improvement were implemented quickly – within four months rather than the year offered by the auditor.

The audit not only showed the manager where his company stands today. The results also provide impetus for the future: "Our employees are proud of our good score and are highly motivated to keep on improving together."

An aerial photograph of a city street, likely in China, showing a wide road with multiple lanes, flanked by lush green trees and dense urban development. The sky is blue with scattered white clouds. The text 'SUSTAINABILITY MADE IN CHINA' is overlaid on the right side of the image.

SUSTAINABILITY MADE IN CHINA

Ecology, economy, and social responsibility are elementary factors for sustainable, value-enhancing business at ALTANA. The company continuously has the effectiveness of its sustainability efforts examined by renowned rating companies such as EcoVadis – always with very good results. ECKART in the southern Chinese city of Zhuhai also sought an outside view. In the sustainability audit of the renowned Together for Sustainability initiative, the site received 144 of 200 possible points and thus was able to convince its large customer BASF, among others.

“INTEGRATION CAN ONLY BE ACHIEVED THROUGH LANGUAGE – ALTANA IS ENABLING US TO HELP”

Anja Müller, Project Manager of the German courses offered by Malteser Werke

German Lessons from the Very Beginning

“We shouldn’t just watch, we should do something ourselves.” This was the resolution that ALTANA’s Management Board made when refugees flocked to Germany at the end of the summer in 2015, and employees in the company, too, started discussing how integration could be achieved. Those responsible at ALTANA all agreed that the key lies in the German language. Only by learning German can the refugees communicate with others in their new country and get a foothold in the labor market.

Via Aktion Deutschland Hilft e.V., an alliance of German aid organizations, ALTANA announced it was donating 250,000 euros to help fund a project to

this end. The coalition’s member organizations were invited to submit proposals for suitable language programs. In the end, Malteser Werke won the day with an innovative concept called “German lessons from the very beginning.” They also scored points with their experiences integrating refugees. Back in January 2016, German classes began for the first 100 students in the Malteser facility in Hamm, North Rhine-Westphalia.

On behalf of the German federal states, Malteser Werke supervises ten central refugee accommodation facilities across the country. The refugees usually live there for up to six months after being registered, until they are officially granted asylum and placed in municipalities. Only subsequently is it actually possible for





As the project coordinator, Anja Müller orchestrates the Malteser Werke's language program and organizes the work of the language teachers and volunteer assistants. Müller, who studied cultural anthropology, sees the success of her activities every day. She is convinced that the German lessons boost the refugees' confidence and encourage them to make contact with their new home country. The refugees' eagerness to learn and their gratitude touch her time and time again. But she still has one great wish: "We need more generous donors like ALTANA. Then we could do so much more."

many to take a German course. Which means lost time for the newcomers, much of which they spend waiting.

"The core of our concept is to offer refugees German lessons starting on their very first day in Germany," says Anja Müller, the manager of the project at Malteser Werke. "The first question that many ask when they arrive is: 'Can we learn German here?'"


So ALTANA's donation came at just the right time. Initially, the company is financing qualified German teachers for one year at six Malteser facilities in North Rhine-Westphalia and in the city of Voerde, in the vicinity of the company's headquarters in Wesel. The money is also used to equip the classrooms, to prepare course material, and to scientifically evaluate the pilot project.

Innovative Concept

In their planning, Anja Müller and her team had to take many variables into account. Their students not only come from different countries and have different educational backgrounds. In addition, it is uncertain how long they will remain in the facility and thus in the class. Against this backdrop, the Malteser Werke developed something completely new: The

classes are offered in modules with increasing levels of difficulty. Four 90-minute lessons are given five days a week. The subject matter is geared to the participants' living environment. "We asked people at the facilities what is important in daily human interaction," explains Anja Müller. Thus, incidental yet important content found its way into the class materials, including the particularities of German can deposits.

Although participation in the courses is voluntary, the classrooms are bursting at the seams: Around 600 students come to class each day. At the end of the first year, some 100,000 people will have acquired the basic language skills they need to lead a self-determined life in Germany. In the facilities, German is replacing English increasingly as the language spoken with others. The residents are gaining confidence and making contact with Germans outside of their accommodation for the first time, for instance, when they go shopping. Anja Müller is delighted about the program's success: "In some communities, people were understandably worried in the beginning about who was coming. Today our fosterlings are part of everyday life."

A man with a beard and short hair, wearing a black leather jacket over a grey t-shirt and grey trousers, stands in the center of a classroom. He is gesturing with his hands as he speaks to a group of people seated around him. The room has a white ceiling with square light fixtures and a green chalkboard in the background. Several posters are visible on the wall, including one with a grid of colored circles. The people in the audience are diverse in age and appearance, some looking towards the speaker and others looking down at their materials.

GERMAN LESSONS FROM THE VERY BEGINNING

ALTANA donated 250,000 euros to Malteser Werke to fund its qualified German classes for refugees. Learning German is the key to their becoming integrated in both society and the labor market. The language concept, geared to rapid learning success, has the potential to become the standard in the preliminary refugee reception centers. The first participants have already received the recognized A1 language certificate. The project, which is supported and evaluated scientifically, benefits around 100,000 refugees in Malteser facilities.

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 2016 fiscal year, the Group's 65 consolidated subsidiaries and associated companies achieved sales of more than €2 billion. The ALTANA Group employs about 6,000 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 Additives & Instruments

The BYK Additives & Instruments 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 the flow behav-

Business divisions and product portfolio

			
 BYK Additives & Instruments	 ECKART Effect Pigments	 ELANTAS Electrical Insulation	 ACTEGA Coatings & Sealants
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

ior 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. makes 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 Effect Pigments

ALTANA concentrates the development, production, and sale of effect pigments in the ECKART Effect Pigments 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. Like the BYK division, 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. The aim is to steadily expand functional application fields – on the one hand, to tap new growth potential, and on the other to make the division's activities less dependent on color trends.

ELANTAS Electrical Insulation

The companies in the ELANTAS Electrical Insulation 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, 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 the U.S., India, 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 Coatings & Sealants

The ACTEGA Coatings & Sealants 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 pri-

marily aim to improve the safety and shelf life of packaged foods.

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 stra-

tegic 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 addi-

tion, 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 nonfinancial 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

Business Development

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 profitability goals for the coming three years and the effects of the expected business development on ALTANA's asset and financing structure. This can be 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.

General Business Setting

Overall Economic Situation

In 2016, the growth path of the global economy was similar to that of the previous year. The International Monetary Fund (IMF) estimates that the world economy grew by 3.1 % last year (previous year: 3.2 %). Again in 2016, the emerging countries grew more dynamically than the established economic nations, whose growth slowed down slightly compared to 2015. The key economic indicators in the sales regions important for ALTANA's business developed non-uniformly in the year under review.

At 1.7 %, growth in the euro zone was only slightly lower than in 2015 (2.0 %). The most important European economies showed stable growth. The German Federal Office of Statistics estimates that Germany's economic performance improved at a higher rate than in the previous year, increasing by 1.9 % (previous year: 1.7 %).

According to current IMF forecasts, the economic dynamics in the countries of the Americas were very heterogeneous in 2016. Slower growth is forecast for the U.S. economy, decreasing from 2.6 % in 2015 to 1.6 % in 2016. The performance of the most important Latin American countries was considerably weaker. The economic crisis in Brazil, in particular, continued unabated in 2016. In the year under review, Brazil's economic output fell by 3.5 % (previous year: -3.8 %). Of the important economies, only Mexico posted notable growth, 2.2 %, which, however, was lower than in the previous year (2.6 %).

Growth in Asia slowed slightly in 2016 but was still at a high level. China and India showed particularly high growth, 6.7 % and 6.6 %, respectively, but the economic output in both countries was down on the previous year (6.9 % and 7.6 %). At 4.8 %, the growth in the ASEAN-5 economic region should be on a par with the positive trend of the previous year. The IMF expects the performance of the Japanese economy to be similar to 2015, with an

increase of 0.9 % in its gross domestic product (previous year: 1.2 %).

Industry-Specific Framework Conditions

According to estimates by the American Chemistry Council (ACC), global chemical manufacture increased by 2.2 % in 2016, achieving slightly lower growth than in the previous year (2.7 %).

In 2016, there was no change in the production volume (chemicals excluding pharmaceuticals) of Germany, Europe's largest chemical manufacturer, according to estimates by the German Chemical Industry Association (VCI). Due to lower prices, sales in the industry even decreased by 3.0 %. The ACC estimates that the chemical industries in other European countries developed positively, including France (+1.7 %) and Italy (+1.6 %). In Western Europe as a whole, chemical manufacture grew by 1.6 %.

The ACC forecasts that chemical manufacture in the U.S. was roughly on a par with 2015. In Latin America, chemical production fell due to recessions in some countries (-3.5 %).

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 3.8 %. All of the important economic nations in Asia showed a dynamic development. Chemical manufacture in China grew by 4.9 %, while Japan increased its chemical production by 3.7 %. India and South Korea also recorded growth (+2.1 % and +2.9 %, respectively).

The price of crude oil steadily climbed in a corridor between 30 and 55 U.S. dollars in the course of the year, though at times it exhibited strong volatility. The average price in 2016 was lower than in the previous year, in whose second half the price fell substantially.

Important Events for Business Development

ALTANA's earnings and financial situation as well as its assets in 2016 were influenced by non-operating effects.

In April 2016, the sale of ACTEGA Colorchemie GmbH and its three subsidiaries to Siegwerk Druckfarben AG & Co. KGaA was completed. In July, ALTANA acquired the Dutch company Addcomp Holland B.V., as well as its subsidiary in the U.S., which are being integrated in the Additives and Instruments division. Both changes in the Group's reporting entities had an effect on the key control-specific performance indicators.

In 2016, the development of the exchange rates between the euro, our Group currency, and other currencies important for ALTANA had only a limited impact on sales and earnings development. The average exchange rate was 1.11 U.S. dollars for one euro, the same as in the previous year. Effects from changed exchange-rate relations resulted from an increase in the average exchange rate between the euro and the Chinese renminbi from 6.97 renminbi for one euro to 7.35 renminbi for one euro, and from a decrease in the average exchange rate between the euro and the Japanese yen to 120 yen for one euro (previous year: 134 yen for one euro).

While the changed average exchange rates for the year had a limited effect on the items on the income statement in 2016, differences in the exchange rates on December 31, 2016, had noticeable effects on the balance-sheet items compared to the previous year.

Business Performance

Key figures

	2015	2016	Δ %	Δ % op. ¹
in € million				
Sales	2,059.3	2,075.3	1	2
Earnings before interest, taxes, depreciation and amortization (EBITDA)	390.9	453.0	16	15
EBITDA margin	19.0%	21.8%		
Operating income (EBIT)	251.3	328.7	31	
EBIT margin	12.2%	15.8%		
Earnings before taxes (EBT)	227.8	299.8	32	
EBT margin	11.1%	14.4%		
Net income (EAT)	158.0	210.1	33	
EAT margin	7.7%	10.1%		

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.

Group Sales Performance

Group sales amounted to €2,075.3 million in 2016, a 1 % or €16.0 million increase over the previous year (€2,059.3 million). Non-operating effects had a negative influence on the sales growth. Exchange-rate changes, particularly the euro-Chinese renminbi exchange rate, accounted for a slight decrease in sales. In addition, Group sales fell due to the sale of the ACTEGA Colorchemie group, which was offset in part by the integration of the Addcomp companies in the BYK division. Adjusted for these changes in the reporting entities and exchange-rate effects, Group sales were 2 % higher than in the previous year.

As a result, we achieved operating sales growth at the lower end of the range of 2 to 5 % that we had anticipated for 2016 at the beginning of the year.

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.

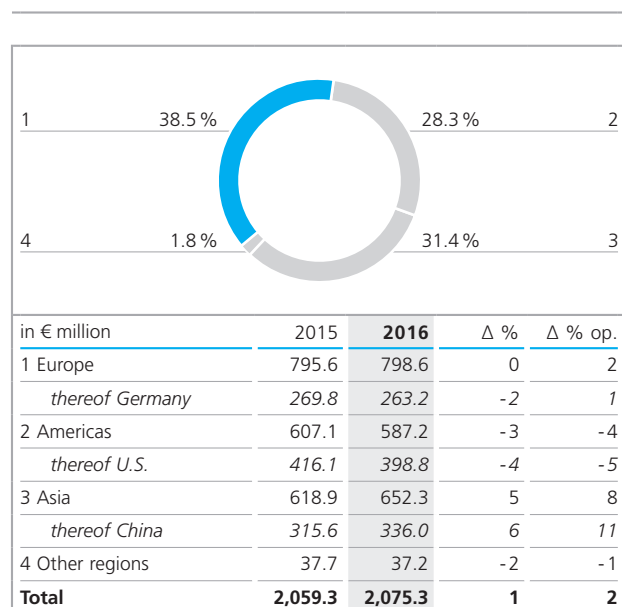
The regional volume and sales structure shifted only slightly vis-à-vis 2015. Accounting for 38 % of total Group sales (previous year: 39 %), Europe continued to be ALTANA's most important sales market. Both nominal and operating sales in Europe were up on the previous year. The nominal sales generated in our home market Germany decreased on account of the sale of the ACTEGA Colorchemie group. Adjusted for this influence, however, slight growth was achieved in 2016. Sales outside Germany developed much more dynamically, particularly in Eastern European countries.

Sales in the Americas showed a weaker development than in the previous year. Operating sales fell by 4 %. Operating sales in the U.S. – still ALTANA's largest sales market, accounting for 19 % of total sales – were down 5 %.

Sales by division

in € million	2015	2016	Δ %	Δ % op.
1 BYK Additives & Instruments	870.0	909.1	4	4
2 ECKART Effect Pigments	349.7	361.9	3	3
3 ELANTAS Electrical Insulation	463.2	452.1	-2	0
4 ACTEGA Coatings & Sealants	376.4	352.2	-6	0
Total	2,059.3	2,075.3	1	2

Sales by region



A main reason for this decrease was the ongoing reduction of oil and gas exploration activities. In the course of the year, the development of new wells declined again due to the lower crude oil prices compared to the previous year. Furthermore, U.S. customers' demand for our products and services was weaker, particularly in the first half of 2016. In the second half of the year, however, the demand situation improved steadily in the region. 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 in 2016 (previous year: 29 %).

In 2016, Asia was responsible for 31 % of Group sales (previous year: 30 %). Recording operating growth of 8 %, Asia was the biggest growth driver of all the regions in

the past fiscal year. With operating growth amounting to 11 %, the development of sales in China was particularly strong. And with a 16 % 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 India and Japan with growth rates of 9 % and 15 % respectively.

Sales Performance of BYK Additives & Instruments

In 2016, the BYK division increased its sales by 4 %, or €39.1 million, to €909.1 million (previous year: €870.0 million). However, the sales growth due to the integration of the Addcomp companies was offset by slightly negative exchange-rate effects. Adjusted for these effects, the operating sales growth was also 4 %.

In the course of the year, BYK benefitted from sales shifts to higher-priced products. But the sales volume hardly changed in a year-to-year comparison. A decrease in demand for rheology additives, which are used, among other things, in oil and gas exploration activities, was compensated for by a positive development in other fields of business. The division's strongest sales segment, additives for the coatings and paint industry, successfully expanded its business activities. In addition, the demand for the division's measuring and testing instruments was above average.

In terms of regions, the division's growth was driven by Asia, and especially by growing demand among customers in BYK's second-largest sales market, China. Substantial sales growth was also generated in other important Asian countries, most notably in Japan and India. Sales in Europe did not grow at the same pace as the Asian growth region. But BYK was able to record growing demand in all of the important European markets. Only in Great Britain and a few other small sales markets did sales fail to reach the previous year's level. Sales decreased in the Americas, dropping most significantly in our largest single market, the U.S. The

ongoing decline in oil and gas exploration activities had a particularly negative effect on business performance. Only in the second half of the year did the negative trend abate in this market segment due to rising crude oil prices. Sales in Brazil also decreased in year-to-year terms.

Sales Performance of ECKART Effect Pigments

Sales in the ECKART division grew by 3 %, or €12.2 million, to €361.9 million in 2016 (previous year: €349.7 million). Adjusted for slightly positive exchange-rate effects, the sales increase was also 3 %. The sales volume of effect pigments developed negatively last year. But the resulting sales drop was more than offset by a positive shift of sales toward higher-priced products.

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. In the last fiscal year, ECKART again significantly expanded its activities with customers in the cosmetics sector. In the graphic arts and functional applications segments, however, sales lagged behind the respective levels in 2015.

The regional demand for the division's products was not uniform in 2016. As with BYK, Asia was by far the biggest growth driver. Europe recorded slight sales growth. A sales decline in this region's largest market by far, Germany, was offset by growth in other countries. In the countries of North and South America, ECKART did not reach the previous year's sales level.

Sales Performance of ELANTAS Electrical Insulation

In 2016, sales in the ELANTAS division fell by 2 %, or €11.1 million, to €452.1 million (previous year: €463.2 million). The decrease resulted solely from negative exchange-rate effects, above all due to the change in the exchange rate between the euro and the Chinese renminbi. Adjusted for currency influences, sales were on a par with the previous

year. Demand for the division's insulating materials in 2016 showed a particularly favorable development. The resulting increase in the sales volume was offset by lower price levels, however.

The decrease in nominal sales is reflected in all of the important fields of business. Only the electrical product segment achieved a sales increase compared to the previous year.

In regional terms, the division's core region Asia underwent a positive operating sales development. In 2016, Asia accounted for more than half of the division's total sales. The sales achieved in China, ELANTAS' most important market, showed a positive development. In other important economies in Asia, however, there was a decrease in demand. For example, sales generated in Japan and South Korea were down on the previous year. In Europe, too, ELANTAS had a very uneven business development. Sales fell in many Western European markets, while the sales volumes in some Eastern European countries rose sharply. Overall, sales in the core region Europe remained at the previous year's level. In all of the important sales markets in the Americas, sales in 2016 were lower than in 2015. The decline in the U.S., ELANTAS' second-most-important market after China, was one of the strongest.

Sales Performance of ACTEGA Coatings & Sealants

With sales of €352.2 million, the ACTEGA division did not reach the previous year's level (€376.4 million). The decrease in nominal sales of 6 %, or €24.3 million, is due exclusively to the sale of the ACTEGA Colorchemie group completed in April 2016. Adjusted for this effect and slight currency impacts, sales in the period under review were on a par with 2015. An increased sales volume was set against negative effects from a changed product mix and lower price levels.

In 2016, the regional sales structure of the ACTEGA division did not change significantly. In the last fiscal year,

operating sales in the division's largest core regions, Europe and the Americas, were slightly higher than in 2015. In Europe, positive sales impetus came from France and Italy. In the Americas region, sales rose in the U.S. and in Brazil, the division's second-biggest market in the region. In other Latin American countries, however, ACTEGA's sales decreased. In Asia, the division did not reach the sales level of the previous year. In the region's largest sales market, China, as well as in other important countries, demand for the division's products fell. In India, however, ACTEGA was able to increase its sales.

Earnings Situation

The operating sales growth was accompanied by a very positive earnings development. Earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 16 %, or €62.1 million, to €453.0 million (previous year: €390.9 million). Adjusted for acquisition and exchange-rate effects, operating earnings increased by 15 %. ALTANA achieved an EBITDA margin of 21.8 % in the 2016 fiscal year (previous year: 19.0 %).

Both the development of the absolute EBITDA and the EBITDA margin surpassed our expectations. At the beginning of 2016, we had forecast earnings to outperform sales growth, but the profitability achieved exceeds our strategic target range of 18 % to 20 %.

The most important cost factor for ALTANA, raw materials and packaging costs, developed very well relative to sales. The materials usage ratio, the ratio of raw materials and packaging costs to sales, decreased in the course of 2016 to 39.7 % (previous year: 42.0 %). This trend is driven by all of our divisions. Apart from the generally lower price level on many of the raw materials markets important for ALTANA, the company is benefitting above all from its

ongoing specialization in products and markets with higher added value and thus from positive product-mix changes.

Other cost factors important for ALTANA's earnings largely developed in proportion to sales. Personnel expenses were at the previous year's level; the latter, however, was burdened by restructuring expenses at sites in Germany. When the previous year's figure is adjusted for this special burden, personnel expenses rose by 2 %. The ratio of total personnel expenses to sales decreased slightly to 21.8 % (previous year: 22.0 %).

In 2016, the structure of functional costs did not change significantly vis-à-vis 2015. Production costs were at the previous year's level. Although production-related personnel expenses increased disproportionately, as did depreciation and amortization due to increased investment activity, expenses for consulting and other external services decreased.

In 2016, selling and distribution expenses decreased slightly compared to the previous year. The costs that depend directly on sales developed stably against the background of the slight sales increase, because an increase in sales commissions was counterbalanced by a decrease in freight charges.

Research and development expenses rose in proportion to sales. In this functional cost area, personnel expenses increased, as did depreciation and amortization in connection with the launch of new or expanded laboratory capacities.

Administrative expenses also developed in proportion to sales. Higher expenses for consulting services could be largely offset by a decrease in administrative-related personnel expenses.

The balance of other operating income and expenses improved considerably. This development is due to the fact that there were no extraordinary restructuring expenses and impairment losses on intangible assets and property, plant and equipment, as incurred in the previous year.

Earnings before interest and taxes (EBIT) reached €328.7 million, thus surpassing the previous year's level (€251.3 million).


The financial result was €-8.6 million (previous year €-10.7 million). The main reason for the improvement was interest income achieved in the context of tax refunds. Compared to the previous year, this effect could overcompensate for negative exchange-rate effects and other burdens. The balance of interest income from financial investments and interest expenses from loans and pension obligations reached the previous year's level. On the other hand, the income from associated companies of €-12.9 million in the previous year worsened to €-20.3 million in 2016. This decline is due to the fact that the Israeli company Landa Corp.

posted a higher loss for the year. The company's 2016 fiscal year was burdened by higher expenses for the preparation of a broad market introduction of new products.






Earnings before taxes (EBT) rose to €299.8 million (previous year: €227.8 million), and net income (EAT) to €210.1 million (previous year: €158.0 million).

Multi-period overview of the earnings situation

Sales (in € million)

2012		1,705
2013		1,765
2014		1,952
2015		2,059
2016		2,075

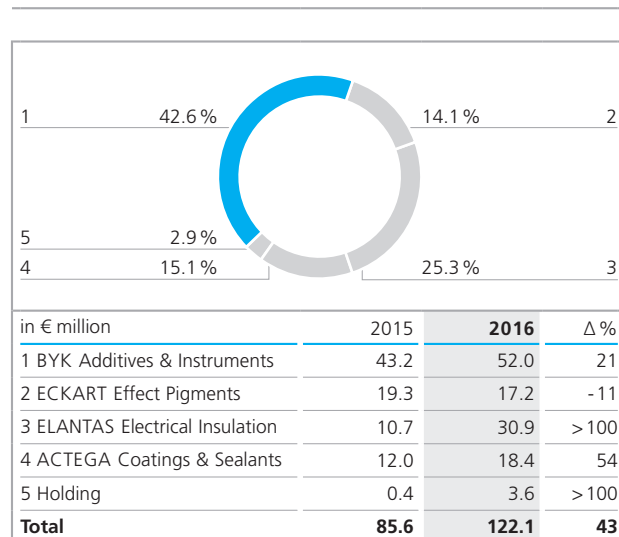
EBITDA (in € million)

2012		323
2013		336
2014		397
2015		391
2016		453

Financial Position

Capital Expenditure

Capital expenditure by division



In the 2016 fiscal year, ALTANA invested a total of €122.1 million, €36.5 million or 43 % more than in the previous year (€85.6 million). The investment ratio, or the ratio of invest-

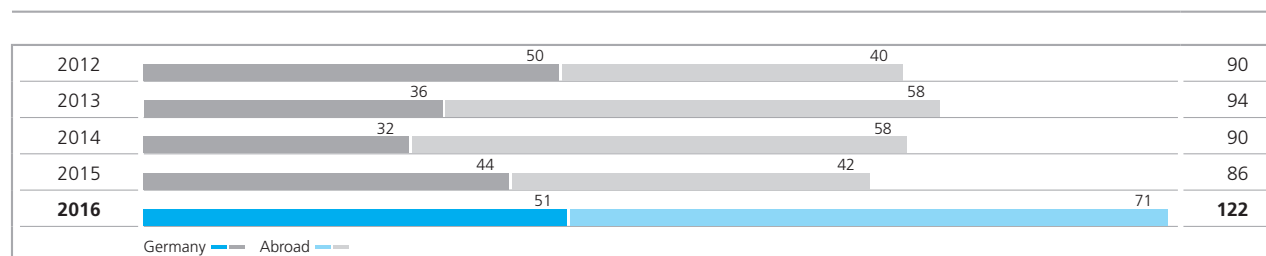
ments to sales, was 5.9 % and thus at the upper end of the target range of 5 % to 6 % we had forecast for 2016.

Of the total capital expenditure, €106.4 million were invested in property, plant and equipment (previous year: €74.5 million) and €15.7 million in intangible assets (previous year: €11.0 million). The investments in intangible assets resulted from the expansion of the ERP systems in the BYK, ECKART, and ACTEGA divisions, as well as from the capitalization of software licenses and intangible assets within the framework of the acquisition of business activities.

In the last fiscal year, the regional distribution of investments shifted toward Asia, and especially China. Asia's share of Group investments increased to 25 % (previous year: 6 %), primarily due to the acquisition of a manufacturing site by the ELANTAS division. But as in the previous year, the largest share continued to be invested in Group sites in Europe (57 % compared to 67 % in 2015). The Americas region accounted for 18 % of our worldwide investments (previous year: 27 %).

In 2016, the BYK division invested a total of €52.0 million (previous year: €43.2 million), mainly to expand production and laboratory capacities as well as the ERP systems. An important individual project encompassed the purchase of a piece of property in Shanghai in order to bundle the region's sales and research activities at one site in the future.

Capital expenditure ALTANA Group (in € million)



Another large investment involved a facility for carrying out automated product analyses for additives at the Wesel site.

The investment volume in the ECKART division was €17.2 million (previous year: €19.3 million) and thus below the previous year's figure. Due to ongoing worldwide efforts to make the ERP systems uniform, a not insignificant portion of the total amount was invested in software.

The ELANTAS division invested significantly more in property, plant and equipment and intangible assets than in the previous year (€30.9 million in 2016 compared to €10.7 million in 2015). More than half of the total capital expenditure was allocated to the division's sites in China, by far ELANTAS' biggest sales market. The acquisition of a production site in Tongling was the most important individual project.

The ACTEGA division also invested more than in the previous year (€18.4 million in 2016 compared to €12.0 million in the previous year). Important individual projects were the expansion of research and development capacities at its Grevenbroich site and the purchase of a new extruder for the manufacture of sealants. In addition, a new ERP system was introduced at the division's Lehrte site.

Balance Sheet Structure

Key figures

	2015	2016	Δ %
in € million			
Total assets	2,964.5	3,053.9	3
Shareholders' equity	1,935.6	2,082.2	8
Net debt (-)/			
Net financial assets (+) ¹	- 114.2	25.7	N/A

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

In the course of the 2016 fiscal year, the ALTANA Group's total assets climbed from €2,964.5 million to €3,053.9 million. The increase of €89.4 million, or 3 %, is mainly the result of stepped-up investment activity.

Intangible assets fell slightly to €922.8 million (previous year: €934.5 million). The scheduled depreciation and amortization on intangible assets from acquisitions was partly offset by the additions resulting from the acquisition of the Addcomp companies and by the investments in software. Owing to the increased investment activity in the last fiscal year, property, plant and equipment rose to €781.1 million (previous year: €751.3 million).

On December 31, 2016, non-current assets totaled €1,831.0 million and were thus at the previous year's level (€1,814.4 million). Their share in total assets was 60 % on the balance-sheet date (previous year: 61 %).

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 €375.6 million (previous year: €422.1 million). However, €92.9 million need to be added that ALTANA held on the balance-sheet date as a time deposit investment with a term of more than three months against the background of the interest-rate development.

Both inventories and trade accounts receivable increased slightly in the course of general business activity. The ratio of the total net working capital, in relation to the business development of the preceding three months and taking into account trade accounts payable, fell to 102 days at the end of 2016 (previous year: 105 days). The increase in the ratio of liabilities had a positive effect, which overcompensated for the slight increase in the ratio of inventories. The relative amount of trade accounts receivable remained stable compared to the previous year. The improvement

of the net working capital ratios was in line with the development forecast at the beginning of 2016. Total current assets climbed by 6 % to €1,222.8 million (previous year: €1,150.1 million).

On the liabilities side, changes arose primarily due to the repayment of promissory note loans (German *Schuldscheine*) and the earnings-related increase in equity. Liabilities from promissory note loans were reduced on account of the scheduled repayment of one tranche (€42.5 million) and the termination of variable tranches (€83.5 million). As a result, non-current liabilities decreased to €564.2 million (previous year: €633.4 million). The reduction of debt was partly offset by an increase in employee benefit obligations. The share of total non-current liabilities fell from 21 % to 19 %.

Total current liabilities increased slightly from €395.4 million to €407.5 million on December 31, 2016. The increase in trade accounts payable and current provisions was almost completely offset by the decrease in current debt. The Group's shareholders' equity was up by €146.6 million, or 8 %, to €2,082.2 million (previous year: €1,935.6 mil-

lion). The increase is due to the net income in the 2016 fiscal year. The equity ratio climbed to 68 % on December 31, 2016 (previous year: 65 %).

The net financial assets, comprising the balance of cash and cash equivalents, short-term financial assets, current marketable securities, debt, and employee benefit obligations, were €25.7 million at the end of 2016 (previous year: net financial debt of €114.2 million).

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.

Structure of consolidated balance sheet

Assets	Dec. 31, 2015		Dec. 31, 2016	
	€ million	%	€ million	%
Non-current assets	1,814.4	61	1,831.0	60
Inventories, trade accounts receivable and other current assets	718.5	24	737.5	24
Cash, short-term financial assets, and cash equivalents and marketable securities	431.6	15	485.3	16
Total assets	2,964.5	100	3,053.9	100

Shareholders' equity and liabilities	Dec. 31, 2015		Dec. 31, 2016	
	€ million	%	€ million	%
Shareholders' equity	1,935.6	65	2,082.2	68
Non-current liabilities	633.4	21	564.2	19
Current liabilities	395.4	13	407.5	13
Total shareholders' equity and liabilities	2,964.5	100	3,053.9	100

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

At the end of 2016, ALTANA's liabilities totaled €224 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 at least 2021.

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

	2015	2016	Δ %
in € million			
Cash flow from operating activities	346.1	376.7	9
Cash flow from investing activities	-140.7	-234.3	N/A
Cash flow from financing activities	-63.1	-185.4	N/A

In the course of 2016, the level of cash and cash equivalents decreased by €46.5 million to €375.6 million (previous year: €422.1 million). In addition, on December 31, 2016, there were short-term financial assets amounting to €92.9 million involving money-market investments with a remaining term of at least three months and less than one year.

Cash inflow from operating activities amounted to €376.7 million, an increase of €30.6 million, or 9 %, over the previous year (€346.1 million). As a result, the operating cash flow exceeded our expectations. At the beginning of 2016, we expected the cash inflow to be roughly the same as in the previous year. This growth was driven by the consolidated net income and the positive development of income tax items, as well as of provisions and other assets and liabilities.

Compared to 2015, the cash outflow from investing activities increased by €93.6 million to €234.3 million (previous year: €140.7 million). This was driven by increased investments in intangible assets, property, plant and equipment, and money-market investments. The balance of payment for the acquisition of the BYK Addcomp companies in 2016 and the deposit from the sale of the ACTEGA Colorchemie group did not have a significant influence on the cash outflow from investing activities.

The cash outflow from financing activities amounted to €185.4 million (previous year: €63.1 million) in 2016. Debt was reduced in the course of the year due to scheduled repayments of promissory note loan tranches (€65.0 million) and the termination of variable tranches totaling €61.0 million. The dividend payment in the 2016 fiscal year was on a par with that of the previous year.

Value Management

Key figures value management

	2015	2016
in € million		
Operating capital (annual average)	2,354.4	2,344.2
Operating earnings	237.5	270.8
Return on capital employed (ROCE)	10.1 %	11.6 %
Weighted average cost of capital	8.0 %	8.0 %
ALTANA Value Added (relative AVA)	2.1 %	3.6 %
ALTANA Value Added (absolute AVA)	49.2	83.3

ALTANA determines the change in the company's value via the key figure ALTANA Value Added (AVA). In the 2016 fiscal year, we made a significant contribution to our company's value again.

The Group's average capital employed fell to €2,344.2 (previous year: €2,354.4 million). The decrease largely resulted from the sale of the ACTEGA Colorchemie group, which was partially offset by the acquisition of the BYK Addcomp companies. At €270.8 million (previous year: €237.5 million), operating earnings rose due to the significantly improved earnings situation in 2016.

At 11.6 %, the return on capital employed (ROCE) was at a very good level and considerably higher than the previous year's figure (10.1 %). With an unchanged cost of capital rate of 8.0 %, the relative AVA reached 3.6 % (previous year: 2.1 %).

Analogous to the decrease in operating capital, the cost of capital decreased slightly to €187.5 million in 2016 (previous year: €188.4 million). As a result, the absolute AVA amounted to €83.3 million (previous year: €49.2 million).

Due to the positive earnings development, we were able to improve the value key figures to a much greater extent than we had forecast for 2016.

Overall Assessment of Our Business Performance and Business Situation

In the course of the year, the overall economic framework conditions largely remained stable.

Despite the challenging market environment, ALTANA was able to increase its operating sales, though the regional growth dynamic was very uneven. Our profitability rose, primarily due to the increased gross margins.

We strengthened our balance-sheet structures even further and increased our financial headroom in 2016.

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 perceive us as experts and we are usually integrated 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 2016 fiscal year, we expanded these activities significantly. Four projects were initiated which in the next three years should generate new knowledge for ALTANA in promising technology segments.

Examples of projects that are pushed forward centrally via ALTANA's holding company are undertakings in the field of Printed Electronics, on the one hand, and our strategic digital-printing partnership with the Israeli Landa group, on the other. Our divisions will be able to benefit from this development potential to different extents.

The basis of our innovative strength is a worldwide research and development network encompassing 1,021 employees at present. In the year under review, expenses for research and development activities amounted to €129.3 million (previous year: €128.1 million).

The continued high share of research and development expenses in sales of 6.2 % (previous year: 6.2 %) is yet another expression of our innovation focus.

Research and development expenses (in € million)

2012		102.3
2013		109.4
2014		113.9
2015		128.1
2016		129.3

Employees in research and development

BYK Additives & Instruments	432
ECKART Effect Pigments	216
ELANTAS Electrical Insulation	168
ACTEGA Coatings & Sealants	197
Holding	8
Total	1,021

Employees

In the course of 2016, the number of people employed by the ALTANA Group fell by 129, or 2 %, to 5,967 (previous year: 6,096). The decrease was primarily due to the sale of the ACTEGA Colorchemie group.

In the BYK division, the number of employees rose by 71 to 2,055 (previous year: 1,984). The acquisition of Addcomp companies in the Netherlands and the U.S. in the middle of the year accounted for the largest share of this increase. In addition, the division's workforce grew in the additives business in the U.S. and the instruments business in Germany.

The number of employees in the ECKART division decreased by 57 to 1,748 (previous year: 1,805) 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 Great Britain in 2016. The number of employees in the U.S. increased because business activities were expanded.

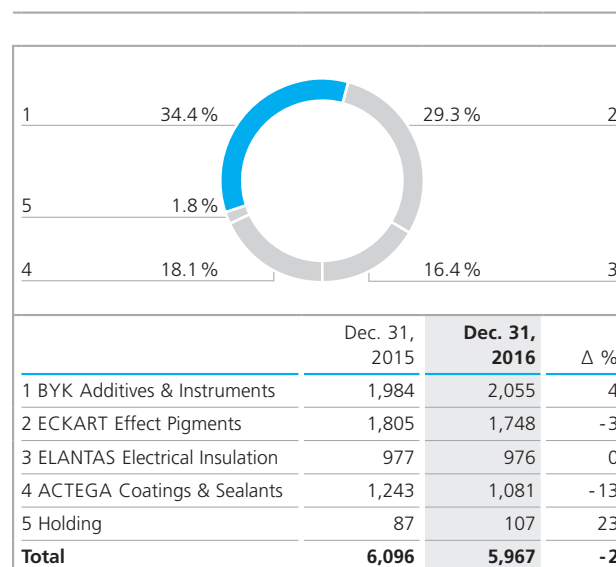
In the course of the year, the workforce of the ELANTAS division remained constant (976 employees compared to 977 in 2015). But the development within the division was non-uniform. The workforce in production was reduced, while the number of employees in research and development increased by almost the same amount. In terms of regions, the decrease in staff primarily concerned Germany.

ACTEGA's headcount fell by 162 employees to 1,081 (previous year: 1,243), the biggest decrease of all the divisions. The main reason for this was the sale of the ACTEGA Colorchemie group with 151 employees. In addition, ACTEGA reduced its workforce at sites in China and Brazil. By contrast, the number of employees increased at its manufacturing sites in Germany and Spain.

The functional structure of the workforce did not alter significantly in 2016. With 52 %, or 3,114 people (previous year: 3,216), most of the employees continued to work in production, although this area recorded the biggest decrease in staff of all the functional areas (-102 employees), primarily due to the sale of the ACTEGA Colorchemie group. The number of people employed in research and development also fell, by 28 to 1,021 people in 2016 (previous year: 1,049).

The headcount in marketing and sales, as well as administration, remained nearly unchanged in the course of

Employees by division



2016. Administrative functions continued to have the smallest share of employees Group-wide, with 873 people working in this area in 2016 (previous year: 876).

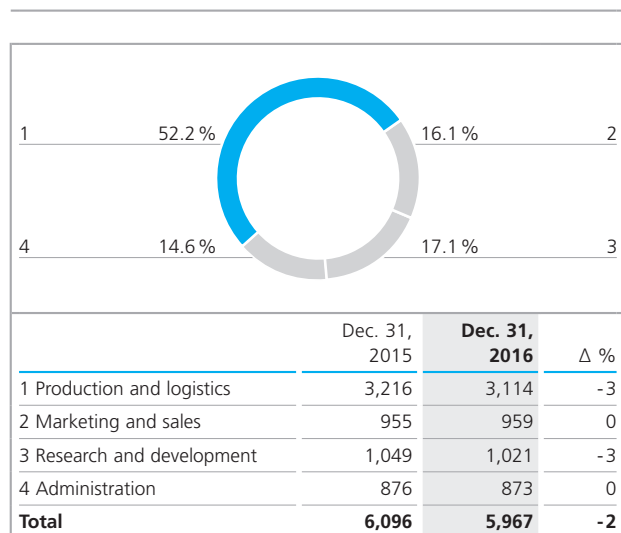
In terms of regions, there were only slight shifts in 2016. The European Group companies continued to employ by far the largest number of people worldwide (3,850 compared to 3,991 in the previous year). At the end of the year, 3,126 people worked in Germany (previous year: 3,255), the majority of them at ECKART's and BYK's largest production and development sites, in Hartenstein and Wesel, respectively. Staff levels in the Americas increased slightly, from 1,352 people in 2015 to 1,376 people at the end of 2016. By contrast, the number of employees in the Asian Group companies decreased slightly, from 753 in the previous year to 741 staff members.

At the end of the 2016 fiscal year, 1,552 women and 4,415 men worked at ALTANA. On the balance-sheet date,

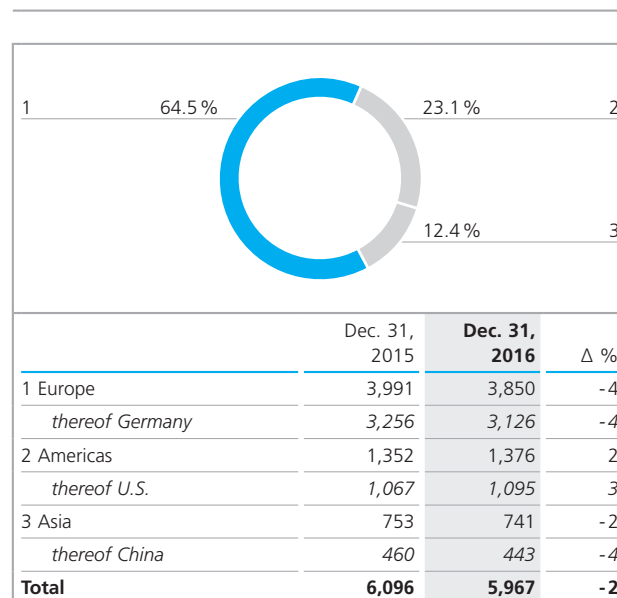
90 % of all employees had an unlimited employment contract and 10 % a limited employment contract. This ratio was the same for both genders. Of the women employees, 77 % worked full-time and 23 % part-time at the end of 2016. 98 % of the male employees worked full-time. Apart from its own employees, the ALTANA Group had 179 contract workers at the end of 2016.

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 makes precise succession planning indispensable already today. To be able to hold our own in this environment, we launched further initiatives and implemented various measures in 2016. All measures introduced to strengthen ALTANA's corporate culture and to further develop our human resource management are carried out based on our

Employees by functional area



Employees by region



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. A special focus in 2016 was our Leadership & Talent Management, which was anchored not only in terms of processes but also organizationally in ALTANA's holding company. With new instruments and development possibilities, we should be able to implement structured succession planning even more effectively in the future.

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 the strengthening of international mobility.

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

Promoting women in management positions remained a focus in the 2016 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 been significantly increased in recent years. In addition, our further education program includes special offers for women. The mentoring program launched in 2015 as a pilot project was extended to other Group sites in 2016. Furthermore, various informal platforms were created to promote dialog on this issue in general. 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 the requirements of the law regarding equal participation of women in management positions in private business and the public service sector, ALTANA AG's Supervisory Board specified target figures for the proportion of women in the company's Supervisory and Management Boards by June 30, 2017. Following the reorganization of the Management Board in 2015 within the framework of the generation change, the Supervisory Board is not planning to expand this body. Therefore, the target quota to be achieved by June 30, 2017, does not account for a woman in ALTANA's Management Board. For the Supervisory Board, a target of 25 % was specified.

The Management Board defined corresponding target figures for the two management levels of ALTANA AG below the Management Board. For the first management level below the Management Board of ALTANA AG, a target of 10 % is to be achieved by June 30, 2017, and for the second management level the target is 30 %. Target figures were also stipulated for the German subsidiaries subject to codetermination.

Subsequent Events

At the end of January 2017, ALTANA signed a contract to acquire the U.S. and German PolyAd companies by means of a share deal. The additive solutions business for the global plastics markets will be integrated in the BYK Additives & Instruments division.

In February, ALTANA acquired a novel metallography technology from the Israeli Landa group. The new activities are being integrated in ALTANA's ACTEGA division.

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

Global economic growth is expected to increase slightly in 2017. The International Monetary Fund (IMF) forecasts an increase of 3.4 % in world economic output, slightly higher than the 2016 level (3.1 %).

This development should be driven both by stronger growth momentum in the emerging countries and further growth in the established industrial nations. 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 (6.5 % and 7.2 %, respectively). Increased growth is forecast for the U.S. (2.3 % in 2017 compared to 1.6 % in 2016). The IMF expects that the recession in Brazil will end in 2017 and that the economy will stagnate compared to the previous year. In Europe, the stable development of economic output is expected to continue in 2017. Economic output of 1.6 % is anticipated for the whole euro zone including Germany.

Against the background of the global economic outlook, we expect the general chemical sector in 2017 to expand more than in the previous year. The American Chemistry Council (ACC) forecasts that worldwide chemical production will increase by 2.9 % in 2017, after an expected 2.2 % 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 the price level to increase in the next few 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 2017. 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 %. An increase in the sales volume should be the main growth driver, while the price/mix effect might be slightly negative.

Nominal sales in 2017 should grow at a higher pace due to the acquisitions agreed upon at the end of 2016 and the beginning of 2017 and can be additionally influenced by exchange-rate changes. For the most part, operating sales in the divisions should grow at a similar pace to Group operating sales. In the ELANTAS division, we expect low-level operating sales growth. We anticipate positive growth impetus from the acquisition of the insulating resins business of Belgian chemical group Solvay, which was agreed upon at the end of 2016.

In terms of the important cost factors, we do not foresee significant shifts of cost ratios in relation to sales. We expect the materials cost ratio to increase.

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 the background of the disproportionately growing material costs, we anticipate that the EBITDA margin will be closer to our long-term target range of 18 % to 20 % after the very high level in 2016.

After 2017, we expect slightly higher growth momentum with basically the same or even slightly increasing profitability.

Expected Asset and Financial Situation

There should not be any significant shifts in the balance-sheet structure in 2017. 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 further improve the ratios.

Based on the anticipated business performance, we should achieve liquidity surpluses from operating activities at a level similar to that of 2016. These surpluses will be used, in particular, to finance investments and for bolt-on acquisitions. In addition, the promissory note loans will be repaid on schedule from 2017 through 2020.

We project the value management key figures to decrease in 2017 due to the expected acquisitions. This decline will be a consequence of a disproportionate increase in operating capital compared to operating earnings.

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 target levels 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. 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 and was deemed 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. The risk is 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 2016, 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 largest 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 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 an elementary 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 2016 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 slightly lower than in the previous year.

Sales Risks

Sales risks result mainly from intensified competition or shifts in customer structure. They include 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 co-operate 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 slightly changed our assessment of the probability of occurrence and loss potential from sales risks. The probability of risks occurring was assessed to be higher and the loss potential was assessed to be lower than in the previous year. Overall, we assessed sales risks as being lower.

Risks from Company Acquisitions and Investments

Apart from operating growth, acquisitions play a key role for the implementation of the strategy for profitable growth at ALTANA. Depending on the size of the activities acquired, unsuccessful 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.

The assessment of the risk of impairments of assets from acquisitions is the same as it was last year. The impairment risk is categorized as being a medium risk.

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 increase the flexibility of price mechanisms and price lock-up 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 values 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. We generally counter risks resulting from changes in interest rates by hedging interest rates over the corresponding term of the respective underlying transaction. More information on our evaluation and accounting procedures for hedges can be found in the online Consolidated Financial Statements on page 47 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.

Our assessment of the financial market risks is largely the same as in the previous year. 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 know-

how 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 2016, 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 plants 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 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 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

already 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 that 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 Group 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 discussed 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 2017, we expect the global economy to exhibit slightly stronger growth than in the previous year. In this environment, we expect ALTANA to achieve operating sales growth of 2 % to 5 % with slightly lower earnings profitability. We anticipate the acquisitions agreed upon to contribute to further sales growth; however, they will also 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 be palpable. 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.

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 shelf life. 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.

In 2016, our companies made further progress in their sustainable product portfolios. Outstanding examples are discussed below.

Success with Seals of Approval

The EU Ecolabel introduced in the 1990s informs consumers about environmental and health hazards posed by products and services. The products have to be certified by institutions commissioned in the respective member states of the manufacturers. The ALTANA Group supports its customers' efforts by providing them with products that meet the specifications of the Ecolabel.

In 2016, BYK achieved such convincing successes with its Ecolabel portfolio of defoamers specifically for paints and coatings that the division supplemented its offer with further additives. These additives include water-based wax emulsions, which improve the surface properties of coatings as well as those of care products and finishes.

ALTANA products often help make customers' end products more sustainable. This applies, for example, to BYK-SILCLEAN 3701, which was introduced in 2016. The additive was specially developed for coatings of tanks and containers, but can also be used in tunnel tubes. It helps keep surfaces clean for a longer time and makes it easier to clean them. Thanks to longer maintenance cycles, operational costs are cut and less resources, for instance water and cleaning agents, are consumed.

Reduction of Emissions

Many customers attach importance to gaining competitive advantages in their markets with the help of environment- and climate-friendly products. ALTANA's companies support

this in manifold ways, for example with special additives for lightweight construction of motor vehicles. Products were added to this additive family in 2016. Further measures concern the reduction of harmful volatile organic compounds (VOCs). ELANTAS made important progress in this area in 2016.

For coatings of motors, generators, and transformers based on unsaturated polyester resins, at its U.S. site in St. Louis ELANTAS developed a technology that needs virtually no styrene or vinyl toluene. As a result, the products' VOC emissions will sink from currently more than 20 % to less than 2 %. In addition, unlike coatings that contain styrene, the new, water-based products have no flashpoint. That makes their processing significantly safer.

The successful work ELANTAS is doing on solvent-free powder coatings for wire enamels also constitutes great progress. The company is developing these coatings as a modification to the currently used formvar coatings. The powder coatings produce virtually no emissions and, moreover, contain no phenols or cresols. This makes coatings processing safer and reduces health hazards for consumers. Initially, the powder coatings are to be offered for wires with a diameter of more than 75 mm.

Our Supplier Network

ALTANA's companies obtain the raw materials they need to manufacture products from a group of a total of 4,200 suppliers, which did not change significantly compared to the previous year. 1,700 companies supply to a number of Group sites worldwide.

Of the 2,500 companies that only supply regionally, 55 % come from Europe, 29 % from Asia, 26 % from North America, and 3 % from South America. With this far-reaching network, the individual companies together with ALTANA's

Strategic Purchasing department ensure that dependencies or supply bottlenecks are avoided wherever possible. All suppliers are asked to commit themselves to the United Nations Global Compact principles delineated in the Group's purchasing network on ALTANA's website. Nearly 500 companies have complied with this wish.

Guidelines and Their Effects on ALTANA

International guidelines and national laws determine the framework for the Group's entrepreneurial activities. Both at the Group level and the level of the individual companies, ALTANA swiftly implements any changes relevant for the company. In 2016, the EU REACH Regulation for chemical substances was still the focus of attention. All ALTANA companies continued to push ahead preparations for the third registration phase in 2018.

We assume that BYK will have some 50 additives registered as raw materials within the framework of individual registrations. ECKART and ELANTAS will apply for so-called joint registrations together with partners. Thirty pigments and 20 insulating materials are affected.

Products That Are Suitable for Contact with Food

Special guidelines in the U.S., the EU, and Switzerland specify which materials are permitted for food contact. This also applies to paints and coatings for packaging materials. For the first time, ECKART developed highly brilliant silver pigments for aluminum-based offset printing that comply with the specifications of the U.S. Food and Drug Administration (FDA), the EU Directive 10/2011, as well as Swiss specifications. A big challenge had to be met: On the one hand,

it was a matter of producing gloss and glitter effects with extremely small powdery particles, which are required for offset printing. As a rule, pulverization leads to the opposite effect, a grayish color shade. On the other hand, a substance that was suitable for contact with food had to be identified that would meet the technical challenges that these particles pose. In the end, ECKART researchers succeeded in developing pigment formulations that produce different visual effects depending on the size of the particle (between 5 µm and 10 µm).

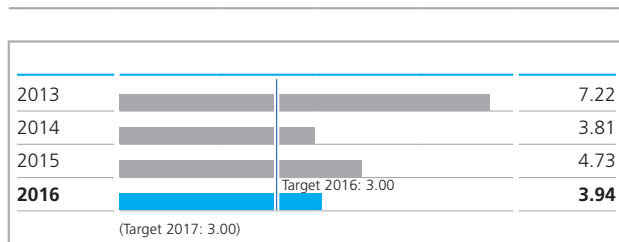
ACTEGA agreed to a partnership with the world's largest brewery group, Anheuser Busch InBev, for the Chinese market. The company set up a production line in the southern Chinese city of Foshan expressly for this purpose. ACTEGA is manufacturing PVC-free sealing materials for crown corks there. These sealing materials have set worldwide standards for food packaging, because they can dispense with harmful plasticizers and at the same time hermetically seal the bottles.

Continual Improvement of Occupational Safety

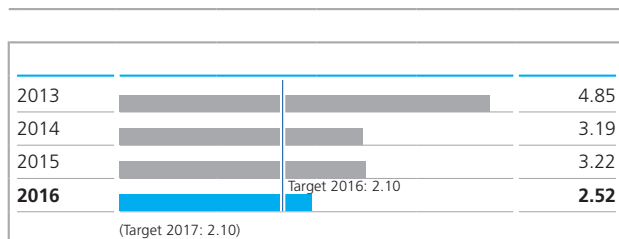
As an employer, it is ALTANA's duty to offer all its employees safe workplaces and protect them from potential hazards. The basis are the various technical and organizational measures we gear to the respective site's production conditions as well as to the laws and regulations in effect where the site is located. Furthermore, ALTANA relies on a uniform safety culture with training programs and additional measures.

Group-wide, the Work Accident Indicator (WAI) has since 2007 been the most important means of observing occupational safety at the sites and has been steadily improving it. It provides information about the number of occupational accidents and the number of lost work days, and sets them in relation to the total working hours.

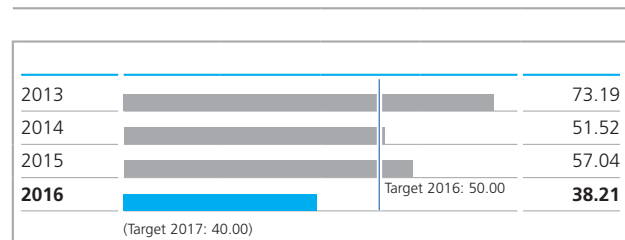
WAI 1 (number of occupational accidents with lost work time of one day or more per million working hours)



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)



The top priority of our safety culture is to reduce the number of occupational accidents. Consequently, ALTANA's Management Board and the EH&S department define upper limits each year based on our WAI data that apply to all of our companies.

In the year under review, ALTANA made further progress. In all three categories, the WAI indicators decreased compared to the previous year. In total, ALTANA registered fewer accident-related lost work days. This shows that the technical and organizational measures are bearing fruit and our safety record has further improved in all of our companies and at all of our sites. As in the previous years, there were no fatal accidents in the company in 2016.

Some sites have had no lost work time due to accidents for more than six years. Among them are BYK's and ECKART's sites in Tongling and Zhuhai (China), respectively, and ELANTAS' site in Pimpri (India). ECKART in Pori (Finland), ACTEGA Rhenacoat (France), and ACTEGA Foshan (China) have been accident-free for more than three years.

On the other hand, an analysis of the circumstances of the accidents shows that further efforts are needed. They have to help raise employees' awareness of safety further and to train situation-related behavior. The upper limits that ALTANA set itself could not be kept for two of the three indicators. This applies to WAI 1 (number of occupational

accidents with lost work time of one day or more per million working hours) and for WAI 2 (number of occupational accidents with lost work time of more than three days per million working hours). The indicator that refers to the total number of lost work days due to occupational accidents (WAI 3) is below the upper limit (see graphics on page 81).

Fewer Incidents

Based on the definition of the German Chemical Industry Association (VCI), we had a total of 13 significant incidents in 2016 (previous year: 17). No employees or residents were harmed. In ten cases, released chemicals were caught by special basins or tanks installed expressly for such incidents. Only in three incidents was this not the case. At ECKART, white spirit that leaked out at our U.S. site in Louisville (a total of approximately 130 liters) led twice to soil contamination that was remedied in a professional way. In a third case at the site, white spirit leaked out without a second catch basin but did not lead to soil contamination.

Worldwide Safety Measures

Improvement of safety is a continuous process and concerns manufacturing plants and warehouses as well as employees' safety gear. It also includes training measures that sharpen our employees' safety awareness and continuous monitoring of the safety level. The Group made important progress in all areas in the year under review.

The safety level of the sites meets the legal regulations valid in their region and the manufacturing plants correspond to the current state of technology. In addition, the companies consider the specific geographical conditions in their region as well as international safety classifications.

This is the reason for a number of investments which, for example, ELANTAS made in the year under review. Among them are an earthquake-resistant warehouse building for liquid raw materials at its Collecchio site in Italy; the above-ground laying of a pipeline for extinguishing water at its Chinese site in Zhuhai (it prevents water from percolating through the ground in the case of pipeline damage, as the region is threatened by land subsidence); as well as a warehouse building at its Italian site in Ascoli, which is equipped expressly for raw materials subject to the Globally Harmonized System of Classification and Labeling of Chemicals (GHS).

All of ALTANA's companies implement their occupational safety measures on the basis of the laws valid in the respective region and the international OHSAS 18001 guideline. As a result, the Group guarantees a uniform safety level worldwide. Depending on the site, moreover, sensor-supported motion detectors supplement the safety equipment. They are particularly suitable for situations in which individual employees work alone for a longer period to set off an alarm in emergencies. In 2016, such motion detectors were introduced at all three Italian ELANTAS sites.

In addition to technical equipment, mindful safety behavior adapted to the situation is playing an ever-greater role in occupational safety. With special training, campaigns, and other measures our companies have developed individual models to heighten their employees' safety awareness.

In the U.S., the EH&S managers of the three ECKART America sites perform audits jointly with the safety teams in order to establish a cross-site understanding of safety. In India, ELANTAS changed its training program such that instead of foremen specially qualified employees give their colleagues further training, and explicitly in their respective local language. In addition to this new concept, individual employees act as "safety hunters" in the company at irregular intervals and report any grievances immediately to

the management. In Brazil, a safety specialist advises and supports the three ACTEGA sites there in matters pertaining to occupational and environmental protection.

Health Management Expanded Further

The health of employees is being promoted by means of preventive action at an ever-increasing number of sites. A new measure, for instance, is the internal fitness offer of ACTEGA and ELANTAS in Spain and China.

At our Wesel site, the wide-ranging course program focusing on sports, relaxation, and nutrition was supplemented by comprehensive health checks for staff members over 40. For this workplace health promotion, BYK received an award from the Lower Rhine Chamber of Commerce and Industry (IHK) in Duisburg that is granted by the Health Minister of the North Rhine-Westphalian state government.

At many sites in Germany, annual health days have become a matter of course. The events, which employees can attend during their workday, offer medical checkups as well as information on sports and nutrition.

Environmental Key Performance Indicators Improved

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 CO₂ emissions, water consumption, and waste amounts, which have been collected since 2007, document the Group's continuous progress.

In the year under review, the Group's companies significantly improved their environmental key figures in nearly all areas. The progress made in lowering CO₂ emissions was particularly remarkable in 2016.

In the year under review, the CO₂ emissions throughout the Group were only slightly above the upper limit ALTANA defined, a value that sets the actual consumption in relation to the gross value added. This was due to the manufacturing processes in the rheology additives operations the company acquired in 2013. Owing to investments at the sites in question and to the introduction of certified environmental management systems in accordance with ISO 14001, we expect ALTANA to achieve its defined climate goals Group-wide in the future.

The overall energy consumption within the Group decreased by 7 % to around 638,900 megawatt hours in the year under review. As a result, CO₂ emissions decreased by 4 % from around 210,900 to 202,200 tons. ALTANA will determine the Group's indirect emissions arising due to energy consumption connected with product transports, business trips, and sourcing of raw materials in the next few years. Further information on the Group's CO₂ emissions is provided in the document "Sustainability Performance Indicators" on our website.

In 2016, the Group's waste amounts in relation to gross value added were below the upper limits stipulated for

the year under review. The amount of hazardous and non-hazardous waste amounted to around 19,400 tons and 8,700 tons, respectively.

Our water consumption targets could not be achieved in 2016. While at 1,274,300 cubic meters the water consumption was significantly lower than in 2015 (1,472,900 cubic meters), it exceeded the upper limit defined for the year.

Detailed environmental key figures can be found in the document "Sustainability Performance Indicators" on our website. They compare the energy consumption (differentiated according to electricity, natural gas, and coal) with the previous year and set the CO₂ emissions in relation to 2007. The key figures for water consumption and for waste (differentiated according to hazardous and non-hazardous waste), on the other hand, are set in relation to the data from 2012.

In 2016, ALTANA manufactured around 516,100 tons of finished goods and needed some 576,700 tons of raw materials to do so. More than 71 % (409,500 tons) are fossil raw materials. In addition, 19,300 tons of renewable raw materials, around 147,900 tons of non-fossil and non-renewable raw materials, and 69,700 tons of water were processed as raw material.

In 2016, 83 % of the Group's 46 manufacturing sites met the ISO 14001 standard. Ten sites have a certified energy management system in accordance with ISO 50001.

Climate Protection Thanks to Lower Emissions

The optimization of production plants makes an important contribution to improving ALTANA's environmental key figures, as the example of BYK at our U.S. site in Louisville shows. By changing the cleaning processes within the production process, the company conserves a substantial amount of water and energy. The water consumption

Environmental data ALTANA

	2015	2016	Δ %
Production of finished goods (t)	511,632	516,107	1
Energy consumption (MWh)			
Total	685,746	638,897	- 7
Natural gas	418,464	373,033	- 11
Oil	10,741	12,375	15
Coal	0	0	–
Power consumption (purchased)	251,360	252,805	1
Other energy sources ¹	5,181	684	- 87
Water (m ³)			
Total	2,487,022	2,218,211	- 11
Drinking water	1,472,924	1,274,327	- 13
Ground/surface water	1,014,098	943,884	- 7
CO ₂ emissions (t)			
Total	210,858	202,234	- 4
Internal (Scope 1) ²	93,006	83,685	- 10
External (Scope 2) ³	117,852	118,550	1
Hazardous waste (t)			
Total	18,571	19,453	5
Recycling	3,418	4,091	20
Thermal utilization	9,700	9,494	- 2
Disposal	5,453	5,869	8
Non-hazardous waste (t)			
Total	10,418	8,751	- 16
Recycling	4,324	3,807	- 12
Thermal utilization	1,080	639	- 41
Disposal	5,014	4,305	- 14
Inert waste (t)	6,559	6,064	- 8

¹ Other energy sources (e.g. energy sources to generate compressed air and other gases which are obtained externally)

² Emissions from ALTANA's own energy generation, e.g. heat generation

³ Emissions from third parties due to purchased energy, e.g. electricity

decreases by more than 30,000 cubic meters a year, the CO₂ emissions by 660 tons.

Our German sites in Wesel and Hamburg as well as our sites in Foshan (China) and Louisville (U.S.) also contribute to climate protection. At its Louisville site, ECKART was able to reduce its gas consumption after it had replaced three of its five devices for distilling white spirit with a centrifuge in 2016. The Wesel site managed to reduce its CO₂ emissions by more than 900 tons a year. Among other things, the optimization of the thermal incineration system contributed to this result. In addition, the company optimized the compressed air and nitrogen facility such that no more leaks could arise. Such leaks had been identified by the company's trainees within the framework of a so-called energy scout project.

In Hamburg, ELANTAS managed to reduce its CO₂ emissions by 370 tons a year. This was achieved, on the one hand, by improving the energy efficiency of the cooling systems. On the other hand, the thermal exhaust air cleaning system was optimized. It harnesses the exhaust heat resulting from combustion of waste gases to heat the production vessels and the buildings. At the same time, this leads to a reduction of the annual costs for the purchase of natural gas. In Foshan, ACTEGA ensured a significant reduction of VOC emissions by installing a new thermal exhaust air cleaning system.

The introduction of innovative LED technologies for lighting is another measure that will enable several Group companies to reduce electricity consumption in the future. In 2016, our Bremen, Hamburg, and Hartenstein sites in Germany, and our Chester, Gonzales, Louisville, Painesville, and Schererville sites in the U.S. made corresponding investments.

Another way of driving climate protection forward is by choosing a suitable electricity supplier. With its selection of the company that will supply electricity to the ten manu-

facturing sites in Germany from 2017 to 2019, ALTANA managed to identify a sustainable supplier. This was preceded by a Germany-wide request for proposal in which eleven companies took part. The selection criteria included the suppliers' service (20 %) as well as economic efficiency and sustainability (each 40 %). Among the sustainability criteria were the CO₂ values of the potential supplier, the share of renewable energies in its electricity mix, and its sustainability strategy.

Conserving Water

At ALTANA, water is playing an ever more important role in many manufacturing processes. In general, the Group's companies treat the resulting wastewater such that it can be fed into the sewage system or, if there is no other option, disposed of as special waste. Wherever possible, ALTANA invests in technologies that foster careful management of the valuable resource water. In 2016, the companies also made progress in this area, and their efforts will pay off in the years to come.

At its Schkopau site, BYK installed a new cooling circuit system that will curtail the use of river water by 90 % in the coming year. With the new system, the cooling capacity remains constant throughout the year. There will be a slight drawback, however, as the resulting electricity consumption will increase moderately. At their Chester and Foshan sites, BYK and ACTEGA, respectively, invested in special recycling technologies in 2016. These technologies ensure that used water can be utilized in the process of waste disposal and to clean plants, thus cutting the total water consumption. Furthermore, at the Chester site changes in the organization of production should reduce the amount of water needed to clean the production vessels.

Reducing the Amount of Waste

Reducing the Group's waste volume is another pillar of ALTANA's environmental management activities. New technologies support this goal, as shown by the example of ACTEGA in the U.S. state of North Carolina. In the year under review, ACTEGA North America tested a new method that would enable waste volumes to be cut by 75 %. In keeping with this method, the company itself would treat the wastewater arising from coatings manufacture to such an extent that it can subsequently be fed into the municipal sewer system. When the method is introduced in 2017, an external service provider will no longer be needed.

In Hamburg, ELANTAS changed the production of silicone sealants such that solvent-based cleaning is no longer necessary, reducing the Group's hazardous waste by eleven tons a year.

Another alternative is to refrain from disposing of waste that has been classified as hazardous so far, and instead to make it available to third parties for further use. Particularly suitable for this purpose are solvents that can be processed by the manufacturers into diluting agents depending on their quality. The plastics industry is a potential purchaser of certain by-products, for example toluene diisocyanate. It can use such waste as raw material. In the first half of 2016, BYK was able to utilize almost a third of its hazardous waste in this way at its Wesel, Kempen, and Emmelsum sites alone.

ALTANA's Employees: Our Most Important Asset

As a highly innovative specialty chemicals company, our most important asset is our employees. The some 6,000 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, 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.

New Processes in Human Resource Development

With the Keep Changing Agenda for the future, ALTANA has defined new milestones for the Group's human-resource strategy, among many other aspects. One of them is our target of filling 70 % of all management positions worldwide internally as of 2020.

To achieve this goal, we are harmonizing our global human resource development and the related selection processes. This development is reflected by the fact that in the future we will offer our several-months-long Development Program (DP) for management trainees only in English.

The DPs in the national languages specifically for Chinese or German employees will be included in the programs for Asia and Europe, respectively. Starting in 2017, all managers in the vast regions of Europe, Asia, and the Americas will prepare for their future positions together across countries.

With the ALTANA Management Challenge (AMC), the Group created a globally uniform assessment instrument for

selecting management trainees. The basis for the one-day presence seminar with practical examples and role play was developed in Germany and subsequently adapted by local experts to the respective regional conditions. ALTANA staged the Management Challenge for the first time in the fall of 2016 in Hong Kong with 26 applicants for the DP Asia, which will begin in 2017.

Dialog for Assessing Performance

To promote employees' professional development, ALTANA regularly implements specially developed dialogs with all employees. 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 development 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 objective-setting dialog is supplemented by a performance 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 its Keep Changing Agenda, ALTANA has also set itself the goal of increasing the number of women in leadership positions. We aim to achieve a total percentage of 30 % by 2025. In Germany, the share of women in leadership positions was 21.5 % in 2016. Owing to different hierarchical and contractual structures, ALTANA has not determined the ratio of women in companies outside of Germany.

The Leading Women@ALTANA committee, launched in 2015, is now in charge of managing the process for increasing the share of women in management in Germany. In this committee, members of the Management Board are working with managing directors, representatives of the Human Resource department, and employees on a concept for a Germany-wide mentoring program. The basis is a pilot project focusing on mentoring that seven women successfully completed in 2015. In 2016, it was continued with seven additional mentor-mentee tandems.

Support for Young Families

To enable employees to reconcile family and professional life, in Germany ECKART offers single parents and couples who both work a monthly allowance for afternoon care of elementary school children amounting to 50 euros a month. This also applies during the employee's probationary period, in cases of temporary employment contracts, and when wages are paid on sick leave. In 2016, the offer was taken advantage of in 28 cases.

Training in Labor Law

Managers with disciplinary responsibility have to have a sound knowledge of labor laws and update this knowledge at regular intervals. To this end, all ALTANA companies in Germany offered around 500 managers a one-day training session on this topic in 2016. In addition to imparting expertise on labor law and the Works Constitution Act, the training dealt with the question of which situations require that the management cooperates with the selected employee representatives in the works council.

Recruiting Via Online Channels

The target groups of interest to ALTANA recruiting communicate primarily via the Internet and mobile end devices. In 2016, ALTANA therefore added new functions and applications to the career portal on the Group's website. The pages were optimized for mobile devices such as tablets and smartphones and the overall navigation was improved. Thanks to interfaces with career networks including LinkedIn and XING, applicants can now directly load their profile onto their ALTANA application form.

With these measures, ALTANA has made the application process as simple and efficient as possible and at the same time laid the basis for integrated processing of applications and the resulting communication.

This is probably one of the reasons why in 2016 ALTANA finished in a top spot in the Career's Best Recruiters employer ranking for the fifth time in a row. In the ranking of companies in the chemical industry, the Group finished in first place, receiving 82 of 100 possible points. And it finished in 20th place in the ranking of all companies. In this independent scientific study, the recruiting activities of the 500 companies with the highest sales and largest number of employees from Germany, Austria, and Switzerland are analyzed based on 133 criteria.

ALTANA also banks strongly on digital channels when it comes to recruiting new trainees. An eight-week recruiting campaign to find new apprentices launched in the fall of 2016, in which five German-based companies took part, relies exclusively on online channels, including Facebook and Google. At the center of the campaign was information on coating technician and IT apprenticeships as well as dual education that combines vocational training with studies. In addition to ads geared to young people, parents and teachers are informed about the various apprenticeship options offered by ALTANA.

ALTANA also cooperates with universities in efforts to recruit young talent. Participation in the so-called Deutschland-stipendium – Talent meets sponsorship program initiated by the federal German government is part of this commitment. With it, every year ALTANA funds 20 students majoring in natural sciences, business, or IT. Apart from financial support, they are given the opportunity to do internships at ALTANA or to complete their degree thesis at one of the Group's sites. Seminars and workshops round off the wide-ranging mentoring program for the scholarship holders. At a meeting that takes place annually at the Group headquarters in March, they have the opportunity to meet and exchange ideas with one another and with mentors about projects and application areas.

ALTANA also continues to cooperate with Niederrhein and Rhein-Waal Universities, which are located near the Group's headquarters. In 2016, the Group agreed to cooperate even more closely with both of them on IT courses of study.

Cooperation Supports Integration of Severely Handicapped Employees

At its Vétroz site in Switzerland, ECKART gained a local workshop for the disabled as a supplier. Based on the pigment manufacturer's specifications, the employees there manufacture some 4,000 pallets a year, which ECKART needs to safely store and transport its products. Due to special requirements, mechanical manufacture of pallets is too costly and complex. So ECKART chose the workshop for the disabled as a partner, and as a result is contributing to the integration of handicapped people into the labor market.

Sustainability in Daily Life

Safety, health, and environmental protection are not only playing an ever more important role in the companies' management. Employees are also called upon to get involved in these issues – for example, in the context of the company suggestion scheme (CSS). Within the framework of the campaign "Big Ideas Wanted for Our Small Planet," employees around the world sent in some 800 suggestions for improvement, of which more than 300 were implemented. Most of them concerned occupational safety and work methods, as well as the issue of environmental protection.

Furthermore, so-called sustainability ambassadors among the employees in Germany, Italy, and China are making an important contribution to further sharpening awareness of environmental protection with their activities. At the Wesel site, for instance, a campaign was launched that informs employees about environmentally friendly and safe printing of documents. At the suggestion of the ambassadors, moreover, the company identified suppliers for ecological office materials whose products can now be ordered by staff in Germany.

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's sites. To maximize lasting impact, the company usually promotes these projects over a period of several years.

Educational Coaching of Elementary School Children

In 2016, ALTANA sponsored the so-called educational coaching of schoolchildren at the Elementary School GGS Innenstadt in Wesel for the third year in a row. Initiated by the City of Wesel and implemented by the Klausenhof Academy, the coaching helps advance 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 the last three years, ALTANA has financed the personnel and material costs for a socio-educational expert and will continue to do so in the next three years. The social education worker assigns a "personal mentor" to each child, trains the mentors, and coordinates their work. Apart from individual activities carried out by the mentors and children (for instance library visits or excursions), the educational coaching also includes group events. In 2015, one such event was a research afternoon at ALTANA where the children had the opportunity to conduct their own experiments on the topic of volcanoes with the help of

food products. Inspired by their newly acquired knowledge, the children decided to repeat this series of experiments at their school, organizing a "research day" for these experiments in 2016.

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. Over time, comparable initiatives were launched at ALTANA's sites in Widnes, Great Britain, and Grevenbroich, Germany.

In Wesel, BYK works with two elementary schools (GGS Feldmark and GGS Konrad Duden), as well as the German Red Cross (DRK) daycare center Abenteuerland in the so-called "House of Junior Researchers." The concept includes special research days with the school ambassadors. Once a year, the 300 participating children and their parents come to the ALTANA conference center to present the results of their work or experiments. In 2016, the subjects of water and communication were the focal points.

At the Widnes site, the cooperation with local schools consisted of several components. First, an employee of BYK Additives acting as a so-called governor helped sixth graders construct solar panels. Second, 90 students visited the site within the framework of their science program. And third, employees informed the students about scientific training and career possibilities at two national events (Science at Work Week and Industry Day).

In 2015, ACTEGA Rhenania employees offered pre-school children at our Grevenbroich site the chance to experiment with adhesives and paints. In 2016, they organized three seminars for tenth graders in which the latter had the opportunity to make packaging coatings themselves.

Competition for Young People

With regard to promoting students at the upper secondary level, ALTANA focused on already established cooperative ventures in 2016. For instance, the company offered a special prize in chemistry at the “Jugend gründet” (Youth Start-ups) competition last year for the second time. In addition, ALTANA participated in the Germany-wide “CEO for 1 Day” student campaign again.

In the multistage “Jugend gründet” competition, sponsored by the German Federal Ministry of Education and Research, a group from the Romain Rolland high school in Berlin won the special prize in chemistry for their “Green-Silicon” business plan, which consists of a sustainable recycling concept that would enable silicon to be economically recycled for the first time. The prize included a five-day trip to the East Coast of the U.S. during which the students visited one of the ALTANA Group’s largest research and production sites, in Wallingford at BYK USA, in the fall of 2016.

The objective of the “CEO for 1 Day” campaign is to reduce prejudices and distance between schools and business. In a first step, the school classes selected had the opportunity to get to know management board members of the participating companies in personal talks. In this framework, the CEO of ALTANA AG, Martin Babilas, answered questions posed by students at Gerresheim high school in Düsseldorf in June 2016. In a second step, the participants completed a two-day casting in the form of a professional management audit to qualify for the CEO position. From the Düsseldorf high school, Shiva Mobini-Tehrani convinced the jury of experts and exchanged her school desk for the executive chair at ALTANA for a day on November 3, 2016.

Further Training for Teachers

In 2016, ALTANA sponsored further training geared specifically to science teachers for the first time. Organized by the “Schule MIT Wissenschaft” (School MIT Science) initiative, a three-day conference in Hamburg, whose slogan was “Begeisterer begeistern” (Inspire Inspirators), enabled educators to exchange experiences and to gain new scientific knowledge. Without the support of sponsors such as ALTANA, the top-class event featuring Nobel Prize winners and several other scientists could not have been realized.

German Courses for Refugees

ALTANA supports the integration of refugees in Germany by sponsoring a concept for German language training developed by the charity organization Malteser Werke. The latter received funding of 250,000 euros from ALTANA via the relief coalition “Aktion Deutschland Hilft” (see page 40 ff.). Moreover, at the Wesel site, ALTANA donations help fund a German literacy course called into being by a local refugee aid organization in cooperation with the Wesel Volkshochschule (adult education center) and the Catholic Education Forum Wesel. The aim of the 500-hour course is to teach the participants to read and write in addition to learning the new language.

Promoting Students in Brazil and Malawi

Our cooperation with the nonprofit organization Passo Fundo e.V. has proven successful over many years. In 2016, ALTANA once again provided university scholarships for talented students who cannot afford to study, three in Brazil and two in Malawi. In exchange, the young people agree to become involved in a social project.

Voluntary Commitment

ALTANA supports employees who want to work on a volunteer basis in areas where this is meaningful and realizable. At our St. Louis site, the management promotes such commitment in daily work. For example, employees can agree to make monthly donations to United Way Worldwide each year. The money is taken from the staff members' salaries and subsequently topped up by the company. In addition, they have various options for making project-related monetary or material donations each month. The resulting contributions add up to around 500 U.S. dollars a month. The money was allocated, for example, to the local section of the American Lung Association or the American Red Cross. Some employees again helped pack food packages on the annual St. Louis World Food Day.

resistant building. Today, the elementary school students can study again in the rebuilt school with its three classrooms. They use the collected rainwater for washing their hands and for flushing the toilets, which were also completely reconstructed.

Donations for Nepal

Following the devastating earthquake in Nepal in April 2015, ALTANA Group employees donated a total of 25,000 euros, which the company doubled to 50,000 euros. ALTANA provided this money to "Aktion Deutschland Hilft" to help finance the work of the aid organization "arche noVa" in a large community consisting of nine villages in the mountains north of Kathmandu.

The aid organization used the money to rebuild Janaki elementary school in the main town, which was completely destroyed by the earthquake. Given the logistical challenge that the steep, difficult-to-access region poses regarding transport of construction material and heavy machinery, the aid organization decided to erect the building utilizing prefabricated elements used in industrial construction around the world. The comparably inexpensive sandwich panels have a number of advantages: They are easy to carry and assemble and join together into a stable, earthquake-

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Management Board Responsibility Statement

The consolidated financial statements 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 315a 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 Aktiengesellschaft 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 Annual and Sustainability Report 2016.

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 27, 2017

ALTANA AG
The Management Board



Martin Babilas



Stefan Genten



Dr. Christoph Schlünken

The independent auditor has issued the following unqualified auditors' report on the consolidated financial statements comprising the notes that are not included in this condensed version.

Independent Auditors' Report

We have audited the consolidated financial statements prepared by the ALTANA Aktiengesellschaft, Wesel, comprising the statement of financial position, the income statement and the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows, and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Cologne, Germany, February 28, 2017

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Jörg Sechser
German Public Auditor



ppa. Claudia Uhlich
German Public Auditor

ALTANA Group Consolidated Income Statement

	Notes	2015	2016
in € thousand			
Net sales	4	2,059,311	2,075,309
Cost of sales	5	(1,278,109)	(1,236,993)
Gross profit		781,202	838,316
Selling and distribution expenses	6	(274,038)	(271,341)
Research and development expenses		(128,089)	(129,328)
General administration expenses		(114,629)	(115,657)
Other operating income	7	16,066	14,062
Other operating expenses	8	(29,214)	(7,359)
Operating income (EBIT)		251,298	328,693
Financial income	9	4,648	7,741
Financial expenses	10	(15,337)	(16,367)
Financial result		(10,689)	(8,626)
Income from associated companies		(12,854)	(20,307)
Income before income taxes (EBT)		227,755	299,760
Income taxes	11	(69,737)	(89,669)
Net income (EAT)		158,018	210,091
thereof attributable to non-controlling interests		1,383	1,800
thereof attributable to the shareholder of ALTANA AG		156,635	208,291

ALTANA Group Consolidated Statement of Comprehensive Income

	2015	2016
in € thousand		
Net income (EAT)	158,018	210,091
Remeasurement of the net defined employee benefit obligation	19,174	(30,369)
Income taxes	(5,672)	8,850
Items that will not be reclassified subsequently to profit or loss	13,502	(21,519)
Translation adjustments	79,406	16,448
thereof attributable to non-controlling interests	352	104
Gains and losses from derivative financial instruments	6,317	4,865
Change in fair value of financial assets available-for-sale	17	88
Change in fair value of derivative financial instruments	(6,749)	(2,740)
Income taxes	(236)	(551)
Items that may be reclassified subsequently to profit or loss	78,755	18,110
Other comprehensive income	92,257	(3,409)
Comprehensive income	250,275	206,682
thereof attributable to non-controlling interests	1,731	1,902
thereof attributable to the shareholder of ALTANA AG	248,544	204,780

ALTANA Group Consolidated Statement of Financial Position

Assets	Notes	Dec. 31, 2015	Dec. 31, 2016
in € thousand			
Intangible assets	13	934,547	922,793
Property, plant and equipment	14	751,346	781,068
Long-term investments	15	5,223	9,564
Investments in associated companies	16	90,416	83,388
Income tax refunds		382	0
Deferred tax assets	11	21,035	22,101
Other non-current assets	21	11,407	12,118
Total non-current assets		1,814,356	1,831,032
Inventories	17	289,048	294,572
Trade accounts receivable	18	334,320	347,602
Income tax refunds		9,847	11,768
Other current assets	21	85,291	83,546
Marketable securities	19	9,509	15,987
Short-term financial assets	20	0	92,890
Cash and cash equivalents		422,106	375,606
Assets held for sale		0	853
Total current assets		1,150,121	1,222,824
Total assets		2,964,477	3,053,856

Liabilities, provisions and shareholders' equity	Notes	Dec. 31, 2015	Dec. 31, 2016
in € thousand			
Share capital ¹		136,098	136,098
Additional paid-in capital		151,276	151,276
Retained earnings		1,498,417	1,625,205
Accumulated other comprehensive income		142,605	160,597
Equity attributable to the shareholder of ALTANA AG		1,928,396	2,073,176
Non-controlling interests		7,233	9,005
Shareholders' equity	22	1,935,629	2,082,181
Non-current debt	24	286,015	192,765
Employee benefit obligations	25	193,799	229,930
Other non-current provisions	26	22,151	20,574
Deferred tax liabilities	11	107,505	96,860
Other non-current liabilities	27	23,965	24,062
Total non-current liabilities		633,435	564,191
Current debt	24	65,986	36,136
Trade accounts payable		148,760	171,813
Current accrued income taxes		31,536	38,977
Other current provisions	26	90,891	111,866
Other current liabilities	27	58,240	48,691
Total current liabilities		395,413	407,483
Total liabilities, provisions and shareholders' equity		2,964,477	3,053,856

¹ Share capital consists of 136,097,896 non-par value shares.

ALTANA Group Consolidated Statement of Changes in Shareholders' Equity

	Share capital issued			Retained earnings	
	Number of shares	Share capital	Additional paid-in capital	Retained earnings	Remeasurement of the net defined employee benefit obligation
in € thousand					
Balance at Jan. 1, 2015	136,097,896	136,098	151,276	1,491,705	(103,431)
Comprehensive income				156,635	13,508
Dividends paid				(60,000)	
Balance at Dec. 31, 2015	136,097,896	136,098	151,276	1,588,340	(89,923)
Comprehensive income				208,291	(21,503)
Dividends paid				(60,000)	
Balance at Dec. 31, 2016	136,097,896	136,098	151,276	1,736,631	(111,426)

	Accumulated other comprehensive income			Equity attribut- able to the shareholder of ALTANA AG	Non-controlling interests		
	Financial assets available- for-sale	Derivative financial instruments	Translation adjustments		Shareholders' equity	Translation adjustments	Shareholders' equity
	108	(2,622)	66,718	1,739,852	8,022	(2,395)	1,745,479
	8	(302)	78,695	248,544	1,377	354	250,275
				(60,000)	(125)		(60,125)
	116	(2,924)	145,413	1,928,396	9,274	(2,041)	1,935,629
	41	1,487	16,464	204,780	1,784	118	206,682
				(60,000)	(130)		(60,130)
	157	(1,437)	161,877	2,073,176	10,928	(1,923)	2,082,181

ALTANA Group Consolidated Statement of Cash Flows

	Notes	2015	2016
in € thousand			
Net income (EAT)		158,018	210,091
Depreciation and amortization of intangible assets and property, plant and equipment	13, 14	128,090	124,327
Impairment of intangible assets, property, plant and equipment and assets held for sale	13, 14	11,545	0
Net result from the disposal of intangible assets and property, plant and equipment	7, 8	892	818
Net result from the disposal of product groups and subsidiaries		0	(82)
Change in inventories	17	(72)	(5,410)
Change in trade accounts receivable	18	22,694	(13,359)
Change in income taxes	11	(11,276)	(3,241)
Change in provisions	25, 26	15,251	24,385
Change in trade accounts payable		20,916	19,925
Change in other assets and other liabilities	21, 27	(12,341)	(460)
Other		12,377	19,668
Cash flow from operating activities		346,094	376,662
Capital expenditure on intangible assets and property, plant and equipment	13, 14	(85,561)	(122,071)
Proceeds from the disposal of intangible assets and property, plant and equipment	13, 14	2,349	1,052
Acquisitions, net of cash acquired	3	(41)	(14,647)
Proceeds from the disposal of product groups and subsidiaries		0	18,281
Purchase of long-term investments and investments in associated companies	15, 16	(53,346)	(18,353)
Proceeds from the disposal of long-term investments	15	73	82
Purchase of marketable securities	19	(12,933)	(19,859)
Proceeds from the disposal of marketable securities	9, 10	8,794	13,761
Change in short-term financial assets		0	(92,542)
Cash flow from investing activities		(140,665)	(234,296)

	Notes	2015	2016
in € thousand			
Dividends paid		(60,125)	(60,130)
Repayment of long-term debt	24	(927)	(61,247)
Net increase/decrease in short-term debt	24	(2,031)	(64,023)
Cash flow from financing activities		(63,083)	(185,400)
Effect of exchange rate changes		2,632	(3,466)
Change in cash and cash equivalents		144,978	(46,500)
Cash and cash equivalents as of January 1	2	277,128	422,106
Cash and cash equivalents as of December 31	2	422,106	375,606
Additional information on cash flows included in the cash flows from operating activities			
Income taxes paid		(90,031)	(103,373)
Interest paid		(5,555)	(5,983)
Income taxes received		8,931	13,386
Interest received		2,641	5,263
Dividends received		702	952

Reference to the Notes to the Consolidated Financial Statements

The complete notes to the Annual and Sustainability Report 2016 are provided online at www.altana.com/consolidated_financial_statements_2016.

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Multi-Year Overview

Key figures at a glance

	2007	2008	2009	2010
in € million				
Sales	1,380.4	1,341.7	1,181.7	1,535.4
Earnings before interest, taxes, depreciation and amortization (EBITDA)	248.5	242.9	208.4	314.1
<i>EBITDA margin</i>	18.0%	18.1%	17.6%	20.5%
Operating income (EBIT)	166.6	170.3	53.5	230.2
<i>EBIT margin</i>	12.1%	12.7%	4.5%	15.0%
Earnings before taxes (EBT)	214.3	158.7	39.0	218.2
<i>EBT margin</i>	15.5%	11.8%	3.3%	14.2%
Net income (EAT)	138.4	103.4	11.0	152.3
<i>EAT margin</i>	10.0%	7.7%	0.9%	9.9%
Research and development expenses	67.4	72.1	70.6	82.0
Capital expenditure on property, plant and equipment and intangible assets	91.4	107.9	54.0	73.8
Cash flow from operating activities	169.4	204.5	224.6	238.6
<i>Return on Capital Employed (ROCE)</i>	9.8%	9.4%	7.6%	12.2%
ALTANA Value Added (AVA)	24.5	20.2	(5.4)	64.2
Total assets (Dec. 31)	1,724.8	1,749.6	1,707.8	1,943.6
Shareholders' equity (Dec. 31)	1,139.4	1,178.4	1,177.6	1,364.2
Net debt (-)/Net financial assets (+) ¹ (Dec. 31)	(108.5)	(99.3)	(55.0)	79.7
Headcount (Dec. 31)	4,646	4,791	4,789	4,937

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

Sales by division

	2007	2008	2009	2010
in € million				
BYK Additives & Instruments	445.1	450.5	419.9	541.2
ECKART Effect Pigments	362.9	350.7	282.3	356.6
ELANTAS Electrical Insulation	350.8	326.5	272.7	377.4
ACTEGA Coatings & Sealants	221.6	214.0	206.8	260.2

Sales by region

	2007	2008	2009	2010
in € million				
Europe	678.0	664.8	555.1	683.7
<i>thereof Germany</i>	239.6	231.0	188.0	234.5
Americas	330.6	305.9	267.7	361.5
<i>thereof U.S.</i>	222.5	203.7	178.4	242.0
Asia	329.7	325.7	317.9	439.0
<i>thereof China</i>	162.1	152.9	164.3	224.2
Other regions	42.1	45.3	41.0	51.2

Change in country allocation as of 2012

	2011	2012	2013	2014	2015	2016
	1,616.7	1,705.3	1,765.4	1,952.3	2,059.3	2,075.3
	308.0	323.2	335.7	397.4	390.9	453.0
	19.1 %	19.0 %	19.0 %	20.4 %	19.0 %	21.8 %
	217.0	226.9	229.1	267.7	251.3	328.7
	13.4 %	13.3 %	13.0 %	13.7 %	12.2 %	15.8 %
	207.7	217.2	212.6	251.8	227.8	299.8
	12.8 %	12.7 %	12.0 %	12.9 %	11.1 %	14.4 %
	147.5	154.7	151.6	179.2	158.0	210.1
	9.1 %	9.1 %	8.6 %	9.2 %	7.7 %	10.1 %
	87.7	102.3	109.4	113.9	128.1	129.3
	93.5	89.8	94.3	90.4	85.6	122.1
	170.0	274.5	258.8	298.2	346.1	376.7
	11.2 %	10.8 %	9.9 %	10.3 %	10.1 %	11.6 %
	53.2	50.0	38.7	51.9	49.2	83.3
	2,001.9	2,121.3	2,546.0	2,756.2	2,964.5	3,053.9
	1,417.1	1,498.2	1,565.6	1,745.5	1,935.6	2,082.2
	(26.8)	68.2	(303.6)	(280.1)	(114.2)	25.7
	5,313	5,363	5,741	6,064	6,096	5,967

	2011	2012	2013	2014	2015	2016
	581.9	618.4	691.5	856.7	870.0	909.1
	346.8	340.5	334.6	332.2	349.7	361.9
	390.9	412.5	414.6	431.2	463.2	452.1
	297.0	333.9	324.7	332.1	376.4	352.2

	2011	2012	2013	2014	2015	2016
	740.8	751.7	745.2	795.1	795.6	798.6
	258.5	266.1	262.4	276.7	269.8	263.2
	373.3	412.0	438.4	527.1	607.1	587.2
	243.2	268.4	289.5	365.0	416.1	398.8
	447.7	509.6	547.4	593.0	618.9	652.3
	228.5	252.5	287.8	309.8	315.6	336.0
	54.9	31.9	34.3	37.0	37.7	37.2

Global Compact: Communication on Progress (COP)

By participating in the U.N. 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, 90–91	Compliance Management System, occupational safety, women in leadership positions
Principle 2 Make sure that they are not complicit in human rights abuses	7, 11	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	11; GRI Index G4-11 (online document)	Compliance Management System
Principle 4 The elimination of all forms of forced and compulsory labor	7, 11	Compliance Management System
Principle 5 The abolition of child labor	7, 11	Compliance Management System, support of education initiatives
Principle 6 The elimination of discrimination in respect of employment and occupation	7, 11	Compliance Management System, training, sustainability assessments and audits, surveys
Environment		
Principle 7 Businesses should support a precautionary approach to environmental challenges	72–78, 85–88	Sustainable product development, energy and environmental management systems, environmental key performance indicators system with targets
Principle 8 Undertake initiatives to promote greater environmental responsibility	20–43, 85–88	Process optimizations, technical updates, programs and targets
Principle 9 Encourage the development and diffusion of environmentally friendly technologies	77–78	Alternatives to critical materials, product innovations
Anti-Corruption		
Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery	8, 11	Compliance Management System, training, audits and performance indicators

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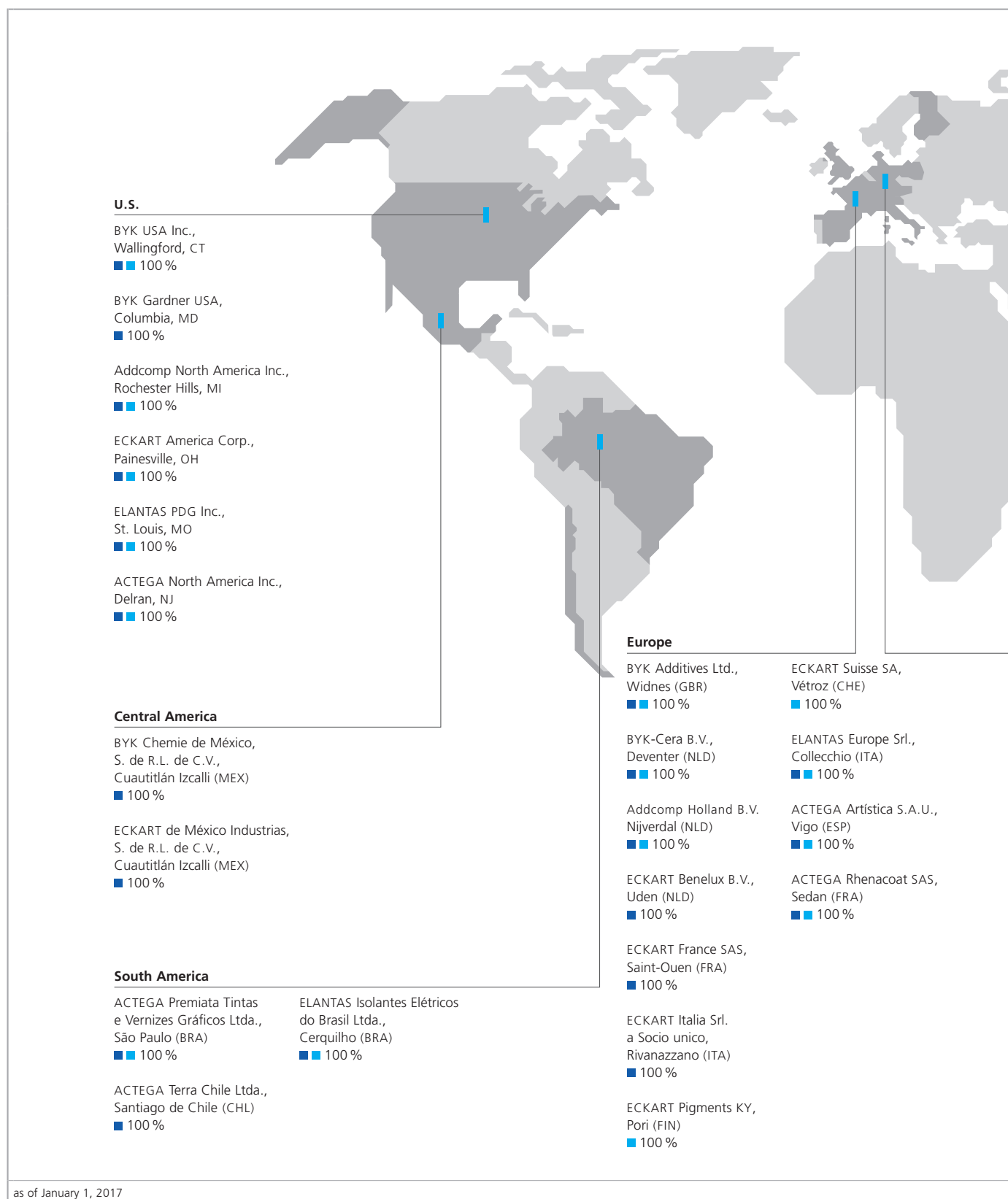
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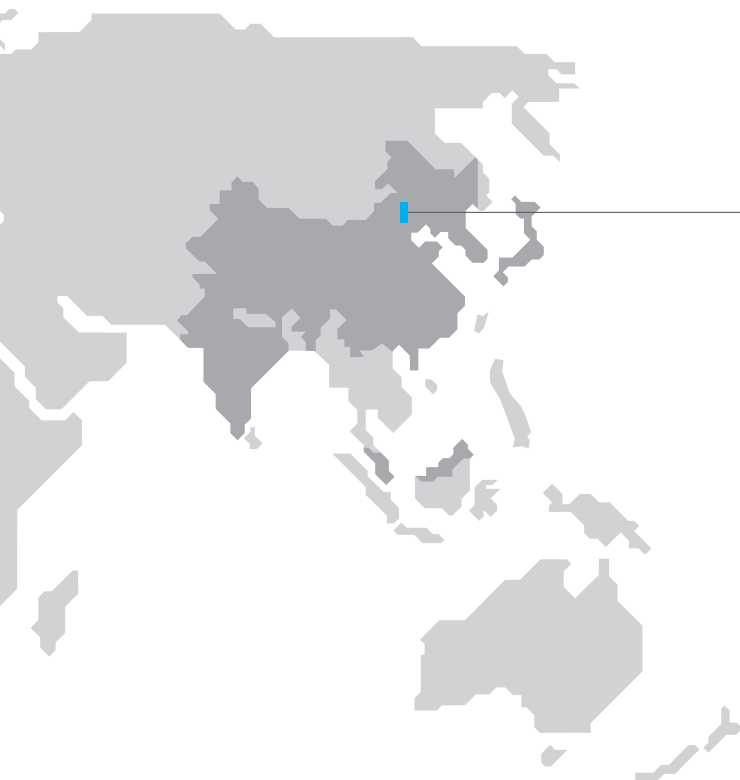
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