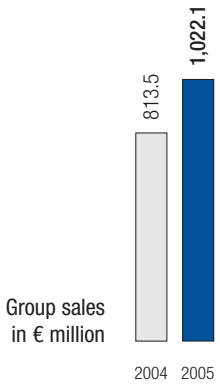
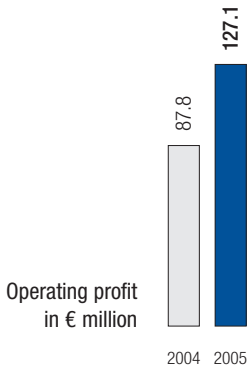
STADA
Arzneimittel

The Health Company

2005

Annual Report 2005





Key figures for the Group in € million	2005	2004	± %	
Sales	1,022.1	813.5	+26%	
Sales in core segments, total	975.7	772.6	+26%	
• Generics	739.0	608.3	+21%	
• Branded Products	211.4	139.6	+51%	
• Specialty Pharmaceuticals	25.2	24.7	+2%	
Operating profit	127.1	87.8	+45%	*adjusted for one-time special effects from the closing of the LipoNova/ Reniale® project*
EBITDA (Earnings before interest, taxes, depreciation and amortization)	161.2	122.7	+31%	*+42%*
EBIT (Earnings before interest and taxes)	107.1	88.2	+21%	*+44%*
EBT (Earnings before taxes)	97.5	77.6	+26%	*+52%*
Net income[1]	51.6	48.5	+6%	*+41%*
Cash flow (gross)	109.9	81.3	+35%	
Equity capital	684.8	639.0	+7%	
Capital expenditure	207.1	82.1	+152%	
Depreciation/amortization	54.1	34.5	+57%	
Average number of employees	3,892	2,586	+51%	

Key share data	2005	2004	± %	
Market capitalization in € million (year-end)	1,479.3	1,061.9	+39%	
Year-end closing price (XETRA®) in €	27.65	19.89	+39%	
Number of shares (year-end)	53,500,300	53,390,820	0%	*adjusted for one-time special effects from the closing of the LipoNova/ Reniale® project*
Average number of shares (without own shares)	53,317,303	53,348,910[2]	0%	
Basic earnings per share in €[3]	0.97	0.91[2]	+7%	*+42%*
Diluted earnings per share in €[4]	0.91	0.88[2]	+3%	*+38%*
Dividend per share in €	0.39[5]	0.39	0%	
Total dividend payments in € million	20.8[5]	20.8	0%	

1) Unless otherwise stated, "net income" in this report refers to income attributable to the shareholders' stake in STADA Arzneimittel AG, which under IFRS also represents the basis for calculating earnings per share and diluted earnings per share.

2) Adjusted for the de facto 1:1 stock split on July 30, 2004.
3) According to IAS 33.10.
4) According to IAS 33.24.
5) Proposed.

STADA AT A GLANCE

STADA – The Health Company

- In focus: Products with off-patent active ingredients ("multisource products")
- Growth: Average 2001 to 2005: sales +18% p.a., operating profit +35% p.a.
- Core segments: Generics (72% of sales), Branded Products (21% of sales), Specialty Pharmaceuticals (2% of sales)
- International sales infrastructure
- Extensive product development expertise
- High degree of flexibility in procurement and production
- Successful management of internal and external growth

2005: Surpassing one billion Euros in sales

- Sales (€ 1,022.1 million, +26%) – nearly doubled in four years
- Disproportionate growth of international sales +35% (57% of sales)
- Group-wide 380 new product introductions
- Successful acquisitions, e.g. Nizhpharm (Russia), Ciclum Farma (Portugal) and package of branded products (e.g. Mobilat®)
- Operating profit: € 127.1 million (+45%); operating profit margin 12.4 % (previous year 10.8%)
- Increase in net income despite heavy burden of special effects by +6% to € 51.6 million (adjusted for one-time special effects from the closing of the LipoNova/Reniale® project by +41%)
- Executive Board recommends same dividend for 2005 as in the previous year

Perspectives

- Sustainable growth potential (due, among other things, to increasing generics penetration and numerous patent expirations)
- Unaltered challenges (due, among other things, to regulations and competition)
- Further expansion of international sales structures
- Strong product development with full pipeline
- Further pursuit of the active acquisitions policy
- Continuation of the long-term growth and a disproportionate increase in earnings

STADA – ANNUAL REPORT 2005

STADA – The Health Company

STADA 2005 Consolidated Financial Statements: Management Report of the Executive Board

STADA 2005 Consolidated Financial Statements: Further Details

Additional Information

LETTER TO SHAREHOLDERS

Dear shareholders,

At first glance, STADA's business model appears simple: Thanks to our strong operative alignment we are able to convert the structural growth potential of those health care market segments on which we have been focusing for years, that means generics in particular, into sustainable growth.

This is our long-term formula for success which once again proved itself in 2005. Sales again increased strongly, by 26%. Thus, STADA for the first time crossed the billion-Euro barrier, nearly doubling Group sales within only four years. This was a result of both the organic growth of sales by 17%, as well as our successful acquisitions, for example in Russia and in Portugal. With an increase of 35%, our international business was a substantial growth driver, now constituting 57% of sales.

The significant increase in sales also positively influenced STADA's earnings strength. In fiscal year 2005, operating profit increased by 45% compared to the previous year. Despite the detrimental one-time special effects, net income still grew by 6%.

In my opinion, the results of fiscal year 2005 clearly demonstrate the "strong operative alignment" of STADA. This seemingly simple formula is actually derived – possibly much more than some of you would expect from a pharmaceutical company focused on generics – from our very specialized expertise. In other words: Our success is based on STADA's many employees and their long years of experience, good connections, creative ideas and dedicated work. More than many other businesses, the generics sector is a so-called "people's business", that is, a business that does not primarily rely on a specific technology but rather on the abilities and efforts of employees – whether in product development, approval or sales, or whether the top management, specialized departments, production or sales force.

It is therefore not merely an empty phrase when I emphasize that our successes primarily based on the strong performance of our employees, whom, in the name of the entire Executive Board I would like to thank very much. Of course, I would also like to thank the Supervisory Board and the Advisory Board for their constructive cooperation.

Incidentally, the individual efforts of our employees have also received outstanding external recognition – and I am not referring to our stock price, which by the way has grown in 2005 by a pleasing 39%.

I am rather referring to important awards that were received by STADA employees or STADA subsidiaries. For example, in 2005 Andrey Mladentsev, General Manager of our Russian subsidiary Nizhpharm, has for the second time received the Pharmaceutical Manager of the Year award in his home country. Our newly acquired Portuguese subsidiary Ciclum Farma also fits well into this picture as it has been chosen as the pharmaceutical company of the year. In Germany, STADA received three awards at the "BestPersAward 2005" competition, including first place in the "employee management" category.

As shareholders, you are primarily interested in the question whether our past and present formula for success will continue to bear fruit in the future. Or will STADA have to change major components of its strategy and operative alignment, for example by considering different or additional business focuses or even seeking the backing of a larger partner?

As members of the Executive Board we regularly and carefully consider these central strategic issues. To date, we have always come to the conclusion that our proven formula for success can remain valid in the future.

Of course, every now and then we will face regulations or increased price competition in individual national markets. This is unavoidable for a company active in the health care market.

But we believe that we must not let this distract us from STADA's big picture. This consists of our clear strategic positioning in growth markets and our strong operative alignment, i.e. our market experience and market proximity in its full international scope, coupled with our profound experience in the areas that are decisive to our business success such as product development, approval, procurement and production, and the high degree of individual commitment of our employees.

This big picture of STADA is the source of our optimism. We have every opportunity to carry on with our robust operative growth on our own, resulting in an above-average increase of income in relation to sales in the coming years. This is the basis of a continued and sustained increase in value of your company – the STADA Arzneimittel AG.

Hartmut Retzlaff
Chairman of the Executive Board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STADA – THE HEALTH COMPANY

STADA STRATEGY

Concentration on growth markets with earnings potential

For many years, STADA has been following a successful growth course. A key factor of this success is our concentration on selected segments of the global pharmaceutical market and associated fields of the health care market that show clear growth and earnings potential. In accordance with STADA's strategic positioning "STADA – The Health Company", the Group has been focussing on the core segments Generics, Branded Products and Specialty Pharmaceuticals. Due to cost and risk aspects, STADA deliberately does not conduct any research on new active ingredients for pharmaceutical products, but focuses on off-patent active ingredients, so called "multisource products," that are readily available. This strategic positioning allows STADA to offer the majority of its products at low prices, namely generics.

International sales network

An essential component of STADA's business model is its comprehensive international network of local sales companies – because having an actual presence in a national market is the only way to fully benefit from the growth opportunities it offers. STADA's network of individual sales companies, each with a high degree of own responsibility, enables the company to accommodate particular variations in structural conditions of the individual national health care markets rapidly.

Experienced product development

A core competency of STADA is its many years of experience in product development. In addition to its own expertise, the company also takes advantage of a network of international partners. In this connection it is crucial to be cost effective and be able to achieve a timely coordination of development activities with due regard to the applicable commercial property rights. Particularly in the field of generics, it is very important to introduce new products promptly after the expiration of the respective commercial property rights. STADA has proven its ability to control such processes by launching several hundred products every year.

Cost-conscious procurement and production

To date, for flexibility, capital allocation and cost reasons, STADA's business model does not include the production of raw materials and particularly of active ingredients. These are instead procured globally. In the area of pharmaceutical production[1)], in addition to its own production sites, STADA also deliberately employs external contract manufacturers if they can produce the products at lower costs.

1) Pharmaceutical production: Conversion of the medical ingredient into a medication, e.g a pill.

Lean and flexible Group structures

STADA has always placed value on lean and flexible Group structures that allow it to operate very cost-effectively. Within the framework of ongoing cost optimization, the focus continues to be on the areas of procurement and production with the goal of further optimizing cost of sales.

Active acquisitions policy

In addition to the organic Group growth, the expansion of business activities through selected acquisitions is an essential driver of STADA's successful growth course. The Group can rely on its many years of experience in selecting suitable acquisition objects and on its proven expertise in successfully integrating acquired companies and products into its existing activities.

Unaltered Group strategy

The Group strategy was highly successful in the past few years, not only resulting in substantial sales and earnings growth, but also in a sustained increase in company value. The Executive Board therefore sees no necessity to introduce major strategic alterations. Instead, STADA will adhere to its consistent and sustained Group strategy, to be able to continue with the successful growth course of recent years.

STADA SEGMENTS

Generics

The growing generics market

Contributing 72.3% to sales (previous year: 74.8%), Generics remain by far STADA's largest core segment. According to the Group's definition, generics are drugs which, after the expiration of the patent or other relevant commercial property rights, are offered at the same quality but for lower prices than products of an initial supplier having the same active ingredient.

In view of the extremely high financial pressure that burdens the respective public health care systems in individual national markets, generics have high and structurally based long-term growth potential. This is because generics allow, in many indication areas, effective and at the same time low-cost therapy. Generics have additional growth potential from the continuous expiration of patents or other relevant commercial property rights.

A study published in 2005 by Pro Generika[1)] conducted by the consulting firm Accenture[2)] highlights the tremendous importance of generics as the basis of high-quality and at the same time economical pharmaceutical supply. According to the calculations of this study, prescribing generics generates savings of around € 2.8 billion in Germany every year. According to STADA's own calculations, in 2005 generics of the STADA group alone generated savings of around € 245 million[3)], when comparing the prices of the generics distributed by STADA in 2005 with the prices of products from initial suppliers.

The growth potential of the generics markets is certified by historical data as well as prognosis. Overall, in the years 2001 to 2005, the average annual growth rate of the global generics market was approx. 12%[4)]. According to estimates, in 2005 generics had a market share of approx. 8%[4)] of the global pharmaceutical market. In most European markets, in 2005 as in the previous year, generics again grew disproportionately in relation to the overall pharmaceutical market. In Germany, Europe's largest pharmaceutical market, with the highest market share of generics of approx. 23.1%, the approx. 11% growth of generics in 2005 was higher than the overall growth of the German pharmaceutical market of approx. 9%.[5)]

1) Pro Generika e.V., Berlin, is the trade association of the generic suppliers in Germany. It represents the interests of the generics supplier in Germany.
2) Accenture GmbH, Kronberg, "The impact of the generics industry on the health supply in Germany".
3) On the basis of pharmacy prices including V.A.T.
4) STADA estimates on the basis of data from IMS Health (worldwide provider of information services for the pharmaceutical industry) for the worldwide largest generics markets. The market data on generics fluctuate (in some cases substantially) due to differing market definitions from source to source.
5) Source: IMS Health.

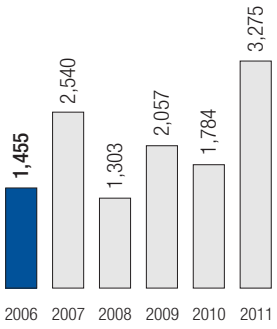
Generics in the EU in 2005[1]

Market	Total pharmaceutical market in € million	Change from previous year in %	Generics market volume in € million	Change from previous year in %	Generics market share[2]
Germany	21,970	+9	5,070	+11	23.1%
France	19,270	+6	1,330	+29	6.9%
UK	12,050	-4	2,390	0	19.8%
Italy	11,640	0	350	+45	3.0%
Spain	8,370	+6	480	+19	5.7%
The Netherlands	4,290	+6	780	+7	18.2%
Belgium	2,750	+2	200	+30	7.3%
Sweden	2,750	+5	255	+10	9.3%
Portugal	2,300	+5	230	+42	10.0%
Finland	1,730	+7	315	+8	18.2%
Austria	1,690	+4	150	+29	8.9%
Denmark	1,500	+9	230	+5	15.3%
Ireland	1,250	+12	63	+18	5.0%
Czech Republic	1,335	+15	665	+15	49.7%

Continued positive forecasts for generics

For the time period between 2005 and 2010, average annual growth of the worldwide pharmaceutical market of approx. 5% to 8% can be thereby expected in accordance with prognosis. The average annual growth rate for the global generics market can be thereby estimated at approx. 13% to 17%.[3]

Newly-available sales volumes for generics marketing in the four countries Germany, UK, France and Italy, in € million[4]



This predicted strong expansion is expected to be based on the continued market penetration of generics in many national markets as well as additional growth impulses from the expiration of commercial property rights (especially patents) of initial supplier products.

The volume of expiring patents or other commercial property rights in the EU's four top-selling pharmaceutical markets Germany, United Kingdom, France and Italy alone is predicted to reach around € 12.4 billion by the year 2011.[4] Thereby, commercial property rights within the EU expire on different dates.

1) Source: STADA estimate based on market data provided by various international market research institutes (at ex-factory prices).
2) In terms of total pharma market.
3) STADA estimates on the basis of data from IMS Health (worldwide provider of information services for the pharmaceutical industry) for the worldwide largest generics markets. The market data on generics fluctuate (in some cases substantially) due to differing market definitions from source to source.
4) Source: STADA estimate of 2004 sales volumes at ex-factory prices for active ingredients for which STADA, from today's perspective, expects expiration of patents or other commercial property rights relevant for generics competition by 2011, based on data provided by various international market research institutes. Note: STADA's expectations as to the date of availability of active ingredients for generics competition are continuously being reviewed from a legal perspective and may in future significantly differ from today's (as of March 1, 2006) expectations as expressed in this graph. The actual sales volumes becoming available for generics competition at the respective dates are subject to fluctuations as a result of changing market success, legal situations or market structures, among other factors.

For example, the company could not market its second-strongest selling active ingredient Simvastatin in France until 2005, even though it had been introduced in Germany in 2003. In Italy, the applicable commercial property rights for Simvastatin do not expire until 2007. This example shows that STADA still has significant launch potentials for active ingredients it is already marketing in individual national markets.

Even in Germany, by international comparison with a high generics penetration as measured by sales of approx. 23.1 % of the total pharmaceutical market and approx. 60.3 % of the generics-capable market,[1] progressive penetration still provides growth opportunities. According to a study, published in 2005 by Pro Generika[2] conducted by the consulting firm Accenture[3], in Germany in 2004 on top of the actually achieved cost savings from the use of generics, an additional approx. € 1.1 billion could have been saved if the full extent of the savings potential of generics had been used.[4] These savings potentials and thus additional growth opportunities for generics exist in other countries as well, especially those in which the generics penetration is still historically low such as France and Spain.

In fact, generics have significant growth potential stemming from the extreme financing pressures on the respective social security systems in the individual national markets. However, generics are also price-sensitive market segments. This is apparent in the USA for example. There the local STADA sales company is experiencing high margin and price pressure due to be intense competition at the moment. Furthermore, generics can be subject to regulatory measures for cost savings in all markets. For example, in France as of February 1, 2006 within the framework of a comprehensive package of regulatory measures, among other things, prices for generics have been cut by 15%. Also in Germany health policy measures[5] affecting generics will be introduced likely in the second quarter of 2006. The large number of detail-oriented individual regulations make it difficult to assess whether these measures will stimulate and/or burden the generics business, especially since some regulations can only be assessed once the competitive market reactions have become apparent a few months after they are introduced.

Principally, STADA aims to balance out such risks in individual national markets by its market proximity and international Group structure. In addition, STADA counters the margin pressure that is typical of the generics market segment with continuous cost optimization measures.

Despite the challenges in the individual national health markets, STADA expects the Group's Generics core segment, with its strong positioning in the most crucial European generics markets, to continue to benefit from the large structural growth potentials for generics in many of these national markets, thus benefiting the Group as a whole.

1) Source: IMS Health.
2) Pro Generika e.V., Berlin, is the trade association of the generic suppliers in Germany. It represents the interests of the generics supplier in Germany.
3) Accenture GmbH, Kronberg, "The impact of the generics industry on the health supply in Germany".
4) Source: Pro Generika, Press release dated August 9, 2005.
5) AVWG: Economic Optimization of Pharmaceutical Care Act.

Strengthening the Generics business through acquisitions

In fiscal year 2005, STADA was able to expand its generics business through the acquisition of the Portuguese generics manufacturer Ciclum Farma (see "Management Report of the Executive Board – Acquisitions 2005"). In addition, the purchase of the Russian pharmaceutical company Nizhpharm, with generics constituting approx. one-third of the products in its portfolio, also strengthened this core segment (see "Management Report of the Executive Board – Acquisitions 2005"). The Group plans to continue to expand the generics sector through further acquisitions in the future.

Branded Products

Well-known branded products

Branded Products contributed 20.7% to sales (previous year: 17.2%), again constituting STADA's second-largest core segment. According to the Group's definition, branded products are drugs or health care products that the Group offers under a product-specific brand name and that – unlike generics – are positioned by their brand, not by their price. In this core segment, too, STADA concentrates on multisource products that are accessible without own active ingredient research.

The branded product portfolio includes primarily nationally-oriented so-called non-prescription over-the-counter (OTC) products, but in some national markets also prescription drugs.

Since the positioning of branded products depends less on price, the competitive situation is largely determined by marketing and sales activities that substantially influence the operating margins.

Strengthening the branded products business through acquisitions

In 2005, STADA was able to considerably strengthen its branded products business by the acquisition of the Russian pharmaceutical company Nizhpharm. Nizhpharm's product portfolio consists primarily of branded products with off-patent active ingredients for various strategically chosen indications (see "Management Report of the Executive Board – Acquisitions 2005").

In addition, the branded products sector was expanded in late 2005 by the acquisition of a package of eleven European branded products, the best known brands of which include Mobilat® and Hirudoid® (see "Report of the Executive Board – Acquisitions 2005"). Also in the future, STADA intends to further expand the Group's Branded Products segment by targeted acquisitions.

Specialty Pharmaceuticals

Focus on oncology products

Specialty Pharmaceuticals are STADA's third and currently smallest core segment. Contributing 2.5% to sales (previous year: 3.0%) it remains in the expansion phase.

STADA focuses on multisource products in this segment as well. Specialty Pharmaceuticals of the Group include products that have specific market entry barriers, indication areas, or marketing and sales requirements. As this core segment includes drugs for cancer therapy, so-called oncology products, for which the initial therapeutic decision is often made in specialized hospitals, it requires a high level of scientific support of sales activities.

Promising development projects

In cooperation with external development partners and financed by venture capital, STADA's Specialty Pharmaceuticals segment is developing biogenerics (also known as biosimilars), i.e. generics of active ingredients that are produced biopharmaceutically by means of genetically modified cell lines (see "Product Development" as well as "Management Report of the Executive Board – Acquisitions 2005"). As marketing these products requires similar specialized sales structures as oncology products, they probably will be integrated following their introduction, likely in 2007, into the Specialty Pharmaceuticals segment.

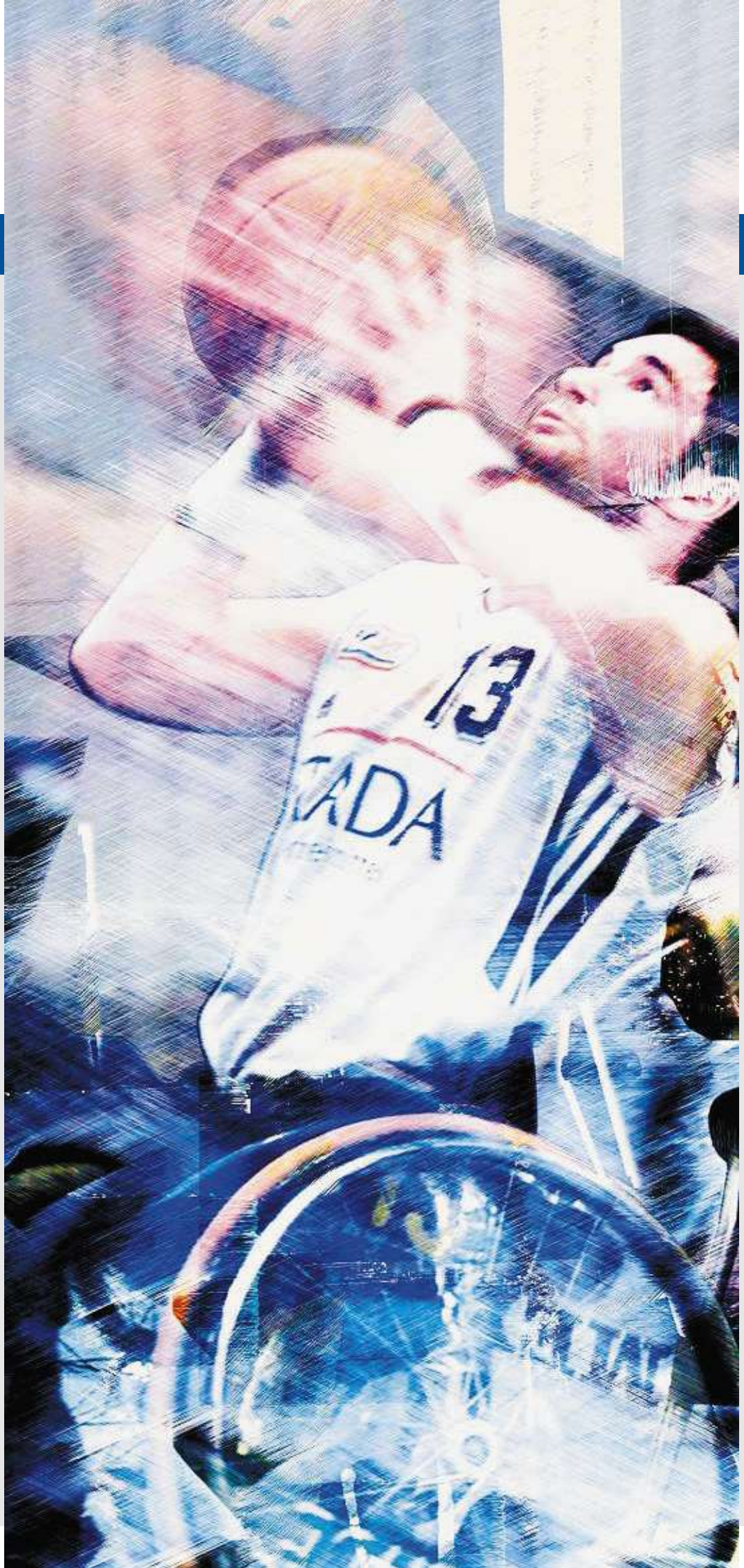
The ongoing approval and development projects provide STADA today with promising growth opportunities in the Specialty Pharmaceuticals segment as well.

Non-core Activities

Contribution of non-core activities

Once again in 2005, with a total of € 46.4 million (previous year: € 40.9 million) STADA's non-core activities had only a small contribution to overall sales. Non-core activities primarily include commercial businesses that STADA carries out in individual countries due to specific market structures. Their aim is to support marketing activities in the individual core segments.

STADA continuously examines its non-core activities to determine whether they contribute positively to the core segment business at least in the medium term. If this is not the case, they are possibly restructured, reduced or sold.


13
ADA

OPERATIVE ALIGNMENT

Employees

STADA employees significantly contribute to the Group's success. Their experience, competence and commitment are the base of the Group's strong operative alignment. The employees therefore are the actual pillars of the Group's business success.

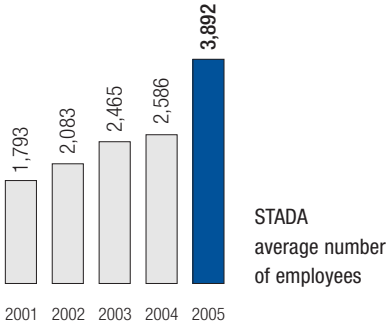
To develop and secure employees as a success factor in the future, STADA applies modern personnel management methods. Personnel management encompasses all of employee recruitment and selection as well as employee support and development within the operational organization.

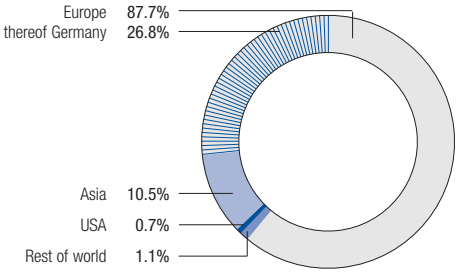
In line with its flexible and lean organizational structure, the Group's employee management is also largely decentralized. This is especially true of the international subsidiaries that mainly operate independently within company guidelines, particularly in the area of recruitment and qualification measures. Background information regarding the personnel policy of the Group companies that are located in Bad Vilbel are published in the annual personnel and social report, which can be found on the STADA website at www.stada.de and/or www.stada.com.

STADA's employee activities also received external recognition. At the "BestPersAward 2005" competition STADA was awarded first place in the "Employee Management" category. In addition, it was awarded second place in both "Communication" and "Work Life Balance."

In fiscal year 2005 the number of STADA employees increased further, in particular as a result of the acquisition of the Russian pharmaceutical company Nizhpharm at the beginning of the year 2005.

In the reporting period, STADA had an annual average of 3,892 employees (previous year: 2,586). In Germany, the Group employed 1,042 individuals (previous year: 1,036), while abroad it had 2,850 employees (previous year: 1,550).





Employees by region in 2005

The breakdown of the personnel structure by area of operation reveals 39% of employees active in sales and marketing (previous year: 54%), which continues to reflect STADA's strong orientation towards market and growth. In the area of production, the number of employees in 2005 reached 35% (previous year: 20%) primarily a result of the acquisition of Nizhpharm. In the reporting period, 14% of employees worked in administration (previous year: 14%) and 6% (previous year: 7%) in development, while 6% of STADA's employees worked in logistics (previous year: 6%).

Average number of employees in 2005

	Total	Sales/ Marketing	Production	Logistics	Development	Administration
Belgium	97	76			6	15
China	90	70		3	2	15
Denmark	16	2		8		6
Germany	1,042	483	190	91	99	179
France	80	52		5	11	12
UK	21	10			3	8
Ireland	265	25	188	11	27	14
Italy	117	92			4	21
Kazakhstan	19	17				2
Lithuania	14	12				2
The Netherlands	157	22	94	18	8	15
Austria	26	23				3
The Philippines	143	99		9	3	32
Portugal	23	19			1	3
Russia	1,294	222	794	71	52	155
Switzerland	3	1			1	1
Spain	194	175			6	13
Thailand	29	17		6	1	5
Czech Republic	29	26				3
Ukraine	36	20		9		7
USA	26	11			6	9
Vietnam	128	6	99	7	7	9
Rest of world	43	43				
Total Group	**3,892**	**1,523**	**1,365**	**238**	**237**	**529**

Sales and Marketing

National sales presence allows optimal development of growth potentials

Due to the different structural conditions for marketing drugs worldwide, STADA considers having a sales presence in the individual national markets to be a prerequisite for the optimal development of the local growth potential. Against this backdrop, one of the Group's key success factors is market proximity through the international network of local sales companies which STADA has built up steadily over the past few years.

In fiscal year 2005 STADA further expanded this network. The acquisition of the Russian pharmaceutical company Nizhpharm gave STADA access to one of the most important Eastern European pharmaceutical markets, advancing the expansion of Group activities in the CIS countries. The purchase of Ciclum Farma in Portugal in 2005 provided STADA with its own sales company there, enabling the Group to utilize its own sales structures for existing and targeted EU-wide product approvals for generics. In the reporting period, STADA strengthened its activities in China through the acquisition of the Chinese pharmaceutical manufacturer Bejing Center-Lab Pharmaceutical Company Ltd. (BCP), given that companies with production facilities in China benefit from existing market regulations.

As of December 31, 2005, STADA was present in 23 countries through 33 sales companies. A clear focal point remains the EU, where STADA's own subsidiaries cover all crucial pharmaceutical markets. Germany remains the largest national EU market. Outside the EU, STADA is also represented through its own sales companies in the non-EU countries Lithuania, Russia[1)], Switzerland as well as the Ukraine[2) 3)]. In the USA, STADA has also operated its own sales subsidiary since 2002.

In Asia, the Group has sales companies in China, Kazakhstan[4) 5)], the Philippines, Thailand and Vietnam.

In addition, STADA exports its products to a total of 34 countries, in which the Group does not have its own local sales companies.

With a number of own representation offices and/or branches, the subsidiary STADA Pharma International is primarily responsible for export activities. As of March 1, 2006, such offices and/or branches existed in Egypt, Bosnia-Herzegovina, Bulgaria, Croatia, Poland, Rumania, Serbia, Slovakia and Chechnya. The exports to the Baltic nations, Kazakhstan, Russia and the Ukraine, for which STADA Pharma International had previously been responsible, were taken over by the local Nizpharm subsidiaries in fiscal year 2005.

1) Nizhpharm OJSC consolidated since January 1, 2005.
2) Nizhpharm-Ukraine consolidated since January 1, 2005.
3) Nizhpharm-Ukraine is a legally independent permanent establishment of Nizhpharm OJSC.
4) Nizhpharm-Kasachstan consolidated since January 1, 2005.
5) Nizhpharm-Kasachstan is a legally independent permanent establishment of Nizhpharm OJSC.

STADA sales structure (as of March 1, 2006)[1]

Europe

Belgium	N.V. Eurogenerics S.A., Brussels
Denmark	PharmaCoDane ApS, Copenhagen
Germany	STADA Deutschland, Bad Vilbel (STADApharm GmbH, STADA GmbH, STADA Medical GmbH) ALIUD PHARMA GmbH & Co. KG, Laichingen cell pharm GmbH, Hanover
Finland	Oy STADA Pharma AB, Helsinki
France	EG Labo Laboratoires EuroGenerics S.A.S., Paris
UK	Genus Pharmaceuticals Ltd., Newbury
Ireland	Clonmel Healthcare Ltd., Clonmel
Italy	EG S.p.A., Milan Crinos S.p.A., Milan
Lithuania	UAB STADA-Nizhpharm-Baltija, Vilnius
The Netherlands	Centrafarm Pharmaceuticals B.V., Etten-Leur Healthypharm B.V., Etten-Leur Centrafarm B.V., Etten-Leur
Austria	STADA Arzneimittel Ges.m.b.H., Vienna
Portugal	Ciclum Farma, Unipessoal LDA, Amadora[2]
Russia	Nizhpharm OJSC[3], Nizhny Novgorod (97,5 %)
Spain	Laboratorio STADA S.L., Barcelona
Sweden	STADApharm AB[4], Malmö
Switzerland	Helvepharm AG, Frauenfeld (50 %)
Czech Republic	ALIUD PHARMA CZ s.r.o., Prague
Ukraine	Nizhpharm-Ukraine Ltd.[3][5], Kiev

The Americas

USA	STADA Pharmaceuticals Inc., Cranbury, New Jersey

Asia

China	Health Vision Enterprise Ltd., Hong Kong (51 %[6]) STADA Pharmaceuticals (Asia) Ltd., Hong Kong
Kazakhstan	Nizhpharm-Kazakhstan Ltd.[3][5], Almaty
The Philippines	Croma Medic Inc., Manila (60 %)
Thailand	STADA Asiatic Co. Ltd., Bangkok (60 %)
Vietnam	STADA Vietnam J.V. Ltd., Ho Chi Minh City (50 %)

Export

to 34 countries[7]	among other things via STADA Pharma International GmbH, Bad Vilbel

1) Unless indicated otherwise, the companies are wholly-owned by the STADA Group.
2) Consolidated since May 1, 2005.
3) Consolidated since January 1, 2005.
4) Currently not consolidated.
5) Legally independent permanent establishment of Nizhpharm OJSC, Nizhny Novgorod.
6) Consolidated at 50%.
7) In 2005.

Target group specific alignment of sales activities

According to Group strategy, which largely focuses on market orientation, the individual sales companies are responsible, in line with agreed-upon goals, for the operative business management in their national markets. This applies especially to sales and marketing, as the required activities for each national market are aligned with the specific target groups. Depending on the relevance to target group specific demands, sales and marketing activities target patients and/or consumers, doctors, doctors' cooperatives, pharmacies, pharmacy cooperatives, hospitals and other service providers in the health care market, or wholesalers. Usually, however, the majority of the national STADA sales companies' customers consists of wholesalers and in part pharmacies. Due to the different requirements of individual target groups and in line with the Group sales concept, in some countries several STADA sales companies are active at the same time in a particular national market. Depending on the specific market situations they pursue coordinated and partially even operationally networked sales strategies.

For example, in the German market, five different sales companies are active with individual sales concepts aimed at different target groups and/or providing different product combinations of the various core segments. Thus STADApharm is currently[1)] responsible for generics, STADA GmbH for branded products, STADA Medical for products for the treatment of diabetes and integrated health care models as well as vaccines, ALIUD Pharma for generics with a special sales concept – without a sales force and based solely on mailing concepts – and cell pharm is in charge of oncological semi-generic specialty pharmaceuticals.

Despite their individual approaches, the sales companies active in the same national market cooperate closely. If required, product assignments and market presentation are adjusted to changed market conditions on short notice. This allows the Group to react flexibly to the prevailing requirements of the individual markets.

STADA is also not opposed to the concept of cross-national networking of marketing activities as long as these appear reasonable based upon joint structures. This applies for example to agreed-upon sales cooperations with wholesalers in countries in which wholesalers can have a significant moderating influence on the demand for the Group's products.

Ongoing expansion of sales structures

In addition to its organic growth, STADA will continue to expand the existing sales structures through targeted acquisitions. As part of this, STADA is continuously looking at whether there are interesting opportunities in countries that would complement the existing sales network in a reasonable way, or whether additionally acquired products can be integrated into existing sales structures.

1) In 2005 the responsibilities were as follows: STADApharm for prescription generics, STADA GmbH for branded products and non-prescription generics, STADA Medical for products for the treatment of diabetes and integrated health care models, ALIUD Pharma for generics with a special sales concept – without a sales force, solely based on mailing concepts – and cell pharm for oncological semi-generic specialty pharmaceuticals.

Product Development

High degree of expertise in product development

A central operative success factor for STADA's organic growth and thus the long-term growth of the Group is its high dregree of expertise in product development.

In line with the Group strategy, STADA focuses on multisource products, i.e. products containing active ingredients that are or soon will be off-patent. Research into new active ingredients is deliberately not a part of STADA's development activities.

STADA still pursues its own development activities in the following areas:

- Development of new generics in time for the expiration of the commercial property rights of the individual active ingredients
- Expansion of the existing product portfolio through additional products or dosage forms
- Internationalization of nationally successful products
- Optimization of products already introduced in order to reduce cost of sales or achieve better application potentials

In product development STADA involves external developers to a high degree and in some instances also collaborates with competitors to keep its own development costs as low as possible. The essential core competencies of product development include it's capability and experience in managing such an international network of development partners cost effectively and timely in terms of the respective commercial property rights.

Development activities secure a full product pipeline

The most important goal of all development activities is to secure a steady flow of product launches for the national sales companies. In the Generics segment in particular, the launch of new products in all national markets promptly after the expiration of the respective commercial property right or patent is of central importance. As a rule, any new active ingredient becoming available for generics with sufficient sales expectations is considered a Group-wide development project at STADA. With consideration of national marketing strategy as well as local patent and approval circumstances, STADA decides then which active ingredients from the Group portfolio will be included in the local portfolio and at what point in time.

For Branded Products and Specialty Pharmaceuticals, development projects or new products are selected according to product and country-specific growth and/or earnings opportunities as well as compatibility with the existing product range and Group structures.

International utility of development results of high importance

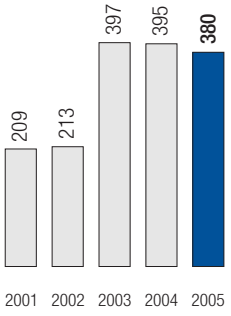
STADA places considerable importance on the international utility of development results, especially across the EU. In addition to national approval procedures, the Group also frequently uses EU-wide approval procedures[1]. From the time when it first became possible to obtain such an approval in conjunction with an MR procedure in 1995 to the end of fiscal year 2005, STADA received a total of more than 2,000 MR approvals.

The international utility of development results is also very important to STADA due to the cost-saving aspect. Its international sales network allows the Group, especially in the EU, to benefit from economy of scale effects, i.e. despite local market strategies and product names, with EU-wide approval, a drug can be produced with a uniform dosage and thus produced in larger batches.

Successful development activities with 380 product launches in 2005

STADA's development strength is evident in the large number products launched every year. In fiscal year 2005, 380 products were launched throughout the Group. In the previous year this number was 395.

In 2005, once again a large number of generics were launched – many of them promptly after the expiration of the patent or the respective relevant commercial property right. For example, in the reporting period, the Group introduced in Germany, among other things, generics with the active ingredients Tilidin/Naloxone in form of retard tablets, Alendronic acid and Cefpodoxime. In France, STADA launched, among other things, the active ingredient Simvastatin in 2005.



Number of product launches in the STADA Group per year

Continuous flow of new products

STADA possesses a well-filled product pipeline, allowing the Group to continue to introduce many new products to the market. This applies especially to generics in the EU.

The large number of current application processes for the EU is the basis of further international approval activities in countries outside the EU to which STADA either exports its products or has own sales companies.

In general, STADA plans to increasingly step up its internal product development capacities in the next few years to significantly increase the share of in-house product development. However, in product development, STADA has for many years cooperated with external partners that possess specialized pharmaceutical/ technical knowledge.

1) MR procedure and centralized procedure for biogenerics (biosimilars).

Development projects for patches containing active ingredients

One such project is, for example, the development of patches with active ingredients that act transdermally, i.e. through the skin. As the FDA[1] approval process for an analgesic patch containing Fentanyl and its production were more time-consuming than originally planned, the launch in the US market was delayed. The introduction of such a patch in the USA – also against the background of ongoing technical production validations – is expected in the second half of the current fiscal year at the earliest, provided the FDA gives its approval. However, in Germany a patch containing Fentanyl could be introduced in the first quarter of 2006. From today's perspective, the introduction of a patch containing Clonidine, an active ingredient that lowers blood pressure, in the USA is not expected until 2008, due to numerous FDA queries in the current approval process.

Biogenerics development projects (Biosimilars)

A further project carried out by STADA in conjunction with partners is the development of the biogenerics (biosimilars)[2] Erythropoietin[3], Filgrastim[4] and Interferon beta-1a[5] (see "Management Report of the Executive Board – Biogenerics (Biosimilars)"). The documents for the application process for approval of the Erythropoietin biosimilar product are currently being compiled. In a "pre-submission meeting" held at the EMEA in February 2006, the remaining questions regarding the approval application were cleared up. From today's perspective, STADA continues to assume that there is a chance to obtain an EU-wide approval for a biosimilar from Erythropoietin in 2007.

With an EU-wide market volume of approx. € 1.2 billion[6] in 2005, the Group considers a sales potential for Erythropoietin of up to € 70 million annually feasible. STADA is currently investigating whether this potential can be expanded further by involving additional partners in the marketing. This is now being evaluated in discussions with various interested parties (see "Management Report of the Executive Board – Biogenerics (Biosimilars)").

Procurement and Production

International network of raw materials suppliers

In addition to quality, flexibility and cost management are crucial aspects of STADA's procurement and production policy. STADA deliberately does not itself get involved in the manufacture of active ingredients and auxiliary materials necessary for pharmaceutical production. Instead, the Group relies extensively on a worldwide network of raw materials suppliers that it has built up in recent years. As the procurement costs of raw and auxiliary materials that are required by the Group for its products constitute approx. 50% of cost of sales incurred for these materials, STADA increasingly utilizes suppliers from so-called low cost countries – provided that they offer the required quality.

1) Food and Drug Administration.
2) STADA holds via a wholly-owned subsidiary exclusive global distribution rights for these development projects.
3) Erythropoietin is used, among other things, for dialysis patients to stimulate hematopoieses as well as in cancer therapy.
4) Filgrastim is used for the treatment of Neutropenie for example following a bone marrow transplant.
5) Interferon beta-1a is used for the treatment of Multiple Scleroses.
6) Source: STADA estimate based on market data provided by various international market research institutes (at ex-factory prices).

Globally six Group-owned production facilities

Currently, STADA operates six production facilities for its internal pharmaceutical production, i.e. the production of the dosage form and its packaging: in Germany (Bad Vilbel: 33%[1]), the Netherlands (Etten-Leur: 28%[1], packaging only), in Ireland (Clonmel: 19%[1]), in Vietnam (Ho-Chi-Min City: 1%[1][2]) and, following the acquisition of Nizhpharm, also in Russia (Nizhny Novgorod: 19%[1]). In addition, a small production unit solely aimed at the local market demand was purchased in Beijing/China. Adequate investments ensure that all Group-owned production facilities are constantly maintained at the level required by legal stipulations and technical production considerations.

High level of outsourcing in production

To reduce costs, in addition to its own production facilities, STADA utilizes external contract manufacturers for the production and packaging of a large amount of products. Especially for special dosage forms such as ampules or sterile medications, STADA commissions external specialists whose experience allows them to produce such dosage forms at considerably lower costs. Thus, also in 2005, for example, approx. 70% of STADA's required pharmaceutical production was handled by external contract manufacturers.

For high-volume standard dosage forms such as tablets, capsules or liquids, produced by STADA's own facilities, the Group continuously reviews whether outsourcing would be more cost-effective. For more transparent cost assessment, the Irish production facility has been operating under an own production company since the start of 2006.

Continuous optimization of cost of sales

As cost of sales constitutes STADA's largest cost item, active cost management has always focussed on procurement and production activities. This is why STADA involves, as much as possible, suppliers of active ingredients and auxiliary products as well as contract manufacturers in the price development of individual products and markets by utilizing price escalation clauses in advance or by retroactive price negotiations.

Within the framework of ongoing cost optimization, activities to reduce cost of sales will be continued in the coming years.

To this end, STADA is employing several options. Procurement, in-house production, as well as contract manufacturing will have to face increasingly global benchmarks. Thus, from 2002 to 2005, the Group increased the percentage of goods procured from low cost countries from around 5% of Group purchases to approx. 25%. In addition, an increase in in-house development of new products should reduce the initial contractual dependency on individual suppliers, leading to much lower procurement costs and contract cost of sales during the first years following the market launch of these products.

1) Share in the value of products manufactured by STADA.
2) 50:50 joint venture with a local partner.

Quality Management

As a supplier in the health care market, product quality and product safety are top priorities for STADA. To this end, STADA has established a quality management system across the Group that uses regular and comprehensive audits of the Group's own production sites as well as the facilities of suppliers and contract manufacturers to ensure that the quality standards established by STADA are being met. These standards not only aim at the compliance with all relevant legal requirements, but occasionally exceed them significantly.

In total, the Group should meet all relevant regulatory standards in its business processes, in particular with respect to production processes. In addition, to the extent that it makes sense for business processes, STADA seeks comprehensive certification under internationally recognized external quality management systems.

At the Bad Vilbel location, STADA for instance, complies with the relevant ISO standards in addition to the GMP standards and is certified under EN ISO 9001/2000 and EN ISO 13485/2000. STADA has also been following the rules and regulations of the German Association of Chemical Industries (VCI) on environmentally sound practices for years.

STADA SHARE

STADA share codes	
Identification number:	ISIN: DE0007251803, WKN: 725180
Ticker symbol:	Reuters: STAGn.DE, Bloomberg: SAZ:GR

Pleasing share price increase in 2005

In 2005, STADA's share price developed positively. Following an opening price of € 19.89 on January 3, 2005, the STADA stock closed on December 30, 2005 at € 27.65. This represents a price increase of 39% over the course of 2005. During the course of the year, the STADA share price reached a new all-time high of € 31.00 on June 28, 2005.

In the current fiscal year too, STADA's share price has developed positively. On March 9, 2006, it reached a new all-time high of € 32.13.

Further increase of market capitalization

Thus, in the year 2005, the positive share price development led to a substantial increase in STADA's market capitalization. At the end of 2005, the enterprise value was € 1.479 billion, or USD 1.751 billion, compared to a market capitalization of € 1.062 billion, or USD 1.444 billion, at the end of 2004.

At the point of the all-time high on March 9, 2006, market capitalization amounted to € 1.719 billion or USD 2.051 billion.

STADA key share data	2005	2004
Number of shares (year-end)	53,500,300	53,390,820
Average number of shares (without own shares)	53,317,303	53,348,910[1)2)]
Year-end closing price (XETRA®) in €	27.65	19.89
High (XETRA® closing price) in €	31.00	26.75
Low (XETRA® closing price) in €	20.29	13.52
Market capitalization (XETRA®) in € million (year-end)	1,479.3	1,061.9
Basic earnings per share in €[3)]	0.97	0.91[1)]
Diluted earnings per share in €[4)]	0.91	0.88[1)]
Dividend per share in €	0.39[5)]	0.39

1) Pursuant to IAS 33.20 in conjunction with IAS 33.22, a capital increase from existing funds changes the average number of shares without any concomitant change in the level of resources. The number of common shares in issue prior to the capital increase is adjusted in accordance with the proportional change in the number of outstanding common shares after the share issue as if the event (the de facto 1:1 stock split) had occurred at the beginning of the period under review. For the purposes of historical comparison, the historical figure for the average number of shares in each financial year ending prior to the conversion date will be doubled to adjust for the stock split when calculating the earnings per share.
2) Adjusted for the de facto 1:1 stock split on July 30, 2004.
3) According to IAS 33.10.
4) According to IAS 33.24.
5) Proposed by the Executive Board and Supervisory Board.

According to the Deutsche Börse AG's index system, which only considers the free float, in 2005 STADA's market capitalization on the MDAX occupied position 17 (previous year: position 16). In the period under review, STADA occupied position 14 in terms of trading volume (previous year: position 9). The average trading volume in 2005 at the XETRA® trading and the Frankfurt Stock Exchange was € 9.3 million per day. In 2004, the average daily transaction volume was € 7.9 million.

Share capital

As of the balance sheet date, share capital consisted of 53,500,300 common shares, each with an arithmetical par value of € 2.60 (prior year: 53,390,820). The repeated increase in the number of shares over the course of 2005 was entirely due to the continuing exercise of options from STADA warrants 2000/2015. The number of shares as of December 31, 2005 thereby increased by 109,480 to 53,500,300 and the company's share capital increased by € 284,648 to € 139,100,780. As of December 31, 2005, 444,496 warrants 2000/2015 for the subscription of 8,889,920 STADA common shares were still outstanding. Thus, in the reporting year 2005, 5,474 options were exercised in total.

Equity structure of STADA Arzneimittel AG	Dec. 31, 2005	Dec. 31, 2004
Number of restricted registered common shares	53,500,300	53,390,820
Number of warrants 2000/2015[1)]	444,496	449,970
Number of potential shares from warrants 2000/2015[1)]	8,889,920	8,999,400

New authorized capital

On June 14, 2005 the Annual Shareholders' Meeting resolved to withdraw the existing authorized capital and to create new authorized capital as well as to amend the articles of incorporation accordingly. The resolution states that the Executive Board, with approval of the Supervisory Board, is authorized until June 14, 2009 to increase the authorized capital once or repeatedly by up to € 69,408,066.00 by issuing up to 26,695,410 registered shares with transfer restrictions against cash or non-cash contributions. The shareholders' subscription rights can be excluded in precisely defined individual cases. Details concerning this matter are published on the company's website at www.stada.de and/or www.stada.com.

Renewal of authorization for the buy back of own shares

A further resolution of the Annual Shareholders' Meeting was the authorization of the company to buy back its own shares of up to 10% of the share capital in accordance with §71 (1) 8 German Stock Corporation Act (AktG). The authorization took effect on June 15, 2005 and is valid until December 14, 2006. Further details are published on the company's website at www.stada.de and/or www.stada.com.

In fiscal year 2005, STADA did not purchase any of its own shares and sold 3,254 of its own shares at an average price of € 25.29. As of the balance sheet date for 2005, STADA held 119,915 of its own shares. As of December 31, 2004, STADA had held 123,169 of its own shares.

1) The legally binding option terms and conditions are published on the company's website of www.stada.de and/or www.stada.com.

Option price of STADA warrant unchanged

In the second quarter of 2005, in accordance with warrant conditions, it was decided not to change the option price of the STADA warrant 2000/2015[1)] (ISIN DE0007251845) in circulation until 2015. Because the means of the price established by the Deutsche Börse AG during intraday auction at about 1 pm in the electronic trading system XETRA® for the STADA registered common shares was, on the 20 trading days prior to June 26, 2005 at € 26.20, above the threshold price as determined by the option terms and conditions of € 13.95 the so-called step-down mechanism does not take effect. Therefore the option price of € 329 for 20 STADA shares remains valid for the warrant.

Shareholder structure remains broadly based

As of December 31, 2005, a total of approx. 38,000 shareholders held interests in the share capital of STADA Arzneimittel AG. An analysis of STADA's shareholder structure conducted by an external service provider in the fourth quarter of 2005 verified previous internal estimates. STADA therefore continues to assume that approx. 50% of STADA's capital is held by institutional investors and that approx. 20% of STADA's shares are held by pharmacists and doctors.

According to Deutsche Börse AG regulations, STADA's free float remains 100%. As of December 31, 2005, only DWS Investment held more than 5% of the share capital of STADA Arzneimittel AG, which had announced in July 2005 in accordance with §25 (1) of the German Securities Trading Act (WpHG) that this reporting threshold had been exceeded. In the first quarter of 2006, DWS Investment fell below this legal threshold.

High importance of investor relations activities

STADA has always paid high attention to investor relations activities. Its steady communication with capital market participants is highly transparent.

STADA's comprehensive Internet presence promotes, among other things, the principal of equal treatment of institutional and private investors. At www.stada.de and/or www.stada.com, interested individuals can find comprehensive company information such as company presentations, ad hoc and press releases, publications, etc. STADA Corporate Communications is available for personal inquiries in accordance with legal regulations. In addition, shareholders can receive comprehensive information from the Executive Board at the Annual Shareholders' Meeting.

In fiscal year 2005, STADA again participated in many external company presentations and conferences for institutional investors in the most important capital market centers in Europe and the USA. These events are regularly published on the company's website at www.stada.de and/or www.stada.com.

1) The precise wording of the warrant conditions are published on the company's website at www.stada.de and/or www.stada.com.


10
STADA
Arzneimittel

INTERVIEW WITH THE CHAIRMAN OF STADA'S EXECUTIVE BOARD

In your letter to the shareholders you talk about robust growth. What do you mean by that?
The deliberately chosen expression "robust growth" should highlight that, while STADA may occasionally be affected in a national market by a foolish health policy measure or locally stepped-up competition, we nevertheless believe that in most cases our increasingly international positioning will offset these effects at the Group level.

In fiscal year 2005 high special effects affected net income in particular. What is your comment on this?
In early 2004, we decided to follow up on a promising project on the fringe of our strategic positioning, namely the LipoNova/Reniale® project for marketing an innovative tumor vaccine. When STADA took on this project it was assumed that the research on it, meaning the clinical study needed as the basis for a European-wide approval, was already completed. Unfortunately, we were surprised to discover in the fall of 2005 that the approval required further clinical studies – in other words significant investments into the research of an innovative product, which clearly does not fit into our Group strategy, which, as is well known, focuses on the marketing of proven active ingredients. Unfortunately, we therefore had to terminate the project in our company and then had to write off and adjust the value of the incurred expenses.

Incidentally, this also exemplifies the meaning of "robust growth": Despite a pre-tax loss of € 20.3 million from this project, our earnings before taxes in 2005 still grew compared to the previous year by 26%. Even net income, which was particularly negatively affected by tax effects from the closing of the LipoNova/Reniale® project of € 17.0 million also registered growth of 6%. And operating profit, which was not affected by the closing of the LipoNova/Reniale® project, demonstrated with growth of 45% compared to the previous year, in my view impressively the operating strength of STADA, which also can compensate the failure of a single project.

Are you going to venture into similar new projects in the foreseeable future?
No, we are not planning to, at least not with similar financial situations.

Are you and/or STADA primarily targeting growth of sales or growth of earnings?
Definitely both. It would be ideal if the profits would outperform sales, and our current plans are actually based on that assumption. We actually foresee the opportunity to target improved operating margin goals in the next few years, but you never know what kind of surprises the politicians might present. Our ongoing cost optimizations, especially in the areas of procurement and production, but also increasing economy of scale effects stemming from the Group size should significantly contribute to this end.

"STADA has excellent opportunities to continue to grow successfully on its own."

Which role should acquisitions play in this?

An additive role. Of course we plan to significantly grow organically. Acquisitions, which we can continue to conduct due to our strong balance sheet structure, should accelerate Group growth.

Also in fiscal year 2005 takeover rumors repeatedly surfaced. In the middle of the year, it was even written that STADA was actively seeking a buyer.

We immediately denied this. All I can say on this topic is a word-by-word repetition of what I have stated on other occasions, such as in last year's annual report and at the last Annual Shareholder's Meeting: STADA does not need to be taken over. Our strategic positioning will provide us with significant growth potential for the coming years and we posses all the operative recquirements necessary to leverage this potential ourselves, under our own steam, and to turn it into robust growth. But of course, if there is such a query, we have to deal with this in a professional and open-minded manner and carefully wheighing the position we should take to best represent the interests of share-holders and employees. The Executive Board remains firmly convinced that STADA has excellent opportunities to continue to grow successfully on its own and create significant value for our shareholders in the future.

STADA 2005 CONSOLIDATED FINANCIAL STATEMENTS: MANAGEMENT REPORT OF THE EXECUTIVE BOARD

BUSINESS AND GENERAL CONDITIONS

Business Model

For many years, STADA Arzneimittel AG's strategic focus has been on business activities in health care and, in particular, the pharmaceutical market. With view to cost and risks STADA has decided not to carry out research into new pharmaceutical active ingredients. Instead, the focus of STADA's business model lies in the development and marketing of pharmaceutical products with active ingredients whose commercial property rights (usually patents) have expired and that can therefore be readily procured (so-called "multisource" products). This makes it possible for STADA to offer a majority of its products at affordable prices, namely as generics[1]. Further core segments at STADA include Branded Products and Specialty Pharmaceuticals in which the active ingredients also usually have a multisource character.

Structural Environment

The market segments in which STADA is active are characterized worldwide by a basis of demand that is usually consistently rising and relatively independent of influences from general economic conditions and driven, among other things, by medical progress and the increasing average age of the population. This is countered by the limited financial resources of the individual, as well as those of society in general. Because health is a vital good, in nearly every country in the world the state takes over the task of ensuring, via regulatory market controls, that access to health care and medication is both available and affordable to as large a part of the population as possible. This results in extensive systems of regulations in the health care markets which vary from country to country and which are subject to constant intrinsic price and cost pressure as well as regular state intervention. Despite this situation, the growth potential in health care markets attracts a large number of competitors, meaning that they are also characterized by a high degree of competitive pressure.

This applies to the generic market segment in particular. Here there is exceptionally high demand potential through progressive market penetration and automatic market expansion with each patent expiration of an initial supplier product. However, it is exactly these growth opportunities in generics in the individual national markets which lead to a large number of market participants and the corresponding competition.

1) Generics: Drugs that have the same active ingredient as an initial supplier product and the same therapeutic effect, but that are offered at significantly lower prices than the equivalent drugs of initial suppliers after the expiration of the patent or other applicable commercial property rights.

Operative Alignment

STADA orients its own business model toward these conditions. The operative alignment of the Group is aimed at turning the global structural growth potential into own growth under consideration of local regulatory conditions and through supportive acquisitions. In so doing, STADA has identified strength in sales and development, cost orientation and commitment as well as, in particular, employee expertise as central success factors.

In view of the optimal use of opportunities, the comprehensive international sales network is an essential component of STADA's business model. The large number of local STADA sales companies should allow for short term adaptation to the often fast pace of change in structural conditions and competitive situations in the individual national health care markets. In accordance with Group strategy, which relies to a great extend on market orientation, the individual sales companies are responsible, within the framework of targets previously agreed upon, for sales, earnings and market share the operative management of the business in their respective national markets.

With intensive, long-term activities in the area of product development, the sales companies are provided with a comprehensive and up-to-date product portfolio, whereby STADA, in addition to its own expertise, has access to a network of international partners. The decisive factor here is the cost oriented and, under consideration of the applicable commercial property rights, the timely coordination of development activities. This applies to generics in particular.

In addition to the self-evident quality requirements, cost orientation also dominates activities in the areas of procurement, production and logistics. For reasons of cost, capital allocation and flexibility, STADA does not carry out its own production of raw materials and active ingredients, utilizing instead global procurement. In the context of pharmaceutical production[1)] as well, the Group relies to a significant extent on external contract manufacturers, as long as these are in a position to produce the products with the required quality and at a lower price.

STADA continues to adhere to a lean and flexible Group structure. Within the framework of the continuing cost optimization program, the emphasis here lies above all in the area of procurement and production with the goal of further optimizing cost of sales.

Because STADA's business model is not driven by technology and research, the knowledge and skills of the employees play a particularly important role in the success of the Group. With this in mind, one of the most essential success factors for STADA is the ability to organize specific and complex business processes, especially in sales, product development as well as procurement and production, with the experience of its own employees as a network of internal and external resources. Hence the Group places particular emphasis on intensive personnel work

1) Pharmaceutical production: conversion of pharmaceutical substances into a dosage form, e.g. tablets.

which relies on motivation and the long-term loyalty of the workforce to the company. Important management positions, including Executive Board positions[1] are generally filled from within the ranks of our own personnel.

Fiscal Year 2005

On the basis of this strategic positioning and operative structure, STADA continued the successful operational development of the previous years in fiscal year 2005:

- In 2005, in the STADA Group – despite the heavy burden of one-time special effects – sales (€ 1,022.1 million, +26%), operating profit (€ 127.1 million, +45%) and net income (€ 51.6 million, +6%) increased once again, thereby making it the tenth record year in a row. Thus, sales exceeded the one billion Euro mark for the first time, meaning that they nearly doubled within four years.
- Of total investments in 2005 in the amount of € 207.1 million – the highest annual investment volume in STADA's corporate history – € 192.1 million was applied to company and product acquisitions.
- The product portfolio was further expanded through the launch of 380 new products worldwide, whereby the basis for this was usually national drug approvals obtained by STADA.
- Cost optimization in the Group was continued through numerous individual operative measures.
- STADA's successful personnel work once again achieved external recognition.
- STADA's share price reached a new all-time high in 2005 and, at the end of the year, was 39% above the closing price from the previous year.

STADA's proven business model thereby demonstrated itself to be successful and sustainable, also in 2005.

1) For Peter Niemann and Dr. Klaus-Peter Reich, the Executive Board members who left the company over the course of 2005, Hans Stols and Christof Schumann as well as, in addition, Dr. Alexander Oehmichen were appointed to the Executive Board effective January 1, 2006. All three newly appointed Board Members have been employees of the STADA Group for many years. In addition to the new members, Hartmut Retzlaff (Chairman) and Wolfgang Jeblonski remain members of the Executive Board.

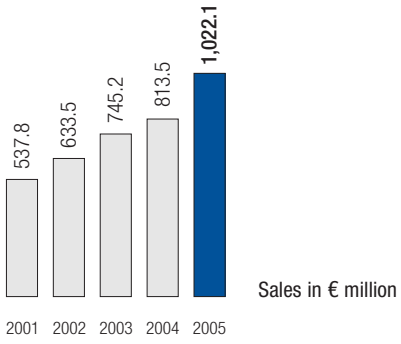
EARNINGS

Development of Sales

Sales rose strongly in fiscal year 2005 by 26% to € 1,022.1 million (previous year: € 813.5 million). The share of acquisition-related effects in this growth – due in particular to the initial consolidation of companies acquired in Russia and Portugal – amounted to € 72.9 million or 9 percentage points. The organic growth of the Group thereby accounted for 17%. The objective of the acquisitions which were made was the entry into new markets as well as the expansion of existing market positions and/or the product portfolio.

STADA's strong international activities made a significant contribution to the positive business development with growth of 35%, thereby rising at a higher rate than that of Group sales. The share of sales attributable to the international business rose in 2005 to 56.9% (previous year: 52.9%).

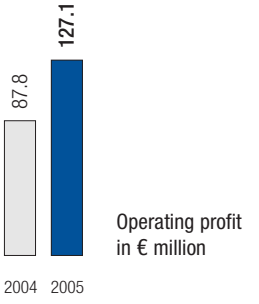
In the core segments of Generics, Branded Products and Specialty Pharmaceuticals, sales were increased by a total of 26% to € 975.7 million (previous year: € 772.6 million). The core segments' share of Group sales in 2005 thereby amounted to 95.5% (previous year: 95.0%).

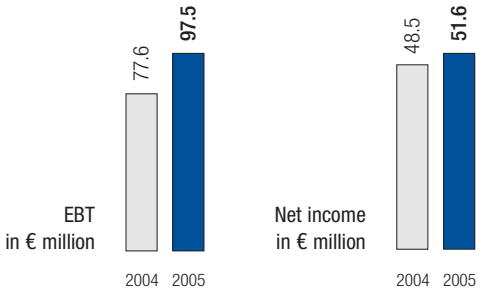


Development of Earnings

Operating profit, earnings before taxes, net income, earnings per share and diluted earnings per share

In 2005, STADA's robust growth was mirrored by a strong increase in the Group's operating profit which rose by 45% to € 127.1 million (previous year: € 87.8 million).





Earnings before taxes went up in the reporting period by 26% to € 97.5 million (previous year: € 77.6 million), and net income by 6% to € 51.6 million (previous year: € 48.5 million). Earnings per share[1] in 2005 thereby amounted to € 0.97 (previous year: € 0.91[2]), the diluted earnings per share was in accordance with IFRS € 0.91 (previous year: € 0.88[2]).

One-time special effects in fiscal year 2005

One-time special effects, which in 2005 burdened the Group, are especially noticeable here. Within these one-time special effects, the consequences of the closing of the LipoNova/Reniale® project plays by far the most significant role.

Since 2004, STADA has held a 16% stake in LipoNova GmbH, Hanover, as well as the European-wide marketing rights, in case of a granted approval, for the autologous tumor vaccine Reniale® for the treatment of special forms of kidney cell cancer, the development of which the business activities of LipoNova are focused. In the overall assessment of the course of a so-called "oral hearing" on October 12, 2005 at the EMEA, the European Medicines Agency which is responsible for the approval, STADA reached the conclusion that the agency – contrary to previous expectations – is likely to make an approval for Reniale® dependant on additional clinical studies. The start of marketing for Reniale®, which had been planned for 2006 at the latest, was thereby postponed indefinitely.[3]

On the same day, based on this assessment, the Executive Board at STADA decided[4], to close the LipoNova/Reniale® project and to completely write off and/or adjust the value. This decision, in accordance with IFRS, took effect retroactively in the third quarter 2005. The write-offs and value adjustments which have occured as a result of this primarily affect the 16% equity stake in LipoNova GmbH, the loan granted to LipoNova for the maintenance of business operations as well as the pre-marketing activities which STADA had carried out under the label Eurovax in France and Germany up to that point. In total, the closing of the LipoNova/Reniale® project led, in fiscal year 2005, to a burden on earnings before taxes of € 20.3 million and on net income of € 17.0 million. In accordance with IFRS, these burdens are summarized in the consolidated income statement and stated below the operating profit in the line "Closing of the LipoNova/Reniale® project".

Without these special effects from the closing of the LipoNova/Reniale® project, earnings before taxes would have risen by 52%, net income by 41% and earnings per share by 42%. Excluding these one-time special effects, net income of € 68.6 million in 2005 is therefore considerably higher than the income expectation of at least € 60 million after taxes originally forecast by the Executive Board for fiscal year 2005.

1) In accordance with IAS 33.10, 119,915 treasury shares held as of December 31, 2005 are not considered in the earning per share (EPS) calculation. Calculation of earnings per share is thereby based on an average of 53,317,303 outstanding shares as of December 31, 2005 (corresponding number of outstanding shares as of December 31, 2004, adjusted for the de facto 1:1 stock split of July 30, 2004: 53,348,910).

2) Adjusted for the de facto 1:1 stock split on July 30, 2004.

3) LipoNova has, in the meantime, withdrawn the application for approval for Reniale® at the EMEA.

4) Compare the company's ad hoc release according to §15 WpHG from October 12, 2005.

Development of key earnings figures of the STADA Group

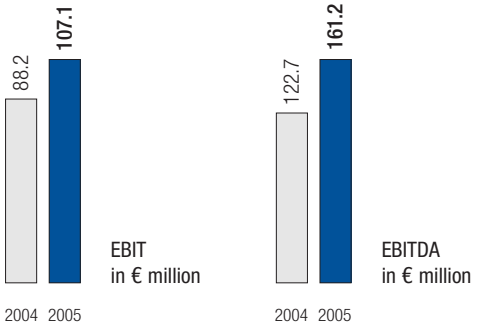
in € million	2005	2004	growth rate	*Adjusted for one-time special effects from the closing of the LipoNova/Reniale® project* *2005*	*growth rate*
Operating profit	127.1	87.8	+45%		
EBITDA	161.2	122.7	+31%	*174.6*	*+42%*
EBIT	107.1	88.2	+21%	*127.4*	*+44%*
EBT	97.5	77.6	+26%	*117.8*	*+52%*
Earning per share in €[1]	0.97	0.91[3]	+7%	*1.29*	*+42%*
Diluted earnings per share in €[2]	0.91	0.88[3]	+3%	*1.21*	*+38%*

Further one-time special effects in the earnings figures for fiscal year 2005 include burdens through severance payments in the amount of € 5.8 million as well as impairment losses in the amount of € 13.5 million.

This is countered by a positive one-time special effect in the amount of € 3.9 million. This earnings improvement is, for the most part, namely in the amount of € 3.1 million, based on a decision from the financial authorities which provides for a change in the value added tax treatment of mandatory discounts in favour of health insurance organizations in Germany. In the end, this decision led to a reduction in the calculation basis for value added tax and thereby to earnings related to other accounting periods within the other operating income. The other positive one-time special effect in a total amount of € 0.8 million was the result of the dissolution of reserves.

EBIT and EBITDA

Despite all one-time special effects, the key earnings figures EBIT (earnings before interest and taxes) and especially EBITDA (Earnings before interest, taxes, depreciation and amortization) rose strongly. For EBIT, the STADA Group achieved growth in 2005 of 21% to € 107.1 million (previous year: € 88.2 million). EBITDA increased by 31% to € 161.2 million (previous year: € 122.7 million). The growth rates, adjusted for one-time LipoNova/Reniale® special effects, amounted to 44% for EBIT and 42% for EBITDA for 2005 as compared to the previous year.



1) According to IAS 33.10.
2) According to IAS 33.24.
3) Adjusted for the de facto 1:1 stock split on July 30, 2004.

Development of Costs

STADA cost structure in € million	2005	in % of sales	2004
Cost of sales	509.5	49.9%	415.0
Selling expenses	271.4	26.6%	232.1
General and administrative expenses	69.7	6.8%	53.2
Research and development expenses	30.7	3.0%	23.3
Other operating expenses	32.0	3.1%	22.4
Interest expense	12.1	1.2%	12.7
Income taxes	45.5	4.5%	29.0

In general, the operative costs in the Group developed positively in fiscal year 2005. **Cost of sales** went up in 2005 at a rate lower than that of sales and amounted to € 509.5 million (previous year: € 415.0 million). Cost of sales therefore had a share of 49.9% of Group sales in the reporting period. **Gross profit** rose as a consequence to € 512.5 million (previous year: € 398.5 million). The most significant individual factors which influence the cost of sales and gross profit are the procurement costs of the active ingredients used in the manufacture of the products as well as the labor costs which applied to production. Other costs, such as energy costs, for example, play a much smaller role in the cost of sales in the STADA Group.

The **sales-related gross margin**, which at Group level is mainly dependant on the development of the direct cost of sales, but also on the segment mix as well as regional price and discount effects, improved in 2005 to 50.1% (previous year: 49.0%).

Cost of sales, gross profit and gross margin are, as particularly strong determining parameters for the success of the company, permanently within the focus of management. Within the framework of ongoing cost optimization, activities to reduce cost of sales will be continued in the coming years.

Through an increase in in-house development of new products, an initial contractual dependence on individual sources should decline. This would then lead to the expectation of significantly lower procurement and contract manufacturing costs for these new products during their first years on the market.

Selling expenses, in which costs for sales representatives and sales departments, together with product-related marketing expenditures are included, rose at a rate lower than the rate of growth in sales to € 271.4 million in the reporting period (previous year: € 232.1 million). This represents selling expenses as a percentage of sales of 26.6% (previous year: 28.5%).

Due to the heterogenous structures of the individual national health markets, an international network with national sales companies is an essential requirement for opening up corresponding market potentials. STADA will therefore continue to invest in the expansion of marketing and sales in markets with potential for growth in the future. In so doing, however, the aim is not to allow the selling expenses as a percentage of sales to rise significantly in the medium term.

Due to STADA's lean Group structure, **general and administrative expenses** continued to be at an adequately low level in 2005 at € 69.7 million (previous year: € 53.2 million), or a proportion of Group sales of 6.8% (previous year: 6.5%).

Personnel expenses went up moderately in 2005 to € 160.4 million (previous year: € 136.0 million). The ratio of personnel expenses to sales in the reporting period thereby amounted to 15.7% (previous year: 16.7%). Through the acquisition of Nizhpharm, the average number of employees nonetheless rose significantly to 3,892 (previous year: 2,586).

The position **research and development expenses** increased in the reporting period to € 30.7 million (previous year: € 23.3 million). It should be considered here that, in this connection, it is only a matter of development expenses because STADA, due to its strategic positioning, does not carry out any research into new active ingredients.

The rate of research and development costs as related to Group sales amounted to 3.0% in 2005 (previous year: 2.9%). Through a conscious effort to strengthen in-house development of new products in order to reduce later procurement and production dependancies, it can be expected that this rate will continue to rise in the mid-term moderately.

Other operating expenses posted an increase to a total of € 32.0 million in 2005 (previous year: € 22.4 million). This position includes, among other things, impairment losses in the amount of € 13.5 million as well as severance payments to departed employees of € 5.8 million.

Financial Result

The **financial result** of the Group is characterized by interest expenses for the borrowed funds which were used primarily for the financing of acquisitions. For the fiscal year 2005, it amounted to € -9.3 million (previous year: € -10.3 million).

The **interest expense** decreased in the reporting period to € 12.1 million (previous year: € 12.7 million). Mainly due to the expiration of the bond with a 7.5% interest rate on June 26, 2005, the interest result was improved by € 3.0 million. The volume of borrowed funds continued to rise as expected in 2005 due, among other things, to the

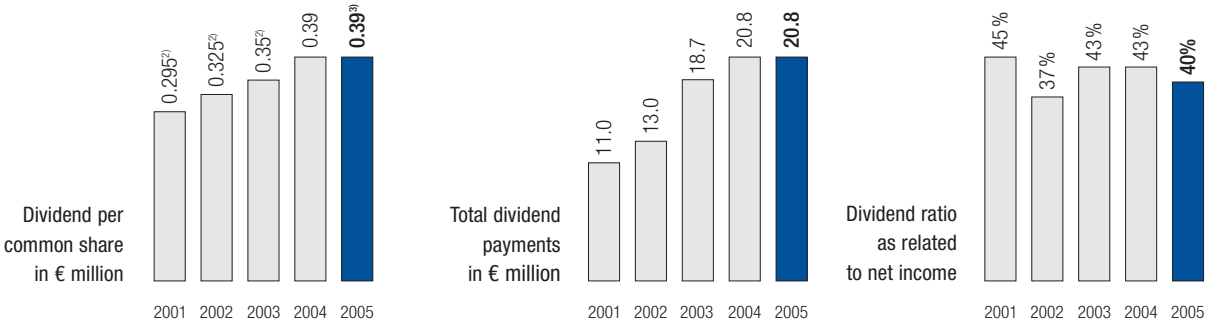
acquisition of Nizhpharm, Ciclum Farma and the SANKYO product package[1]. In the planned continuation of the active acquisition policy, the existing balance sheet strengh should, from today's perspective, be used for further external financing.

Tax Rate

Income taxes in 2005 rose to € 45.5 million (previous year: € 29.0 million). The tax rate therefore amounted to 46.7% (previous year: 37.4%) The increase in the tax rate can be attributed for the most part to the heavy burden of special effects, tax deductible to only a limited extent, in connection with the closing of the LipoNova/Reniale® project which will no longer occur in the current fiscal year due to their one-time character. In general, with this position, it should be taken into account that STADA is increasingly generating earnings in countries with national tax rates that are significantly lower than the tax rate of the STADA Group.

STADA Arzneimittel AG is currently undergoing a rotational tax audit for the fiscal years 1999-2002. No final results have emerged to date.

Dividend



The Executive Board will propose to the Supervisory Board that they recommend to the next Annual Shareholder's Meeting on June 14, 2006 a dividend for fiscal year 2005 that is unchanged from the previous year in the amount of € 0.39 per common share.

The proposed total dividend payments thereby amount to € 20.8 million (previous year: € 20.8 million) and reach 40% of net income (previous year: 43%). In 2005, STADA followed the long-standing company tradition of a dividend ratio in the area of about 40% of net income.

1) Among the best-known brands in the SANKYO product package are Mobilat® and Hirudoid®
2) Adjusted for the de facto 1:1 stock split on July 30, 2004.
3) Proposed.

DEVELOPMENT OF SEGMENTS

In 2005, STADA's strategic focus remained on the three core segments Generics, Branded Products and Specialty Pharmaceuticals. In the primary segmentation, the segments Commercial Business and Group holding/other are also represented.

The segmentation in the secondary financial reporting is based on a regional structuring according to national markets.

Details regarding the entry and/or deferrals of the segments as concerns primary or secondary reporting are described in the Notes 5 to the IFRS consolidated financial statements.

Development of Core Segments

Sales in what continues to be by far the biggest core segment **Generics** were up in the fiscal year 2005 by 21% to € 739.0 million (previous year: € 608.3 million). Included in this figure is € 24.2 million or 3.3% from initially consolidated sales from acquisitions. Generics share of Group sales in 2005 thereby amounted to 72.3% (previous year: 74.8%) In terms of sales, STADA's five best-selling generic active ingredients contributed 15.4% to Group sales in 2005 (previous year: 15.0%).

The stomach medicine Omeprazole is still STADA's best-selling active ingredient, both in the Generics segment and in the Group as a whole. In 2005, STADA products with this active ingredient posted sales of € 70.0 million (previous year: € 54.4 million). This gives them a share of Group sales in the reporting period of 6.8% (previous year: 6.7%).

Top 5 generic active ingredients in the Group in 2005

Active ingredient	Indication	2005 sales in € million	Change from previous year
Omeprazole	Stomach medicine	70.0	+29%
Simvastatin	Cholesterol lowerer	40.7	+57%
Mirtazapine	Antidepressant	17.1	+19%
Enalapril	ACE inhibitor	15.9	+17%
Citalopram	Antidepressant	14.2	+37%
Total		157.9	

Sales in the area of **Branded Products** increased in the fiscal year by 51% to € 211.4 million. The share of initially consolidated sales amounted to € 48.7 million or 23.0%. A major contribution to this increase was made by the Russian company Nizhpharm which was acquired at the beginning of the year because its product portfolio consists mainly of Branded Products. In 2005, in total, Branded Products at STADA accounted for 20.7% (previous year: 17.2%) of Group sales, thereby continuing to represent the Group's second largest core segment.

Top 5 branded products in the Group in 2005

Branded product	Indication	2005 sales in € million	Change from pervious year
Chondroxide®	Degenerative joint diseases	21.7	Acquisition[1]
Grippostad®	Cold medicine	19.5	+24%
Ladival®	Sunscreen	10.9	+18%
Magnetrans®	Magnesium preparation	6.9	+30%
Kamistad®	Mouth sore treatment	6.8	+15%
Total		65.8	

The five top-selling branded products' share of Group sales in 2005 amounted to 6.4% (previous year: 5.1%). Here too, the Russian acquisition is noticeable. The biggest branded product, Chondroxide®, now comes from Nizhpharm's portfolio with a share of Group sales in the amount of € 21.7 million.

Specialty Pharmaceuticals, still STADA's smallest core segment, was negatively affected by severe competitive pressure in 2005, especially in the German hospital business but nevertheless recorded a slight increase in sales in the reporting period of 2% to € 25.2 million (previous year: € 24.7 million). This core segment's share of Group sales was thereby 2.5% (previous year: 3.0%). Currently, this core segment consists exclusively of the Group's oncology products.

STADA's non-core activities include the **Commercial Business** and **Other Sales**, which cannot be allocated to any other segment. With the commercial businesses, which are carried out in individual markets to support sales in the core segments, STADA generated sales in fiscal year 2005 of € 39.7 million (previous year: € 32.0 million). This corresponds to a share of Group sales of 3.9% (previous year: 3.9%). The remaining sales in the period under review, such as the sale of approvals, which are listed under the position Group holdings/other, amounted to a total of € 6.8 million (previous year: € 8.9 million).

Operating profits per segment in fiscal year 2005 developed as follows: **Generics** rose by 55% to € 93.3 million (previous year: € 60.0 million), **Branded Products** were up by 104% to € 37.1 million (previous year: € 18.2 million) and **Specialty Pharmaceuticals** decreased by 24% to € 5.0 million (previous year: € 6.5 million).

1) Chondroxide® was acquired within the framework of the acquisition of Nizhpharm which has been consolidated in the STADA Group since January 1, 2005.

Thus, the following operating profit margins were achieved by the core segments: Generics 12.6% (previous year: 9.9%), Branded Products 17.5% (previous year: 13.0%) and Specialty Pharmaceuticals 19.8% (previous year: 26.4%)

Operating profit in **Commercial Business** increased in 2005 by 6.9% to € 1.8 million (previous year: € 1.7 million). The operating profit margin of the Commercial Business thereby totaled 4.6% (previous year: 5.3%). The operative profit in the area Group holdings/other decreased, due in particular to one-time special effects, to € -10.1 million (previous year: € 1.4 million).

Development of Regional Business

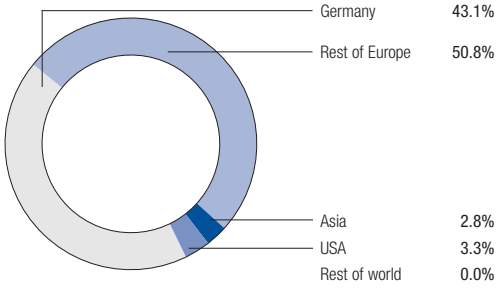
The increasing internationalization of STADA is mirrored in the view to regional sales. In fiscal year 2005, sales from the Group's international activities rose to achieve a share of Group sales of 56.9% (previous year: 52.9%)

According to this classification, the share of Group sales for 2005 in Europe was 93.9% (previous year: 91.4%), in the USA 3.3% (previous year: 5.7%), in Asia 2.8% (previous year: 2.8%) and in the rest of the world 0.0% (previous year: 0.1%).

Because STADA's business model focuses strongly on a regional sales model, regional development in the most important national markets are addressed as follows:

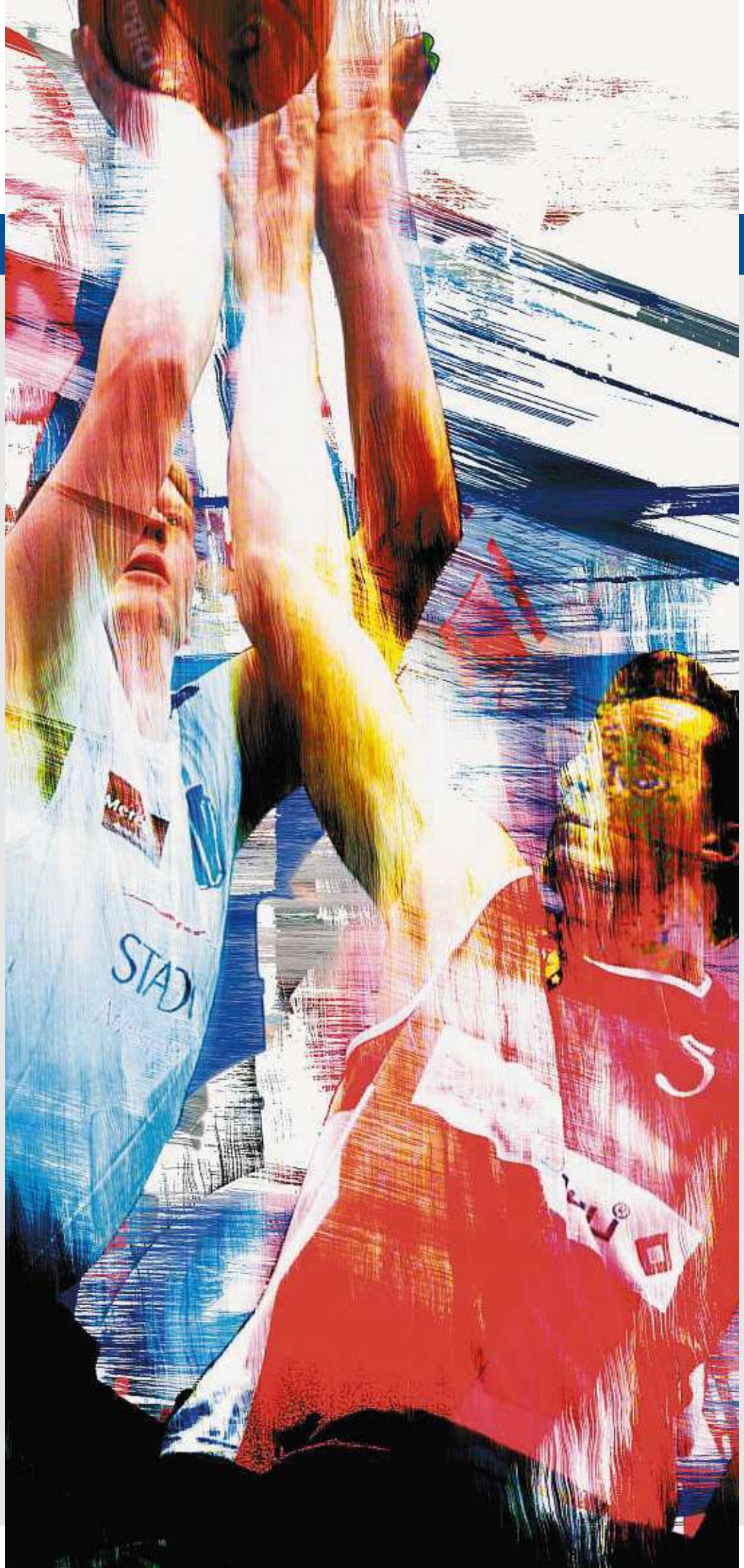
In **Germany**, which continues to be the largest national market for STADA, sales in the reporting period increased by 15% to € 440.9 million (previous year: € 383.1 million). As expected, the burden on sales and particularly on earnings from mandatory discounts for products not covered by reference pricing was, for STADA in fiscal year 2005, lower than in the previous year. In the reporting period, these mandatory discounts amounted to € 3.2 million, while in the corresponding period in the previous year they were € 21.4 million.

International sales of the STADA Group 2005



Also in 2005, the STADA Group's market share of the German pharmaceutical market increased in terms of units sold. Overall, it totaled approx. 4.9% in the reporting period (previous year: approx. 4.7%). Thus, according to units sold, STADA occupied position 3 in the German pharmacy market in 2005 with approx. 76 million packages sold.[1]. Measured by sales, STADA occupied position 12 in this market in 2005 with unchanged 2.3%.

1) Source: STADA estimate based on market data provided by various international market research institutes.



Sales in Germany rose disproportionately by 17% to € 337.0 million in the largest core segment Generics in the reporting period (previous year: € 287.7 million). In this market, STADA has two operatively separate generics sales lines named "STADA" and "AL". Generics sales in Germany under the label "STADA" increased by 19% to € 243.8 million in 2005 (previous year: € 205.0 million); sales under the label "AL" (by the subsidiary ALIUD Pharma GmbH, which operates exclusively via a mailing concept and therefore employs no sales force), grew in 2005 by 13% to € 93.2 million (previous year: € 82.7 million).

Sales by region and segment in € million[1]

	Generics	Branded Products	Specialty Pharma-ceuticals	Commercial business	Group holdings/ other	Total sales 2005	Total sales 2004	±% in Euro	±% Currency adjusted[2]
Belgium	91.6	1.4	0.6	–	–	93.6	65.2	+43%	
China	2.8	0.3	–	3.9	–	7.0	6.6	+6%	+5%
Denmark	3.7	–	0.2	15.4	–	19.3	9.1	+113%	+114%
Germany	337.0	83.0	17.2	1.3	2.4	440.9	383.1	+15%	
France	65.1	4.0	1.6	–	–	70.7	53.9	+31%	
UK	28.2	1.4	0.7	–	0.0	30.3	31.1	-3%	-2%
Ireland	10.6	3.2	–	1.7	–	15.6	13.7	+14%	
Italy	41.8	42.5	2.7	7.6	–	94.6	74.3	+27%	
Kazakhstan[3]	1.2	2.2	–	–	–	3.4	1.2	–[6]	
Lithuania[4]	0.2	0.9	–	–	–	1.1	1.1	+2%	+2%
The Netherlands	27.0	9.5	0.0	2.0	–	38.6	39.7	-3%	
Austria	6.4	2.6	1.3	–	0.2	10.4	8.2	+27%	
The Philippines	0.7	–	–	5.7	0.0	6.5	4.9	+32%	+28%
Portugal[5]	5.3	–	–	–	–	5.3	0.0	–[6]	
Russia[3]	15.3	41.3	–	–	–	56.6	0.7	–[6]	
Switzerland	2.1	0.2	0.3	–	3.7	6.3	5.4	+17%	+17%
Spain	44.3	8.3	0.5	–	–	53.0	44.4	+19%	
Thailand	1.4	0.2	–	0.9	–	2.4	2.7	-11%	-12%
Czech Republic	5.1	1.0	–	–	–	6.1	5.4	+14%	+6%
Ukraine[3]	2.7	3.8	–	–	–	6.5	1.3	–[6]	
USA	33.3	0.7	–	–	–	34.0	46.0	-26%	-26%
Vietnam	3.5	1.7	–	0.9	0.0	6.1	5.2	+18%	+18%
Other countries	10.0	3.2	0.1	0.0	0.5	13.8	10.5	+32%	

In 2005, STADA in Germany again achieved numerous new product launches promptly after the expiration date of respective patents or other commercial property rights. In the second quarter of 2005, for example, the Group was thus able to expand the so-called "early entry" Mirtazapin STADA[7] from 2004 by adding a self-dissovling tablet as a

1) Sales below € 0.05 million were rounded to € 0.0 million.
2) In some cases, figures were converted into local currency since the invoicing company's reporting currency was euros.
3) Nizhpharm consolidated since January 1, 2005.
4) Founding of a sales company in 2005.
5) Ciclum Farma consolidated since May 1, 2005.
6) Not comparable due to initial consolidation in 2005.
7) The acquisition of approvals issued (without sales) for film-coated tablets with the anti-depressant active ingredient Mirtazapine, in Germany from the initial supplier N.V. Organon in the first quarter of 2004 enabled STADA to achieve a so-called "early entry" to the market at the beginning of the second quarter 2004, with several months of market exclusivity as, initially the only generics supplier until the middle of August 2004. With the current expansion of the early entry, it was possible for STADA, as the first generics supplier to offer a self dissolving tablet as a modern dosage form for the active ingredient Mirtazapine as of July 1, 2005.

modern dosage form. In addition, in the reporting period STADA in Germany introduced, among other things, generics with the active ingredients Tilidin/Naloxon in the form of retard tablets (an analgesic), Alendronic acid (for the treatment of osteoporosis) and Cefpodoxime (antibiotic).

In the German generics market, by far the largest national generics market in Europe with regards to size and market penetration, STADA continues to occupy position 3. Here, the Group – via its sales companies operating in the market – was able to expand market share in terms of units sold through the pharmacy distribution channel to approx. 10.0% in 2005 (previous year: approx. 9.7%).[1)]

Sales generated in Germany in the core segment of Branded Products increased by 16% to € 83.0 million in 2005 (previous year: € 71.5 million). Major branded products from STADA continue to be among the market leaders in their respective market segments. For example, Grippostad® has a market share of approx. 69% in the market for solid oral flu drugs[1)], Ladival® a market share of approx. 36% in the market for sunscreens sold in pharmacies[1)] and Kamistad® approx. 38% market share in the market for topical stomatological products[1)]. In 2006, in Germany the branded segment will be reinforced by the December 2005 acquisition of a product package from the SANKYO Group, since a significant proportion of sales of these products amounting to approx. € 5.3 million annually is generated in Germany.

By far the smallest core segment, Specialty Pharmaceuticals, continued to be negatively affected by severe competitive pressure in 2005 in the German hospital business and posted a downturn in sales in Germany of 5% to € 17.2 million (previous year: € 18.0 million).

In the current fiscal year, the German market will likely be subject to significant and complex regulatory changes due to the Economic Optimization of Pharmaceutical Care Act (AVWG). The AVWG is currently in the legislative process in the German parliament. Assessments as to the effects of this planned law can therefore only be preliminary and based on the current text which is being debated at the moment. The AVWG is expected to take effect in the second quarter of 2006.

Indeed, likely regulations such as an additional mandatory discount of 10% of the ex-factory price which is granted at the expense of the public health care system (so-called "generics rebate"[2)]) for products in the generics market as well as new regulations for reference price determination with the goal of considerably reducing reference prices for certain active ingredient groups, will probably lead to significant earnings burdens, particularly for generics suppliers. However, a comprehensive ban on discounts outside of the drug price regulation leads to the expectation of considerable earnings reductions and/or additional earnings for pharmaceutical companies so that, overall, the effects of the AVWG on generics companies could balance each other out. In the process, however, it remains to be seen, at least for the time being, what the competitive reaction to these regulatory interventions will be. This applies in particular to a planned provision of the AVWG which allows health insurance organizations to exempt patients from co-payment of especially low-priced generics when it can be proven that overall savings can be achieved by doing so.

1) Source: STADA estimate based on market data provided by various international market research institutes.
2) STADA expects a burden up to approx. € 40 million p. a. as a result of this detail of the AVWG regulation.

Also for other planned aspects newly regulated by the AVWG, such as regulation of advertising opportunities for pharmaceutical companies in doctors' practice software or the introduction of bonus/malus regulations relating to the prescription volume of the individual doctor, it largely depends on competitive reactions whether these measures taken as a whole will prove to be stimulating or a burden for STADA.

Overall, at this point in time STADA does not believe that the effects of the AVWG are likely to lead to an adjustment of the Group forecast. However, it remains to be seen in the course of the year whether the regulatory interventions will indeed show the effects expected by the government and experts in practice and so will show manageable effects in balance for STADA.

In **Belgium**, currently STADA's second-largest national market, the STADA business was extraordinarily encouraging in 2005. Sales increased unusually strongly with growth of 43% to € 93.6 million (previous year: € 65.2 million). The local sales company, N.V. Eurogenics S.A., continued to be the clear market leader[1)] in the Belgian generics market in fiscal year 2005 with a market share of approx. 41.8% (previous year: approx. 40.9%) and also achieved in 2005 market leadership in terms of units sold in the overall Belgian pharmaceutical market for the first time.

Notwithstanding a series of current health care policy measures, which will have in part negative and positive effects on generics, STADA is forecasting continued positive business devdelopment for the current fiscal year in Belgium. A newly launched local sales line for branded products under the name of "NeoCare" should also contribute positively to this.

In **Italy**, Group sales rose in fiscal year 2005 by 27% to € 94.6 million (previous year: € 74.3 million). STADA benefited here both from the implementation of structural measures and from branded products acquired at the end of 2004. With a market share of approx. 14.4% (previous year: approx. 14.1%), STADA achieved position 2 in the Italian generics market.[1)] STADA is anticipating numerous new product introductions in 2006, meaning that continued growth can be expected there.

In **France**, STADA recorded a sales increase in the reporting period of 31% to € 70.7 million (previous year: € 53.9 million). This increase is based as before on the strong organic growth of STADA's French generics line. STADA's French generics business continued to grow more strongly than the overall market. With a market share of approx. 6.3% (previous year: approx. 5.6%), the local STADA sales company achieved position 5 in the French generics market in 2005.[1)]

1) Source: STADA estimate based on market data provided by various international market research institutes.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TADA

Regulatory measures have taken effect in France as of February 1, 2006. Among other things, they aim to reduce the local price level for pharmaceuticals. Against this backdrop, STADA is anticipating – with a continued strong increase in units sold – only moderate sales growth in France in 2006. In this context, the local STADA sales company will continue to be able to benefit from numerous new product launches in 2006.

In **Spain**, STADA was able to generate an increase in sales of 19% to € 53.0 million in 2005 (previous year: € 44.4 million). The local generics business made a particular contribution to this, and currently stands at position 4 in the Spanish generics market with a market share of approx. 8.9% (previous year: approx. 9.7%).[1)]

In Spain, particularly the amalgamation of management structures which was pursued in 2005 – after the local STADA sales companies were legally merged in 2004 – had a particularly positive impact. The concluding step in the current year 2006 will be the amalgamation of sales structures under the name of "Laboratorio STADA S.L.".

In 2006, Laboratorio STADA S.L. is planning again numerous product introductions of generics in order to strengthen the market position further.

In **Russia**, STADA was able to show sales in local currency of RUB 1,982.2 million or € 56.6 million, following the takeover of Nizhpharm at the beginning of 2005.[2)] Thus, Nizhpharm developed even more successfully than originally expected during acquisition planning. During the course of fiscal year 2005, the Russian subsidiary took over export activities to the Baltic states, Kazakhstan, Russia and the Ukraine, activities which had been run to date by the company STADA Pharma International. STADA is anticipating further expansion of its business in Russia in 2006 as well.

In the **Netherlands**, sales declined by 3% to € 38.6 million (previous year: € 39.7 million). The reason for this was the ongoing intense competitive pressure with respect to conditions in this national market, which is hindered by pharmacies' opportunities to substitute. In the current fiscal year 2006, too, STADA in the Netherlands is anticipating a highly competitive market environment which it plans to respond to by closer co-operation with wholesalers.

In the **United Kingdom**, sales in the local currency decreased slightly by 2% and in Euro by 3% to € 30.3 million (previous year: € 31.1 million) in the reporting period. In order to be better able to respond to the continuing high competitive pressure, the local STADA sales company Genus Pharmaceuticals Ltd. is continuing to focus on individual products with strong brand names particularly in the area in between so-called "branded generics" and branded products. In 2006, a significant rise in sales in the United Kingdom can be expected from the acquisition of the SANKYO Group's product package in December 2005, since a large proportion of sales of these products – of approx. € 9.2 million – lies in the United Kingdom.

1) Source: STADA estimate based on market data provided by various international market research institutes.

2) Consolidated in the STADA Group since May 1, 2005. Sales in 2004: Nizhpharm sales under the former proprietors: 1,408.8 million RUB, STADA exports to Russia € 0.7 million.

Sales in **Denmark** developed very pleasingly in fiscal year 2005 with a growth in local currency of 114%, or in Euro 113% to € 19.3 million (previous year: € 9.1 million).

In **Ireland**, STADA was able to increase sales by 14% in 2005 to € 15.6 million (previous year: € 13.7 million). With a market share of approx. 22.7%, STADA remains the market leader in the Irish generics market.[1)] In 2006, the local sales company is expecting regulatory interventions which may result in price pressure, but may also potentially generate generics-stimulating conditions as well. Overall, under consideration of several expected new product introductions, STADA is anticipating continued positive business development in Ireland.

Business development in **Austria**, too, was characterized by growth in 2005. Here, STADA was able to increase sales by 27% in 2005 to € 10.4 million (previous year: € 8.2 million).

In **Portugal**, STADA generated sales of € 5.3 million following the takeover of the Portuguese generics provider Ciclum Farma on May 1, 2005[2)]. With a market share of approx. 4.1%, Ciclum Farma currently occupies position 7 in the Portuguese generics market.[1)] In 2006 a continued strong expansion of the product portfolio due to numerous new introductions is expected.

In the **Czech Republic**, STADA generated a rise in sales in local currency of 6% or in Euro of 14% to € 6.1 million (previous year: € 5.4 million).

With a rise in sales in local currency of 17% or in Euro of 17% to € 6.3 million (previous year: € 5.4 million), the development in **Switzerland** was also positive in 2005.

In the **Ukraine**, STADA was able – essentially due to the acquisition of Nizhpharm – to demonstrate sales in local currency in the reporting year of UAH 40.9 million or € 6.5 million.[3)]

Outside of Europe, STADA is active with its own sales companies in the USA and selected Asian countries.

In the **USA**, STADA recorded a sales decrease in local currency of 26% to $ 42.0 million (previous year: $ 57.0 million) or in Euro of 26% to € 34.0 million (previous year: € 46.0 million) in the reporting period. In the USA, the world's largest national generics market, the local sales company STADA Pharmaceuticals Inc. has been exposed to a strengthened competitive market environment for approx. 18 months due to the appearance of new competitors. The associated price and margin pressure has currently driven STADA's local US business into a loss situation. STADA expects, however, to be able to again improve the earnings situation in the US business in 2006.

1) Source: STADA estimate based on market data provided by various international market research institutes.
2) Consolidated in the STADA Group since May 1, 2005. Sales in 2004: Ciclum Farma sales under the former proprietors: € 7.3 million, STADA exports to Portugal € 0.0 million.
3) Consolidated in the STADA Group since January 1, 2005. Sales in 2004: Nizhpharm sales in the Ukraine under the former proprietors: 22.6 million UAH, STADA exports to the Ukraine € 1.3 million.

In addition, the US product launch of the analgesic patch containing Fentanyl, which is important for portfolio expansion, was continually delayed during the course of 2005. A market introduction of this important product, which STADA has licensed from an external partner, can now be expected in the second half of 2006 at the earliest. Indeed, from today's perspective, in the first half of 2006, external developers and contract manufacturers could conclude the still-open production validation process on a positive note. However, it is unclear when the FDA will issue the regulatory drug approval for this product, which was applied for a long time ago.

Against this backdrop, STADA is continuing to investigate all strategic and operative options for the US business, such as the expansion of the local portfolio by means of new introductions, product acquisitions and sales licenses. The USA sales company STADA Pharmaceuticals Inc. was thus able to introduce smaller generic products in various packaging sizes from Trigen Laboratories Inc., the US subsidiary of Indian company Jubilant Organosys Ltd., as a short-term expansion of the product range in 2005. In addition, STADA in order to expand the portfolio in the mid-term, from 2007, has signed various agreements with Indian suppliers. From today's viewpoint, it is possible that an approval will be obtained in 2008 for a Clonidin patch[1)] on which STADA holds the US sales rights and which is currently being developed externally.

In addition, extensive operative measures have been introduced to improve the loss situation in the US business in the short term. In addition to a considerable reduction in personnel, these include removing individual products without an appropriate contribution margin from the product portfolio. These measures should lead to considerable improvement in the earnings situation of the US business in 2006.

In **Asia**, STADA generated a sales increase in the reporting period of 25% to € 28.1 million. Although sales in **Thailand** declined by 12% in local currency or in Euro by 11% to € 2.4 million (previous year: € 2.7 million). However, sales in **China** increased by 5% in local currency or in Euro by 6% to € 7.0 million (previous year: € 6.6 million), in the **Philippines** in local currency by 28% or in Euro by 32% to € 6.5 million (previous year: € 4.9 million) and in **Vietnam** in local currency by 18% and in Euro by 18% to € 6.1 million (previous year: € 5.2 million). In **Kazakhstan**, STADA generated – influenced, among other things, by the acquisition of Nizhpharm – sales of RUB 117.8 million or € 3.4 million.[2)]

In addition to sales from the local sales companies in the respective national markets STADA also generates export sales. In fiscal year 2005, the Group increased these worldwide export sales to 34 countries by 32% to € 13.8 million (previous year: € 10.5 million). Classification is as follows: Exports to European countries € 10.9 million (previous year: € 7.1 million), exports to Asian countries € 2.7 million (previous year: € 1.9 million), exports to American countries € 0.15 million (previous year: € 0.06 million) and exports to the rest of the world € 0.1 million (previous year: € 1.3 million).

1) Clonidin: Active ingredient that reduces blood pressure.
2) Consolidated in the STADA Group since January 1, 2005. Sales in 2004: Nizhpharm sales in Kazakhstan under the former proprietors: RUB 43.9 million, STADA exports to Kazakhstan € 1.2 million.


STADA

ACQUISITIONS AND PROJECTS

Acquisitions 2005

In addition to organic growth, the expansion of business activities by means of targeted acquisitions is a significant motor for STADA's successful growth. In fiscal year 2005, too, the Group acquired companies and products which supplement and/or extend existing activities. Overall, STADA investments for acquisition-related growth in 2005 amounted to approx. € 192.1 million (previous year: € 39.8 million). This correlates to the acquisition of an annual sales volume of approx. € 97.0 million p.a.

Significant acquisition-related investments in € million	2005	2004	Acquired annual sales volume[1]
for the acquisition of consolidated companies (after deducting potentially acquired cash and cash equivalents)	approx. 101.9	13.0	52.8
in intangible assets for current expansions of the product portfolio (usually in the reporting year)	approx. 90.2	26.8	44.2
Total	approx. 192.1	39.8	97.0

Acquisition of the Russian pharmaceutical company Nizhpharm

On January 25, 2005, STADA was able to successfully conclude the acquisition[2] of the Russian pharmaceutical company Nizhpharm OJSC, Nizhny Novgorod, after the Russian anti-trust authority had previously approved the transaction and all contractual agreements had been implemented. The company has been consolidated in the STADA Group since January 1, 2005[3].

In fiscal year 2005, Nizhpharm generated sales of € 64.0 million (see "Management Report of the Executive Board – Development of Regional Business – Russia"). The product portfolio consists of 40 brand-name products with off-patent active ingredients. The Russian market accounts for the major share of Nizhpharm's business with a sales share of approx. 88%. Outside of Russia, substantial sales are generated in the Ukraine and Kazakhstan.

The final purchase price including activated incidental expenses for Nizhpharm was € 82.2 million. Sellers were the European Bank for Reconstruction and Development, the Nizhpharm management and other institutional and private investors.

1) Under the former owners.
2) Of 97.47% of shares.
3) At the time of the takeover, the Nizhpharm Group employed approx. 1,250 people.

From STADA's perspective, the acquisition of Nizhpharm is an important step and is part of the expansion of Group activities in the CIS states within the framework of the Group's ongoing internationalization.

Acquisition of Portuguese generics supplier Ciclum

On April 11, 2005, STADA concluded a contract concerning the acquisition of 100% of the shares of the Portuguese generics supplier Ciclum Farma, Unipessoal LDA, Amadora, from a Swiss financial investor. The purchase price amounted to approx. € 31 million. It was possible to conclude the acquisition during the course of May 2005 on completion of the usual contractual process and following the agreement of the responsible anti-trust authorities. Ciclum has been consolidated in the STADA Group since May 1, 2005.

STADA had not itself been active in sales in Portugal until that date. The acquisition enables the Group to benefit from existing or targeted EU-wide product approvals for generics in Portugal also in the future, via its own sales structures.

With sales in 2005 of € 5.1 million after eight months of consolidation in the STADA Group, Ciclum is currently number 7 in the Portuguese generics market.[1)] Ciclum is a sales company that is active throughout Portugal without any production facilities of its own that offers a comprehensive product portfolio of currently 26 so-called INN generics – i.e. generics which are sold under the name of the active ingredient with the company name as a suffix.

Acquisition in China to strengthen local sales position

In addition, STADA acquired 58% of the shares in Chinese pharmaceutical producer Beijing Center-Lab Pharmaceutical Company Ltd. (BCP) and its associated sales activities via the subsidiary STADA Pharmaceuticals (Asia) Ltd., Hong Kong, on May 11, 2005. The seller, Center International Group Ltd., British Virgin Islands, received a purchase price of € 3.5 million for these shares and will continue to participate in the BCP as a minority shareholder.

BCP has been active in the Chinese market since 2002 and achieving sales of € 3.0 million in 2005[2)]. BCP distributes a portfolio containing 16 branded products. The products are manufactured on the basis of the company's own approvals at its own production facilities in Beijing.

The principal aim of the acquisition is a structural strengthening of the Group's local sales activities in China, given that companies with a production facility in China benefit from existing market regulations. Both of STADA's other Group companies, STADA Pharmaceuticals (Asia) Ltd.[3)] and Health Vision Enterprise Ltd.[4)], which have been active in China in a sales capacity only for a number of years, will cooperate closely with BCP to take advantage of these benefits.

1) Source: STADA estimate based on market data provided by various international market research institutes.
2) Due to the overall limited significance of BCP for the Group as a whole, there will be no consolidation of this acquired company in the Group until further notice.
3) 100% STADA-owned.
4) 51% STADA-owned and 50% consolidated in the STADA Group.

Product acquisitions (e.g. Mobilat®) strengthen European branded products business

On December 12, 2005, agreements between various STADA subsidiaries and the SANKYO PHARMA Group Europe enabled STADA to purchase a package of eleven European branded products. These products, which are positioned in various areas of indication and mainly in the OTC area, achieved Europe-wide sales in 2004, the last complete fiscal year, prior to the date of acquisition, in a total amount of approx. € 38 million. Among the best known of these brands are Mobilat®, with sales of approx. € 18 million, and Hirudoid®, with sales of approx. € 14 million – both products are for the local treatment of injuries such as contusions or sports injuries. The expenses for the acquisition of the entire product range amount to a total of € 82.0 million.

Sales focuses of the acquired product package are Great Britain, Germany, Italy and Belgium. In these countries, the acquired products can, following the transfer of the drug approvals to the individual STADA sales companies, be directly integrated into the existing sales structures. A further sales focus is Finland. There, STADA is taking over the existing sales organization, with nine employees who sell the products via pharmacies, from 2006 on.

The agreements call for a staggered takeover of the various approvals and trademarks up until April, 2007. Over the course of the first half year of 2006, STADA will successively take over sales responsibility for the products in the individual national markets as soon as the drug approvals have been transferred there. The consolidation of the product sales in the Group will be staggered accordingly. It has, however, been secured in the contract that STADA draws economic benefit from the entire product package from the signing of the agreements.

Acquisition of further products for European STADA subsidiaries

Furthermore, in fiscal year 2005 STADA acquired a number of other, smaller products in Germany, Ireland, Italy and Slovakia (see “Management Report of the Executive Board – Development of Regional Business”). Investments into these product purchases amounted to approx. € 3.0 million. Taking into account the time of consolidation in 2005 depending on the respective time of acquisition, the contribution to STADA Group sales in 2005 from the accumulated annual sales volume for these products – approx. € 6.2 million – was € 3.8 million.

It is the Executive Board’s wish that an active acquisition policy continue to be pursued in the future. Significant goals of the acquisition activity will continue to be the expansion of the international sales presence and expansion of the product portfolio in the core segments. Implementation of this active acquisition policy will, however, continue to be limited by the restricted number of suitable acquisition targets.


STADA

Biogenerics (Biosimilars)

A special project with high additional sales and earnings potential for the Group, but also with a clear risk (see "Management Report of the Executive Board – Risk Report"), is being pursued by STADA in the biogenerics area. That means generics of biopharmaceutical products – i.e. products with proteins as active ingredients produced by means of genetically modified cell lines. The proteins in biogenerics, despite differing productive cell lines, have to be so similar to the initial supplier product that they are verifiably therapeutically equivalent; for this reason, the term "biosimilars" is being increasingly used in reference to biogenerics.

In cooperation with partners, STADA is conducting the development of biogenerics/biosimilars for the biopharmaceutical active ingredients Erythropoietin[1)], Filgrastim[2)] and Interferon[3)] beta-1a.

These activities have been pursued since 2001 by BIOCEUTICALS Arzneimittel AG, a company initiated by STADA and predominantly financed via venture capital. A development budget of approx. € 75 million was initially available. € 50 million of this budget came from the original equity capital of BIOCEUTICALS Arzneimittel AG of which 90% or € 45 million was paid in by venture capital investors and 10% or € 5 million was paid in by STADA. The remaining € 25 million of the original development budget was provided by STADA via capital guarantee/loan.

After this original investment volume had been exhausted during the course of 2005, on January 23, 2006 BIOCEUTICALS Arzneimittel AG decided on a capital increase with net proceeds of approx. € 15 million and new authorized capital to ensure financing of the project until, from today's perspective, the first products are ready for market launch. The capital increase has in the meantime been carried out. In this context, STADA contributed payments totalling € 6.0 million and thus now holds 13.02% of shares in BIOCEUTICALS Arzneimittel AG as of February 28, 2006.

STADA continues to provide BIOCEUTICALS Arzneimittel AG with a credit line facility with an interest rate that is usual for risk capital and of which a total of € 25.0 million had been used as of February 28, 2006. In addition, a capital guarantee from STADA for the benefit of BIOCEUTICALS Arzneimittel AG exists, of which approx. € 8.8 million[4)] had been used as of February 28, 2006.

STADA continues to hold worldwide distribution rights on these three projects carried out by BIOCEUTICALS Arzneimittel AG via a wholly-owned subsidiary, together with a so-called call option which – from 2011 – entitles STADA to acquire the other investors' shares at a price which has already been defined via a formula.

1) Erythropoietin is used, among other things, for dialysis patients to stimulate hematopoieses as well as in cancer therapy.
2) Filgrastim is used, among other things, to treat neutropenia, e.g. following bone marrow transplants.
3) Interferon beta-1a is used in the treatment of multiple sclerosis.
4) Provided that the applied for entry in the commercial registry is received.

The project itself made significant progress in 2005. The development of an Erythropoietin biosimilar is at the forefront of current activities. As planned, clinical trials which were regarded as necessary for an approval application for this project from BIOCEUTICALS Arzneimittel AG were concluded in the fourth quarter of 2005. The documents for submission of the application for approval are currently being compiled. In a "pre-submission meeting" held at the EMEA in February 2006, the remaining questions regarding the approval application were cleared up. From today's perspective, STADA thus continues to assume that there is a chance to obtain an EU-wide approval for a biosimilar from Erythropoietin in 2007.

With an EU-wide market volume of approx. € 1.2 billion[1)] in 2005, the Group now views a sales potential of up to € 70 million per year for Erythropoietin alone as achievable. STADA is currently investigating whether this potential can be expanded by involving additional partners in the marketing. This is now being evaluated in discussions with various interested parties.

1) Source: STADA estimate based on market data provided by various international market research institutes (at ex-factory prices).

FINANCIAL SITUATION

Overview

According to the Executive Board's assessment, the Group's financial condition is healthy and stable. It continues to allow STADA considerable room to maneuver both for organic and additional acquisition-driven growth.

With **total assets**, primarily influenced by expansion, of € 1,349.8 million (previous year: € 1,020.4 million), as of December 31, 2005 STADA has **equity** of € 684.8 million at its disposal. The **equity-to-assets ratio** therefore remains – despite a high investment volume (see "Management Report of the Executive Board – Acquisitions 2005") at a high 50.7% (previous year: 62.6%) as of December 31, 2005.

Due to the extensive acquisitions in particular, **net debt** increases on the balance sheet date to € 234.2 million (previous year: € 103.6 million). In comparison with the Group's equity, earnings performance and cash flow from operating activities, however, this net debt can, in the Executive Board's view, continue to be described as moderate.

Numerous further details concerning the financial position of STADA are set out in table form in Notes 1, 3, 4 and 6 of the IFRS Consolidated Financial Statement 2005 as well as extensive explanatory notes. Therefore, only significant aspects of the financial condition will be dealt with further in this Group management report.

Cash flow

Cash flow in 2005, too, was characterized by effects arising from the Group's strong acquisitive expansion (see "Management Report of the Executive Board – Acquisitions 2005").

Gross cash flow increased in the reporting period to € 109.9 million (previous year: € 81.3 million).

Cash flow from operating activities, i.e. cash flow from current business activities, increased by 329% to € 163.3 million (previous year: € 38.0 million). Although cash flow from operating activities was influenced by the expansion-related changes to working capital, also in 2005. Here, however, STADA was able to achieve considerable improvement through active cash flow management in respect of inventories and through the increased operating performance. In addition, cash flow from operating activities in 2005 was also positively influenced in the amount of € 67.0 million through a one-time effect due to the payment modalities for the acquired SANKYO branded products package through deferred income.

As regards **cash flow from investing activities**, STADA recorded cash outflows of € 264.0 million in the reporting period. Of this, approx. € 101.9 million was spent for the acquisition of consolidated companies (previous year: approx. € 13.0 million). Approx. € 90.2 million (previous year: approx. € 26.8 million) related to intangible assets in connection with the acquisition of products and product packages introduced on the market.

Cash flow from financing activities is characterized by third-party financing of the acquisitions. In 2005 it totaled € 105.8 million (previous year: € -17.2 million).

Overall, **cash flow for fiscal year 2005** amounted to € -3.0 million (previous year: € -64.0 million).

Free cash flow (cash flow from current business activities plus cash flow from investing activities) amounted to € -100.7 million in 2005 (previous year: € -46.0 million).

Free cash flow for the STADA Group adjusted for expenditure on acquisitions increased in 2005 by € 97.7 million to € 91.5 million (previous year: € -6.2 million). Particularly responsible for this is the significantly increased cash flow from operating activities.

Development of the Balance Sheet

As of the December 31, 2005 reporting date, **total assets** increased to € 1,349.8 million (previous year: € 1,020.4 million). There, the continued expansion of STADA's operating business is demonstrated.

Intangible assets increased to € 612.2 million as of December 31, 2005 (previous year: € 447.6 million). The definitive amount as well as the present rise in this balance sheet item, predominantly reflect the expansion policy pursued by STADA for years, with corresponding investments in new products, brands, licenses, product developments and companies (see "Management Report of the Executive Board – Acquisitions 2005").

To a certain extent, at an amount of € 4.0 million, STADA's gradual Group-wide implementation of SAP software in fiscal year 2005 itself also contributed to the rise in intangible assets. With additional investments for this introduction until 2007, higher effects can be expected here in 2006 and 2007.

In 2005, investments in intangible assets totaling € 168.9 million were countered by disposals of intangible assets totaling € 6.4 million, among other things, from the sale of individual small products.

The **property, plant and equipment** position recorded an increase to € 94.5 on the balance sheet date (previous year: € 60.7 million). In addition to acquisition-related growth following initial consolidation, the principal reasons for the increase are rationalization investments in property and plant equipment to the usual extent.

STADA is currently planning the construction of a new logistical center in Germany with an investment volume of up to approx. € 40 million by the year 2007. When these plans are realized, property, plant and equipment will increase correspondingly in the next fiscal year.

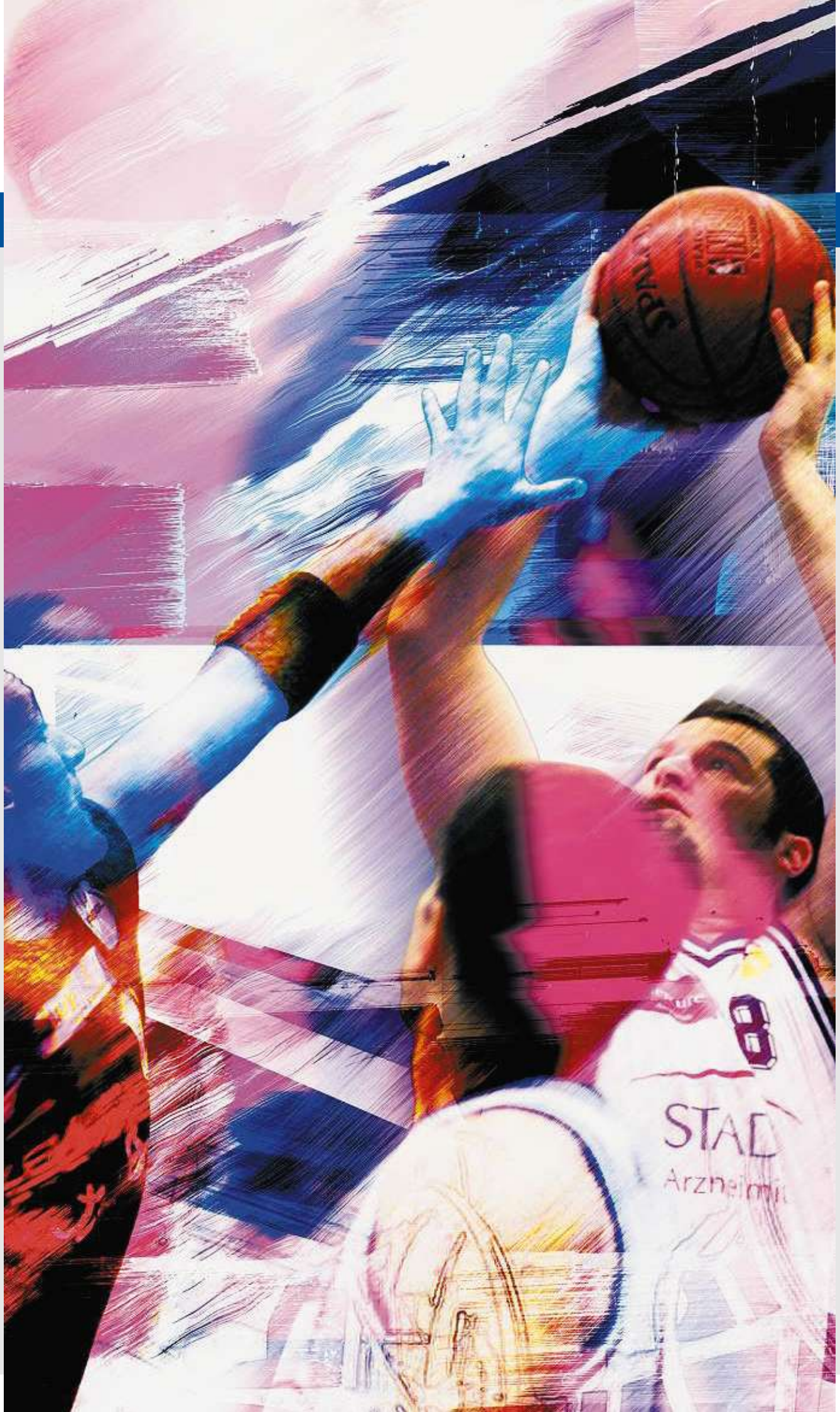
Financial assets rose as of December 31, 2005 to € 32.7 million (previous year: € 16.1 million). The disposal of the stake in LipoNova GmbH totalling € 6.9 million in the context of the closing of the LipoNova/Reniale® project (see "Management Report of the Executive Board – Development of Profit") is particularly noticeable here.

Non-current trade accounts receivable, which include receivables from long-term loans to enterprises consolidated on a pro rata basis, decreased to € 1.1 million as of December 31, 2005 (previous year: € 4.9 million). **Current trade accounts receivable** increased, due mainly to the expansion of operative Group business, to € 230.3 million (previous year: € 159.1 million). Despite the increased receivables, the Group's default risk did not rise. In 2005, the **provision for bad debts** remained very low at 1.0% (previous year: 1.4%).

Inventories as of the balance sheet date rose at a rate lower than the rate of growth in sales to € 224.0 million (previous year: € 206.0 million), this was due to active stock management.

As of the balance sheet date, **non-current financial liabilities** increased to € 258.7 million (previous year: € 103.1 million), particularly due to acquisitions and influenced by the conversion of current liabilities to non-current credit terms. As of December 31, 2005, **current financial liabilities** decreased to € 48.2 million (previous year: € 79.1 million). The expiry of the € 75 million bond as of June 26, 2005 is particularly noticeable here that has been replaced by longer-term credit lines.

Overall, current and non-current liabilities and provisions amounted to € 665.0 million as of December 31, 2005 (previous year: € 381.4 million). This rise is predominantly due to the Group's growth, both internally and externally.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STAD

SUPPLEMENTARY REPORT

Significant events that occurred between the end of fiscal year 2005 and preparation of the Management Report and the financial statement are stated for a better understanding within the relevant context of the Management Report.

Against this backdrop, these supplementary events are only listed in this supplementary report. For detailed content, please refer to the relevant passages in the Management Report.

Significant events for this supplementary report are:

- the appointment of three new Executive Board Members for STADA Arzneimittel AG as of January 1, 2006 (see "Management Report of the Executive Board – Fiscal Year 2005").

- the ongoing legislative process in the German parliament for the AVWG which, when it likely takes effect in the second quarter of 2006, will have a significant effect on business in Germany (see "Management Report of the Executive Board – Development of Regional Business – Germany" and "Prognosis").

- the entry into effect of health-related regulations with the goal to reduce prices in France on February 1, 2006 (see "Management Report of the Executive Board – Development of Regional Business – France" and "Prognosis").

- an increase in capital, in the first quarter of 2006, of BIOCEUTICALS Arzneimittel AG, which is intended to ensure the financing of biogenerics on which STADA has worldwide distribution rights via a wholly-owned subsidiary up until the first products enter the market (see "Management Report of the Executive Board – Biogenerics (Biosimilars)").

- the "pre-submission meeting" which took place in February 2006 within the framework of the ongoing preparation for the submission of an approval at the EMEA within the scope of the biogenerics project with BIOCEUTICALS Arzneimittel AG in the current fiscal year 2006 for an Erythropoietin biosimilar product on which STADA has worldwide distribution rights via a wholly-owned subsidiary (see "Product Development" as well as "Management Report of the Executive Board – Biogenerics (Biosimilars)").

- the continuing audit, within the framework of ongoing negotiations, whether, in order to expand the sales potential for an Erythropoietin biosimilar product additional partners should be involved in the marketing (see “Product Development” as well as “Management Report of the Executive Board – Biogenerics (Biosimilars)”).

- the prosecution of sales growth in the first two months of 2006 (see “Management Report of the Executive Board – Prognosis”).

RISK REPORT

Risk management system

Every business is theoretically exposed to general risks and may also be exposed to additional, more specific risks resulting from the nature of its business activity. STADA has an established risk management system to identify and to reduce risks to an appropriate amount considering the expected benefit of the business activity involved.

STADA's risk management system is centrally operated by the risk management department and is regularly reviewed for effectiveness and suitability. A Group-wide risk reporting and messaging system is used to identify significant risks, especially such risks that may jeopardize the continued existence of the company. In addition, the local risk officers present written and oral reports to give a clear picture of the current risk situation of the Group. The risk management system aims to identify risks and assess their effects on STADA so that suitable measures can be initiated, if necessary.

The Group's independent auditor has reviewed STADA's risk management system and confirms that the system is in compliance with statutory requirements.

In the opinion of STADA's Executive Board, anticipated risks to the Group's activities particularly include:

Regulatory risks

STADA's business activities are to a great extent influenced by government regulations pertaining to the public health care system in individual countries and by the resulting market structures. Therefore there is an inherent risk for STADA in that changes to existing or new regulations may adversely affect its business activities.

STADA's national sales structures in individual markets, for instance, are geared to local regulatory conditions with regard to the marketing, sale, and trade of drugs and other products, which vary from one country to another. As a result, investments that rely on the continuation of existing market structures may prove worthless and existing market positions may be jeopardized.

Often, national regulations also directly (e.g. by statutory price reductions) or indirectly (e.g. with reference prices or rules concerning discounts) regulate drug prices. Should STADA therefore be compelled to reduce prices or to take other margin-reducing measures, this will have a direct negative impact on STADA's earnings position, unless such

measures also serve to balance the margins via a stimulation of units sold, improvements of earnings or lowering costs. This also applies in the event that drugs are classified as non-reimbursable under the respective national social security systems. Regulatory interventions that directly or indirectly give increased purchasing power to individual customers or customer groups (such as for example doctors, pharmacists, patients, health insurance organizations, buying groups, wholesalers, pharmacy chains, mail-order companies) or which lead to changes in purchasing behaviour (such as through the co-payment regulations for patients or the prescription volume related bonus-malus provisions for doctors) could also have adverse effects on STADA.

Accurate predictions concerning the introduction, scope, or effects of potential changes in national regulations are not possible, since the introduction or scope of such regulations depends on the politics of the country in question and the effects are influenced to a large degree by the reactions of the market participants affected.

Current product portfolio risks

In general, new scientific findings or evaluations can lead to a less favorable risk-benefit analysis of drugs. Measures that may be taken by the authorities in such cases extend from recalling specific batches from the market to restricting or withdrawing relevant approvals.

Medical products, cosmetics, and other health care items that do not require prior approval may also be affected by new scientific findings or evaluations, which could lead to a restriction or cessation and/or prohibition of further sales.

The discovery of hidden or new emerging quality defects in products from the current product portfolio may also lead to a restriction or cessation and/or prohibition of further sales.

Product portfolio expansion risks

As a rule, drugs may only be brought to market with product-specific approval. Product market entry can be considerably delayed or prevented as a result of the extensive efforts required in preparing approval documentation as well as the lengthy approval processes. Additional requirements imposed by the relevant approval authorities may also lead to a situation in which STADA is unable to market a new product as intended. In some countries, drugs are subject to some direct government price controls or require additional approvals for reimbursement via the relevant national social security system. The launch of a drug affected by a lengthy process of price control or reimbursement approval may be considerably delayed for STADA in these countries.

In general, meticulous observance of relevant legislation is also extremely important for every product, including during development and approval. This also particularly applies to a great extent to the observance of commercial property rights for generics and specialty pharmaceuticals (patents, SPCs and so called “data exclusivity”). If individual legislative requirements are violated, the result may be a delay or even prevention of the launch of a new product due to legal steps taken by competitors or rejection by the approval authorities.

The expansion of the product portfolio into biogenerics and/or so-called biosimilars, a field that STADA has pursued for some time now, is especially subject to development and approval risks, and risks associated with compliance with commercial property rights. Since this is a new product category with specific production and quality requirements, there is a higher risk here than in development projects for ordinary generics. On the one hand, development and approval processes for biogenerics and/or biosimilars may fail entirely or partially, be substantially delayed, or become considerably more costly. On the other hand, competitors may take action to prevent the market launch due to alleged infringement of commercial property rights or may enter the market earlier than STADA or with more effective products than STADA. The planned expansion of the STADA portfolio with biogenerics and/or biosimilars could therefore fail or be significantly impaired.

Competitive risks

The health care and pharmaceutical markets in which STADA operates are highly competitive. Some of STADA's competitors possess considerably higher financial and organizational resources, production capabilities, sales strengths, and/or market power than STADA. In addition, new competitors may appear in all markets where STADA is active. Effective market activities on the part of competitors, e.g. in terms of price adjustments, scope of service, better delivery and discount conditions, may be to the distinct detriment of STADA's own success. Competitors may also accept targeted losses in specific market segments, for individual products, or in certain subsidiaries, in order to safeguard or expand their own competitive position. This is particularly true with regard to potential price and conditions wars with competitors, given the intense competition in the generics market which is STADA's largest core segment, especially if these products can be offered by competitors at lower cost or in improved dosage forms. It is also possible that the increased purchasing power of individual customers or customer groups (such as for example doctors, pharmacists, patients, health insurance organizations, buying groups, pharmacy chains, wholesalers and mail-order companies), or regulatory measures, could intensify competition regarding price, service, and purchasing terms.

STADA, too, is prepared to accept losses if necessary, in particular in national markets that in the company's view exhibit major growth potential with respect to sales and/or earnings, in order to maintain or advance its own competitive position. These losses may be higher than anticipated as a result of competition activities, customer behavior or government regulation.

Risks associated with growth

In the event that the Group's facilities, human resources, internal structures, management tools, or financial resources cannot keep pace with the Group's growth, STADA may be adversely affected.

New companies or products acquired in the past or in the future may not be integrated into the Group as planned, or only at higher costs than originally expected, and/or intended synergy effects may not be achieved. Acquired companies or products may not generate the results anticipated in the market. Furthermore, there could be unexpected difficulties in introducing acquired products into new markets. This could necessitate extraordinary write-offs on acquired assets.

In financing future expansion, there is an inherent risk that the Group may only be able to obtain capital or loans under disadvantageous conditions, or not at all.

Legal risks

STADA's business activity, in particular in the Generics and Specialty Pharmaceuticals segments, is associated with an elevated risk of legal disputes regarding commercial property rights (especially patents and SPCs) as well as allegations of violations of company or trade confidentiality; such disputes may be initiated by third parties against STADA or by STADA against third parties. Such events could result in considerable costs, in particular when such proceedings are initiated in the USA. Moreover, they may result in significant damage claims and a temporary or permanent ban on the marketing of particular products.

If there is a serious risk of future damage claims, STADA creates product-specific provisions considered to be commensurate with potential damage claims; these provisions amounted to € 1.0 million for the Group as of December 31, 2005 (December 31, 2004: € 1.0 million). In principle, STADA cannot guarantee that such provisions will be sufficient for individual instances or in total.

STADA's business activities engender risks associated with product liability claims. Should specific products prove to be defective and/or to cause undesirable side effects, this could result in substantial damage claim liabilities – especially in the USA – and in the restriction or withdrawal of approvals. There is no assurance in principle that the insurance policies maintained by the Group, depending on type and scope, will offer sufficient protection against all possible damage claims or losses.

In addition, STADA is subject to specific legal risks as an exchange-listed company. In the case of an actual or even merely alleged violation of applicable law, the company could be subject to both penalties and damage claims. Such instances may result in substantial additional costs, in particular for legal counsel.

Risks associated with internationalization of business

STADA must take into account varied and changing legal and tax conditions as well as the relevant market situation in each of its markets. This may be associated with considerable effort. Increased bad debt risk may also be incurred abroad.

In addition, STADA uses the opportunity to transfer goods and services within the Group. There is no guarantee that the fiscal authorities in individual countries may not take a critical view of such transactions and impose retroactive tax demands on the company.

STADA also conducts business outside of the euro zone. A portion of both procurement and invoicing is undertaken in currencies other than the Euro. Exchange rate fluctuations between Euro and non-Euro currencies may impact

the Group's earnings. The Group employs derivatives, particularly foreign exchange contracts, to hedge assets and liabilities and anticipated future funds flows denominated in foreign currency.

As of STADA's commencement of sales activities in the USA, which in the future could also encompass the launch of new products promptly after patent expiration, STADA has also been exposed to an elevated risk level with respect to product liability and patent litigation in the USA. These US activities may be associated with substantial additional costs, in particular for legal counsel. The same applies to disputes resulting from a violation of confidentiality regarding company and trade secrets.

Economic risks

A weak economy as a rule increases cost pressures in individual national health care systems and as a consequence also increases the frequency and extent of regulatory intervention in market structures with risks for the Group as described above.

Moreover, sales of Group products or product lines for which the consumer bears part or all of the costs are particularly sensitive to changes in the economic environment, since the product may not be reimbursed under the local health insurance system. This is true in particular for drugs used for self-medication and for wellness products from the STADA portfolio.

Additional risks associated with overall business processes

External suppliers, contract manufacturers, and other contractors have been integrated into STADA's business processes to a considerable extent, particularly in the areas of development, procurement, pharmaceutical production, and packaging, though also to an increasing degree in other areas. Furthermore, the Group is taking increasing advantage of the opportunity of having essential Group success performed by third parties, with whom cooperations are entered into. In addition, as of December 31, 2005, STADA had specifically licensed 17,400 German pharmacies to undertake the final packaging of partially packed products delivered by STADA in their own pharmacies. This license currently applies to 9 branded products.

When third parties are incorporated into the company's business process, the risk arises that individual business or alliance partners may not comply properly or at all with their obligations or that they may terminate their agreements with the company, resulting in material adverse effects for STADA. Moreover, STADA could become liable for infringements on the part of business or alliance partners.

STADA generally conducts business transactions not against cash payment, but on an invoicing basis to numerous individual debtors. The theoretical commercial risk of debtor default is therefore associated with this. STADA partly uses suitable measures to safeguard itself against this, such as guarantees or loan insurances. It cannot be ruled out that these measures are insufficient and non-payments of individual debtors arise to a significant extent.
In fiscal year 2005, provision for bad debts in the Group in this regard amounted to 1.0% (previous year: 1.4%) of the net sales.

STADA is dependent on global developments with respect to prices for active ingredients or auxiliary materials required as well as on the prices negotiated with contract manufacturers in the case of products produced by these companies; these prices may fluctuate significantly depending on the product. There is no assurance that procurement cost increases or supply shortages in the case of individual products will not have adverse effects on the Group's sales and profit margins.

STADA uses electronic data processing extensively in its business processes. Therefore, the Group has to make continuous investments to appropriately adapt these systems to its growing and/or changing business processes. In the event electronic data processing of the Group is nonetheless insufficient and/or inefficient, this would have adverse effects on business processes at STADA. Should electronic data be lost despite extensive backup measures, or should such data be subject to unauthorized access, this would also have material adverse effects on STADA.

STADA is in possession of a number of business and trade secrets that must be treated with confidentiality. STADA makes use of confidentiality agreements with employees, external alliance partners, and service providers as well as with certain other contractual partners in order to safeguard these business and trade secrets. There is no guarantee that these agreements and other protective measures taken to ensure business and trade secrecy actually represent effective protection or that they will not be violated. There is also no assurance that business and trade secrets will not become known to competitors by other means. This may have material adverse effects on STADA.

STADA relies heavily on qualified employees. As a result of its flat corporate structure, a small number of managers is in possession of essential expert knowledge, in particular in management and in product development and approval, though also in marketing and sales. The departure of managers from the ranks of Group or subsidiary management and/or of employees with specialist knowledge could have material adverse effects on the Group. The Group's continued success also depends on its ability to attract and keep qualified employees in the future. In its search for qualified employees, STADA competes with numerous other companies, in particular with competitors in the pharmaceutical industry.

Like any company, STADA as a Group and the STADA subsidiaries in their national markets are subject to additional general business risks such as strikes, accidents, natural disasters, terrorism, war, and other unforeseeable negative influences. STADA protects itself against such risks to the extent possible and financially reasonable through appropriate insurance policies.

The impact of risks

In the event one or more of the above-mentioned risks should materialize, this could have material adverse effects on STADA's business, financial situation, and results of operations.

PROGNOSIS REPORT

Continuing strategic orientation to growth markets

The Executive Board of STADA expects that the global pharmaceutical market and the most important national pharmaceutical markets will grow further in the coming years. Due to the global cost pressure in health care markets and the continuous flow of active ingredients with expiring commercial property rights, especially suppliers of low-cost generics in particular should be able to benefit from this growth.

This assessment is confirmed by corresponding growth prognosis of independent market research institutes. For the time period between 2005 and 2010, average annual growth of the worldwide pharmaceutical market of approx. 5% to 8% can be thereby expected in accordance with this prognosis. The average annual growth rate for the global generics market can be thereby edstimated at approx. 13% to 17%.[1)]

Due to the Group's focus on multisource products in selected segments of the pharmaceutical market with an emphasis on generics, the Executive Board considers that STADA continuous to be well positioned for its further successful development.

Business model-inherent challenges and risks

However, there are also inherent challenges in the STADA business model, which are a result of the structure and mechanisms of the market segments in which STADA is active (see “Management Report of the Executive Board – Risk Report”).

This means that STADA, among other things, has to continue to act in highly price-sensitive, competitive markets in the future and in particular also has to face regulatory challenges. For example, there will be seriously changed conditions in the German pharmaceutical market resulting from the new Economic Optimization of Pharmaceutical Care Act (AVWG), which will likely take effect in the the second quarter of 2006, and in France new health legislation since February 1, 2006 are affecting the Group’s local business.

STADA cannot avoid exposing itself to these specific challenges and risks – in addition to the general risks for enterprises and/or pharmaceutical enterprises – since they are inseparably connected to the opportunities and structural growth potentials aspired to by the STADA business model.

1) STADA estimates on the basis of data from IMS Health (worldwide provider of information services for the pharmaceutical industry) for the worldwide largest generics markets. The market data on generics fluctuate (in some cases substantially) due to differing market definitions from source to source.

Operational alignment opens growth potentials

Due to STADA's strong operative alignment, however, it is the view of the Executive Board that it should be possible to successfully meet these challenges and risks in the future and transform the markets' structural growth potentials into the Group's own growth.

The Group will therefore be able to benefit in the future from its broad sales presence with the focus on Europe. The expanded international network of the Group's local sales companies continues to provide STADA with the opportunity to align its own sales activities precisely with the structural growth potentials of the individual national markets, as well as to react quickly and flexibly to structural or regulatory local market changes.

A strong product development with a full product pipeline will enable continuous product portfolio expansion also in the next years in the individual national markets, in particular in the core segment of Generics. From today's viewpoint the biogenerics project, which has been conducted by STADA for years within the scope of venture capital financing, makes approval of the Erythropoietin product an additional potential for growth a likely prospect in 2007. In addition, a higher proportion of in-house developments should reduce dependencies on individual suppliers in the medium term and therefore enable cost of sales to be optimized further.

The global procurement of active ingredients and auxiliary products as well as a significant level of outsourcing, are integral components of STADA's operative alignment. The Group will also increasingly draw on resources in countries with low raw material prices and low labor costs for its production activities. In the opinion of the Executive Board, STADA should therefore be in a position to continue to ensure competitive cost of sales for the Group.

Also in the future, in the Executive Board's view, a significant success factor for STADA will be a deep understanding of markets, their mechanisms and regulations as well as the Group's profound knowledge in the sectors of product development, procurement and production, particularly of generics. All employees of STADA are the bearers of this understanding and knowledge, and the Group's reliance on their loyalty and willingness to perform remains unchanged. The Group will therefore continue to support employees sustainably in the future by means of modern personnel management.

Contributions to growth through active acquisition policy

It is the Executive Board's wish that an active acquisition policy continue to contribute to the Group's further growth in the future. In the face of a continued high equity-to-assets ratio, sufficient borrowed funds continues to be available to STADA. Significant goals of the acquisition activity will thereby continue to be the expansion of the international sales presence and broadening of the product portfolio in the core segments. Implementation of this active acquisition policy will, however, continue to be limited by the restricted number of suitable acquisition targets.

Continuation of robust Group growth expected

Overall, in the Executive Board's view STADA's proven business model continues to have growth potential. This is also demonstrated in the current fiscal year 2006 with a sales increase compared to the previous year of approx. 22% as of February 28, 2006.

Against this backdrop, the Executive Board assumes – regardless of continued and not always calculable regulatory interventions in individual national markets – that the many years of robust growth within the Group will proceed in the future. Thereby, a disproportionate increase in earnings in relation to sales is being targeted.

In the Executive Board's view, this anticipated continuous growth on its own strength provides a sound fundamental basis for higher ratings for STADA at the capital markets and therefore for a continued increase of the company's value in the coming years.

Bad Vilbel, March 10, 2006

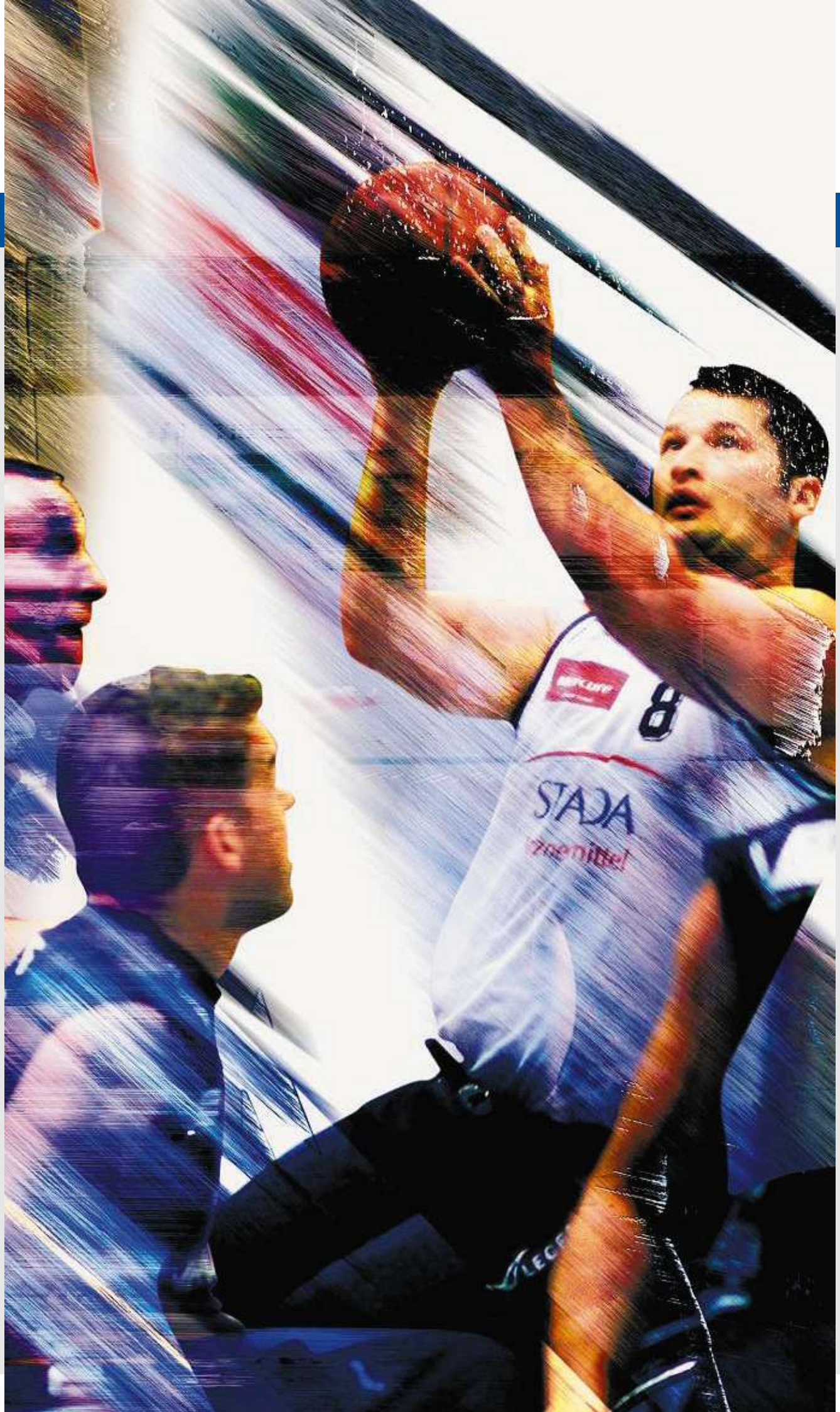
H. Retzlaff

W. Jeblonski

Dr. A. Oehmichen

C. Schumann

H. Stols


STADA

STADA 2005 CONSOLIDATED FINANCIAL STATEMENTS: FURTHER DETAILS

CONSOLIDATED INCOME STATEMENT

Consolidated Income Statement for the period from Jan. 1 to Dec. 31 in € 000s	2005	Previous year	Notes IFRS
01. Sales	1,022,059	813,519	2.1.
02. Cost of sales	509,521	415,029	2.2.
03. Gross profit	**512,538**	**398,490**	2.3.
04. Other operating income	18,338	20,330	2.4.
05. Selling expenses	271,400	232,107	2.5.
06. General and administrative expenses	69,657	53,202	2.6.
07. Research and development expenses	30,716	23,314	2.7.
08. Other operating expenses	31,983	22,358	2.8.
09. Operating profit	**127,120**	**87,839**	2.9.
10. Closing of LipoNova/Reniale® project	-20,311	0	2.10.
11. Investment income	251	401	2.11.
12. Interest result	-9,544	-10,690	2.12.
13. Financial result	**-9,293**	**-10,289**	2.13.
14. Earnings before taxes	**97,516**	**77,550**	2.14.
15. Taxes on income	45,501	29,024	2.15.
16. Net income	**52,015**	**48,526**	2.16.
thereof			
• net income distributable to shareholders of STADA Arzneimittel AG	51,583	48,484	2.17.
• net income relating to minority interests	432	42	2.18.
17. Earnings per share in € (in accordance with IAS 33.10)	0.97	0.91[1)]	2.19.
18. Earnings per share in € (diluted) (in accordance with IAS 33.31)	0.91	0.88[1)]	2.20.

Unless otherwise stated, "net income" in this report refers to income attributable to the shareholders' stake in STADA Arzneimittel AG and which under IFRS also represents the basis for calculating earnings per share and diluted earnings per share.

1) Adjusted for the de facto 1:1 stock split on July 30, 2004.

CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet as of Dec. 31 in € 000s Assets	2005	Previous year	Notes IFRS
A. Non-current assets	**783,806**	**551,850**	
1. Intangible assets	612,205	447,577	3.1.
2. Property, plant and equipment	94,540	60,663	3.2.
3. Financial assets	32,702	16,063	3.3.
4. Non-current trade accounts receivable	1,065	4,934	3.4.
5. Other non-current assets	31,912	12,944	3.5.
6. Deferred tax assets	11,382	9,669	3.6.
B. Current assets	**565,967**	**468,584**	
1. Inventories	224,042	206,012	3.7.
2. Current trade accounts receivable	230,254	159,090	3.8.
3. Other current assets	38,902	24,918	3.9.
4. Current securities	13	2,789	3.10.
5. Cash and cash equivalents	72,756	75,775	3.11.
Total assets	1,349,773	**1.020,434**	

Equity and Liabilities	2005	Previous year	Notes IFRS
A. Shareholders' equity	**684,811**	**638,995**	
1. Share capital	139,101	138,816	3.12.
2. Reserves and unappropriated retained earnings	543,438	500,082	3.13.
3. Minority interests	2,272	97	3.14.
B. Non-current liabilities and provisions	**316,856**	**141,070**	
1. Non-current provisions	17,362	13,377	3.15.
2. Non-current financial liabilities	258,723	103,109	3.16.
3. Non-current trade accounts payable	827	879	3.17.
4. Other non-current liabilities	2,797	2,322	3.18.
5. Deferred tax liabilities	37,147	21,383	3.19.
C. Current liabilities and provisions	**348,106**	**240,369**	
1. Current provisions	3,985	3,183	3.20.
2. Current financial liabilities	48,214	79,064	3.21.
3. Current trade accounts payable	124,614	86,211	3.22.
4. Other current liabilities	171,293	71,911	3.23.
Total equity and liabilities	1,349,773	1,020,434	

CONSOLIDATED CASH FLOW STATEMENT

Cash flow provided by operating activities in € 000s	2005	Previous year	Notes IFRS
1.1. Cash flow (gross)	109,896	81,271	4.1.
thereof			
• 1.1.1. Net income (including net income relating to minority interest)	52,015	48,526	
• 1.1.2. due to depreciation and amortization (+) / write-ups (-) of non-current assets	53,730	34,488	
• 1.1.3. due to increase (+) / decrease (-) in non-current provisions	3,984	905	
• 1.1.4. due to interest accrued on bond with warrants	0	1,781	
• 1.1.5. due to gains (-) / losses (+) on disposals of non-current assets	167	-4,429	
1.2. Cash flow due to changes in assets[1]	-73,056	-75,312	
thereof			
• 1.2.1. due to changes in inventories	-5,924	-39,339	
• 1.2.2. due to changes in trade receivables	-38,452	-28,599	
• 1.2.3. due to changes in other receivables / prepaid expenses	-30,947	-5,345	
• 1.2.4. due to changes in current securities	2,776	-2,037	
• 1.2.5. due to changes in deferred tax assets	-509	8	
1.3. Cash flow due to changes in equity and liabilities[2]	126,462	32,082	
thereof			
• 1.3.1. due to changes in current provisions	803	-5,218	
• 1.3.2. due to changes in trade payables	37,833	9,221	
• 1.3.3. due to changes in other liabilities / deferred income	86,441	23,198	
• 1.3.4. due to changes in deferred tax liabilities	1,385	4,881	
1. Cash flow from operating activities	163,302	38,041	4.2.

1) Without the assets of acquired companies.
2) Without the liabilities of acquired companies.

Cash flow from investing activities in € 000s	2005	Previous year	Notes IFRS
2.1. Payments for investments	-274,188	-95,128	
thereof			
• 2.1.1. for the acquisition of consolidated companies (after deducting possible acquired cash and cash equivalents)	-101,909	-13,033	
• 2.1.2. for significant material purchases of intangible assets for current expansion of the product portfolio (as a rule in the reporting year)	-90,234	-26,775	
• 2.1.3. for purchases of other intangible assets	-43,890	-40,807	
• 2.1.4. for purchases of property, plant and equipment	-14,848	-7,025	
• 2.1.5. for purchases of financial assets	-23,307	-7,488	
2.2. Proceeds from disposals	10,203	11,075	
thereof			
• 2.2.1. from the disposals of consolidated companies	0	0	
• 2.2.2. from the disposals of intangible assets	6,092	2,121	
• 2.2.3. from the disposals of items of property, plant and equipment	4,105	246	
• 2.2.4. from the disposals of financial assets	6	8,708	
2. Cash flow from investing activities	-263,985	-84,053	4.3.

Cash flow from financing activities in € 000s	2005	Previous Year	Notes IFRS
3.1. Payments in the context of financing activities	-95,923	-19,028	
thereof			
• 3.1.1. to shareholders (dividend distribution)	-20,775	-18,822	
• 3.1.2. for the redemption of bonds and finance facilities	-75,148	0	
• 3.1.3. from the netting of transaction costs related to the capital increase in 2003	0	-206	
3.2. Proceeds in the context of financing activities	201,712	1,802	
thereof			
• 3.2.1. from additions to shareholders' equity / share capital of STADA AG	285	0	
• 3.2.2. from additions to shareholders' equity / capital reserve of STADA AG	1,516	5	
• 3.2.3. from the issue of bonds and finance facilities	199,911	1,797	
3. Cash flow from financing activities in € 000s	105,789	-17,226	4.4.

Net cash flow for the period in € 000s		2005	Previous year	Notes IFRS
1.	Cash flow from operating activities	163,302	38,041	
2.	Cash flow from investing activities	-263,985	-84,053	
3.	Cash flow from financing activities	105,789	-17,226	
4.	**Changes in cash and cash equivalents (sub-total)**	5,106	**-63,238**	
5.	Other changes in shareholders' equity/currency translation	5,967	-4,754	
6.	Influence on changes in the balance sheet by companies consolidated for the first time	-14,092	4,018	
7.	**Net cash flow for the period**	-3,019	**-63,974**	4.5.

Development of cash and cash equivalents in € 000s		2005	Previous year
0.	Cash and cash equivalents at beginning of period	75,775	139,749
7.	Net cash flow for the period	-3,019	-63,974
8.	**Cash and cash equivalents at end of period**	72,756	**75,775**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Consolidated Statement of Changes in Shareholders' Equity as of Dec. 31 in € 000s

2005	Number of common shares	Share capital
Balance as of Dec. 31, 2005	**53,500,300**	**139,101**
Dividend payment of STADA Arzneimittel AG		
Capital increase from warrant 2000/2015 of STADA Arzneimittel AG	109,480	285
Changes in retained earnings (treasury shares)		
STADA Arzneimittel AG reinvestment		
Disolution of reserves for "cash flow hedge"		
Currency translation differences		
Consolidation effects		
Net income 2005[1)]		
Reclassification of minority interests in net income 2005		
Balance as of Jan. 1, 2005	**53,390,820**	**138,816**
2004		
Balance as of Dec. 31, 2004	**53,390,820**	**138,816**
Dividend payments of STADA Arzneimittel AG		
Capital increase from authorized capital of STADA Arzneimittel AG	26,695,410	69,408
Capital increase from warrant 2000/2015 of STADA Arzneimittel AG	120	0
Changes in retained earnings (treasury shares)		
ALIUD Pharma GmbH & Co. KG reinvestment		
Netting of transaction costs related to the 2003 capital increase according to IAS/SIC 17		
Dividend payment of NPA New Pharmajani S.p.A. to former minority shareholders		
Reclassification of minority interests in the profit brought forward by NPA New Pharmajani S.p.A.		
Reclassification of minority interests in the equity of NPA New Pharmajani S.p.A.		
Changes due to consolidation		
Valuation of cash flow hedges (effect on equity)		
Currency translation differences		
Net income 2004[1)]		
Reclassification of minority interests in net income 2004		
Balance as of Jan. 1, 2004	**26,695,290**	**69,408**

1) Net income including net income relating to minority interest.

Capital reserve	Retained earnings	Unappropriated retained earnings	Currency translation difference	Provisions for cash flow hedges	Minority interest	Total shareholders' equity
391,603	50,044	101,935	-144	0	2,272	684,811
		-20,775				-20,775
1,516						1,801
		383				383
	8,000	-8,000				0
				1,676		1,676
		9,228	-255			8,973
					1,743	1,743
		52,015				52,015
		-432			432	0
390,087	42,044	69,516	111	-1,676	97	638,995
390,087	42,044	69,516	111	-1,676	97	638,995
		-18,675				-18,675
-43,931	-25,477					0
5						5
		-1,547				-1,547
	26,000	-26,000				0
-206						-206
		-147				-147
		193			-193	0
					-900	-900
	905	-905				0
				-1,676		-1,676
		-1,062	218		-39	-883
		48,526				48,526
		-42			42	0
434,219	40,616	69,175	-107	0	1,187	614,498

APPENDIX (NOTES IFRS)

1. General

1.1. Basis of presentation

STADA Arzneimittel Aktiengesellschaft[1], Bad Vilbel, Germany is a joint-stock company registered under German law. The company is active throughout the world in the health care and pharmaceuticals market, especially in the segments of Generics, Branded Products, Specialty Pharmaceuticals and commercial business.

STADA Arzneimittel AG's consolidated financial statements are prepared in accordance with the accounting standards promulgated by the International Accounting Standards Board (IASB) known as the International Financial Reporting Standards (IFRS). The IFRS to be applied as of January 1, 2005 and the corresponding interpretations of the International Financial Reporting Interpretations Committee were observed.

The consolidated financial statements of STADA Arzneimittel AG provide a true and fair view of the Group's net assets, financial position, results of operations and cash flows during the fiscal year.

The consolidated financial statements of STADA Arzneimittel AG conform with the EU regulation Nr. 1606/2002 (IAS-regulation) from the European Parliament and Council from July 19, 2002 as well as with further regulations on the adoption of international accounting standards of the EU Commission based on the International Accounting Standards (IAS) and/or International Financial Reporting Standards (IFRS) approved and published by the International Accounting Standards Board (IASB).

In order to ensure that the consolidated financial statements are no less valid than if they had been prepared in accordance with the German Commercial Code (HGB), they meet all disclosure obligations imposed by the HGB but not included under regulations of the IASB, in particular the preparation of a management report.

The exemption rule stated in § 264 b of the HGB was applied to ALIUD PHARMA GmbH & Co. KG. The exemption rule stated in § 264 (3) of the HGB was applied to ALIUD PHARMA Verwaltungs-GmbH, BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, LIFE TRANS Pharma Vertriebs GmbH, STADA GmbH, STADA Medical GmbH, STADA Research and Development GmbH, STADApharm GmbH, STADA Pharma International GmbH, Taxon GmbH and UZARA-WERK GmbH.

1) On June 14, 2005, the Annual Shareholder's Meeting adjusted the objective of the company, as regulated in the articles of incorporation to match the business activities that had expanded and changed in recent years. Details concerning this matter can be found on the STADA website at www.stada.de and/or www.stada.com.

1.2. Scope of consolidation

The consolidated financial statements of STADA Arzneimittel AG include the financial statements of all significant companies that are controlled by STADA Arzneimittel AG, either directly or indirectly through its subsidiaries. Control as interpreted in IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries) exists if STADA Arzneimittel AG or its subsidiaries are in a position to determine the financial and operating policies of a company for derivation of a commercial benefit. These companies are included in the consolidated financial statements from the time at which STADA Arzneimittel AG or its subsidiaries acquire the means to control them.

The inclusion ceases at the time when these means of control are relinquished.

The consolidated financial statements of STADA Arzneimittel AG as of December 31, 2005 include the following subsidiaries (wholly-owned unless otherwise specified):

- AAXL Pharma S.A., Brussels, Belgium
- ALIUD PHARMA CZ s.r.o., Prague, Czech Republic
- ALIUD PHARMA GmbH & Co. KG, Laichingen
- ALIUD PHARMA Verwaltungs-GmbH, Laichingen
- ALIUD PHARMA GmbH & Co. KEG, Vienna, Austria
- ALIUD PHARMA Verwaltungs-Ges.m.b.H., Vienna, Austria
- BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel
- Boniscontro & Gazzone S.r.l., Milan, Italy
- cell pharm Gesellschaft für pharmazeutische and diagnostische Präparate mbH, Hanover
- Centrapharm B.V., Etten-Leur, The Netherlands
- Centrafarm Pharmaceuticals B.V., Etten-Leur, The Netherlands
- Clonmel Healthcare Ltd., Clonmel, Ireland
- Crinos S.p.A., Milan, Italy
- Croma Medic Inc., Manila, Philippines (60% stake)
- Crosspharma Ltd. Belfast, United Kingdom
- EG Labo Laboratoires EuroGenerics S.A., Paris, France
- EG S.p.A., Milan, Italy
- Genus Pharmaceuticals Ltd., Newbury, United Kingdom
- Genus Pharmaceuticals Holdings Ltd., Newbury, United Kingdom
- Health Vision Enterprise Ltd., Hong Kong, China (51% stake)[1)]
- Helvepharm AG, Frauenfeld, Switzerland (50% stake)
- Healthypharm B.V., Etten-Leur, The Netherlands
- Laboratorio STADA SL, Barcelona, Spain
- LIFE TRANS Pharma Vertriebs GmbH, Bad Vilbel

1) Only 50% of Health Vision was consolidated by STADA due to the preferred and agreed incorporation of senior executives on an equal footing in the operational management of Health Vision.

- NPA New Pharmajani S.p.A., Milan, Italy[1)]
- N.V. Eurogenerics S.A., Brussels, Belgium
- PharmaCoDane Aps, Copenhagen, Denmark
- SFS International Ltd., Clonmel, Ireland
- STADA GmbH, Bad Vilbel
- STADA Arzneimittel Ges.m.b.H., Vienna, Austria
- STADA Asiatic Ltd., Bangkok, Thailand (60% stake)
- STADA Financial Investments Ltd., Clonmel, Ireland
- STADA Import / Export Ltd., Tortola, British Virgin Islands (50% stake)
- STADA Medical GmbH, Bad Vilbel
- STADA Research und Development GmbH, Bad Vilbel
- STADApharm GmbH, Bad Vilbel
- STADA Pharmaceuticals (Asia) Ltd., Hongkong, China
- STADA Inc., Cranbury, New Jersey, USA
- STADA Pharmaceuticals Inc., Cranbury, New Jersey, USA
- STADA Pharma International GmbH, Bad Vilbel
- STADA Service Holding B.V., Etten-Leur, The Netherlands
- STADA Vietnam J.V. Ltd., Ho Chi Minh City, Vietnam (50% stake)
- Taxon GmbH, Hanover
- UZARA-WERK GmbH, Bad Vilbel

Included for the first time:

- Centrapharm Nederland B.V., Etten-Leur, The Netherlands
- Centrapharm Services B.V., Etten-Leur, The Netherlands
- Ciclum Farma Unipessoal LDA, Amadora, Portugal
- Nizhpharm OJSC, Nizhny Novgorod, Russia (97.5% stake)
- Nizhpharm-Ukraine, Kiev, Ukraine[2)]
- Nizhpharm-Kasachstan, Alma-Ata, Kazakhstan[3)]
- Quatropharma Holding B.V., Etten-Leur, The Netherlands
- UAB STADA-Nizhpharm-Baltija, Vilnius, Lithuania
- ZAO Trand, Nizhny Novgorod, Russia

Due to insignificance Bioline Naturmedizin Ges.m.b.H., Vienna, Austria was no longer included in scope of consolidation in fiscal year 2005.

In January 2005, STADA Arzneimittel AG acquired approx. 97.5% of the shares in the Russian pharmaceuticals company, Nizhpharm OJSC, Nizhny Novgorod. Approx. 74.1% of the shares were acquired directly and approx. 22.9% were acquired indirectly by means of a complete takeover of an interim holding company. Another approx.

1) The company was merged with EG S.p.A., Milan, Italy taking effect as of Jauary 1, 2006.
2) Nizhpharm-Ukraine is a legally independent permanent establishment of Nizhpharm OJSC, Nizhny Novgorod.
3) Nizhpharm-Kasachstan is a legally independent permanent establishment of Nizhpharm OJSC, Nizhny Novgorod.

0.5% of Nizhpharm shares were held by the Nizhpharm company itself. The final purchase price including activated incidential expenses after a contractually stipulated price adjustment in August 2005 was € 82.2 million. In the context of the opening balance sheet around € 29.7 million property, plant and equipment and € 30.5 million current assets were disclosed before the purchase price allocation. In the context of the purchase price allocation internally generated brands of around € 19.3 million were capitalized. Goodwill after purchase price allocation is approx. € 17.0 million.

On April 11, 2005 STADA Arzneimittel AG signed a contract on the purchase of 100% of the shares of the Portuguese Generics supplier Ciclum Farma, Unipessoal LDA, Amadora, Portugal. The purchase price was € 30.2 million. The main assets before purchase price allocation were trade receivables (€ 1.3 million) and inventories (€ 0.7 million). In the context of the purchase price allocation hidden reserves in the amount of € 14.2 million (intangible assets) were realized. Goodwill after purchase price allocation is € 17.8 million.

On December 12, 2005, various STADA subsidiaries and the SANKYO PHARMA Group concluded contracts on the purchase of a package of eleven European branded products. In 2004, the last complete fiscal year prior to the acquisition, these products achieved Europe-wide sales of approx. € 38 million. Among the best known of these brands are Mobilat® and Hirudoid®. The purchase price, including a legally independent sales unit in Finland, totals € 82.0 million. The contractual agreements provide for a staggered takeover of the different approvals and trade-marks before April 2007. Over the course of the first half year of 2006 STADA successively takes over sales responsibility for the products in the individual national markets as soon as the drug approvals have been transferred there. The consolidation of the respective product sales will be staggered accordingly. It has, however, been secured in the contract that STADA draws economic benefit from the entire product package from the signing of the agreements.

The consolidated balance sheet was impacted in the reporting year 2005 by changes in the scope of consolidation as follows:

in € 000s	Initial consolidations
Intangible assets	35,209[1]
Property, plant and equipment	29,923
Financial assets	207
Current assets	57,521[2]
Non-current and current liabilities/provisions	25,791[2]

Beijing Center-Lab Pharmaceutical Company Ltd. (BCP), acquired in China, is due to reasons of insignificance not consolidated in the STADA Group.

1) Without relevant goodwill balances from the consolidation of equity.

2) Taking into account the impact of consolidating liabilities as well as intra-Group income elimination in current assets.

Joint venture companies are proportionately consolidated in accordance with IAS 31 (Financial Reporting of Interests in Joint Ventures). These include Helvepharm AG of Switzerland, Health Vision Ltd. of Hong Kong, STADA Import/ Export Ltd., British Virgin Islands and STADA Vietnam J.V. Ltd., Vietnam.

In the event that holdings in subsidiaries, joint venture companies or associates are of secondary importance in the Group's opinion, they are reported in accordance with the acquisition cost method. These holdings jointly account for less than 1% of Group sales.

1.3. Principles of consolidation

STADA Arzneimittel AG's consolidated financial statements have been prepared in accordance with the accounting standards promulgated by the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS), and are consistent with the relevant accounting principles of the company as presented here.

Subsidiaries are consolidated on the basis of their separate financial statements that are adjusted to conform to uniform Group accounting policies.

Equity is consolidated in accordance with IFRS 3 using the purchase method. Under this method, acquisition costs of the investment are offset against the acquired equity portion at the time of acquisition. For subsidiaries that are consolidated for the first time during the year under review, the carrying amounts at the time of acquisition were adopted based on the relevant interim financial statements. Differences arising subsequently are allocated to assets and liabilities insofar as fair values differ from amounts recognized in the financial statements. Any remaining difference is reported as goodwill under non-current assets. Until December 31, 2003, this goodwill was amortized using the straight-line method in accordance with IAS 22 over a period of useful life that is uniform throughout the Group. Since fiscal year 2004, goodwill has no longer been amortized on a straight-line basis over the period of useful life. Instead, an impairment test is performed at least once per year; this may result in the need to recognize an impairment loss (impairment only approach). For the process adopted in the impairment tests, please refer to the notes on intangible assets under note 3.1.

Intercompany receivables and payables are netted, intercompany adjustments and provisions released, and intercompany results and income and expenses eliminated. Tax deferrals are made with respect to consolidation processes affecting the income statement, provided these deferrals comply with the "concept of temporary differences" as defined in IAS 12.

1.4. Currency translation

The consolidated financial statements of STADA Arzneimittel AG are expressed in thousands of euro unless otherwise stated. In the separate financial statements of subsidiaries, foreign currency transactions are translated at the exchange rate applicable at the time of the transactions.

Monetary assets and liabilities stated in foreign currency are translated at the closing rate. Exchange gains and losses are recognized in "Other operating income" or "Other operating expenses".

	Middle rate on Dec. 31 in €		Average rate for the calendar year in €	
Exchange rate to €	2005	2004	2005	2004
Pound sterling	1.45560	1.41563	1.46297	1.47135
Danish crown	0.13404	0.13444	0.13419	0.13444
Hong kong dollar	0.10896	0.09400	0.10405	0.10302
Kazakhstan teng	0.00631	–	0.00602	–
Lithuanian litas	0.28962	–	0.28965	–
Philippine peso	0.01591	0.01315	0.01469	0.01432
Russian ruble	0.02944	–	0.02857	–
Swiss franc	0.64288	0.64704	0.64592	0.64794
Thai baht	0.02057	0.01899	0.02002	0.01995
Czech crown	0.03450	0.03291	0.03362	0.03136
Ukrainian Hryvnia	0.16706	–	0.15776	–
US dollar	0.84502	0.73889	0.80891	0.80311
Vietnamese dong	0.00005	0.00005	0.00005	0.00005

The Group enters into futures and options contracts to hedge currency risks. The relevant Group accounting policies for these financial derivatives are described in note 6.2.

Annual financial statements of subsidiaries prepared in foreign currencies are translated in accordance with IAS 21 (The Effects of Changes in Foreign Exchange Rates) using the functional currency method. Foreign subsidiaries in the STADA Group are regarded as commercially independent sub-units. Balance sheet items are generally translated at closing rates with the exception of shareholders' equity and, if applicable, the carrying amounts of equity holdings of consolidated subsidiaries. These are based on the separate financial statements of the respective subsidiaries and are translated at historical rates. Income and expense items are converted at annual average rates with the exception of write-downs on goodwill, which are converted at historical rates in accordance with IAS 21.31. Currency translation differences arising from the use of different exchange rates for items in the balance sheet and the income statement are netted in shareholders' equity with no effect on income.

1.5. Use of estimates

In preparing the consolidated financial statements, there is a strictly limited need to estimate certain items that impact the recognition and measurement of assets, liabilities, income, expenses and contingent liabilities reported. Actual amounts may differ from estimates.

2. Notes to the Consolidated Income Statement with Summary of Significant Accounting Policies

Consolidated income statement structure

The structure of the consolidated income statement follows the internationally accepted cost-of-sales method. STADA adds extra items to the breakdown given in IAS 1.82, where this is necessary for further clarification of the earnings situation.

2.1. Sales

in € 000s	2005	2004
Sales	1,022,059	813,519

Sales are recorded in this report in accordance with the principle of revenue recognition: Revenues from the sale of products, goods and services are recognized when goods have been delivered or services rendered and both risk and title have passed to the buyer. Furthermore, it must be possible to reliably measure the selling costs and the amount of the expected consideration. Expenses related to accruals for future revenue reductions are recorded in the period in which the sales are realized.

A breakdown of sales by primary and secondary (regional) segment is contained in the attached segment report under note 5. The sales figure of the primary segment “Group holdings/other” also includes revenues from the sale of approvals and product dossiers.

2.2. Cost of sales

in € 000s	2005	2004
Cost of sales	509,521	415,029

Cost of sales includes the costs of conversion of the products sold and the purchase price of commercial goods sold or given free of charge. In addition to these commercial goods, in accordance with IAS 2, cost of conversion also include direct costs such as cost of materials and personnel expenses as well as overhead costs, depreciation of production equipment and write-downs of excess or obsolete inventories.

2.3. Gross profit

in € 000s	2005	2004
Gross profit	512,538	398,490

2.4. Other operating income

in € 000s	2005	2004
Income from reductions of valuation allowances and similar income	57	46
Income from disposal of non-current assets	387	4,471
Income from the valuation and sale of current and non-current securities	247	126
Currency translation gains	1,367	454
Revenues from reinsurance	1,073	908
Income from the reversal of provisions	794	6,862
Compensation for lost product margins	1,550	0
Earnings from sales tax for corrections in the previous years	3,068	0
Remaining other operating income	9,795	7,463
Total	**18,338**	**20,330**

The remaining other operating income includes such items as income from insurance compensation, compensation claims and other income not directly associated with functional costs. Compensation for lost product margins stems primarily from the settlement of the acquisition of the SANKYO branded products package.

2.5. Selling expenses

in € 000s	2005	2004
Selling expenses	271,400	232,107

Reported selling expenses comprise advertising and marketing costs including samples for doctors in addition to costs pertaining to the sales and marketing departments and the sales force. Discounts in the form of free retail packages (discount in kind) are not included herein; in accordance with IFRS, they are recognized as a part of costs of sales.

2.6. General and administrative expenses

in € 000s	2005	2004
General and administrative expenses	69,657	53,202

Personnel and material costs of service and administrative units are reported under general and administrative expenses, unless they have been charged to other functional areas as internal services.

2.7. Research and development expenses

in € 000s	2005	2004
Research and development expenses	30,716	23,314

Research expenses are the costs of an independent, planned quest for new scientific or technical discoveries. The product portfolio of the STADA Group continues to focus on products that do not require the Group to conduct its own research. Just as in the previous year, no research expenses have been incurred within the STADA Group in the

2005 reporting year. Development expenses basically consist of expenses involved in the technical and commercial implementation of theoretical discoveries.

As a rule, the objective of a development process within the STADA Group is to obtain national or multinational regulatory drug approval. In this context, development costs relative to approvals for new drugs obtained by STADA are capitalized if the following preconditions can all be shown to have been met:

- It is technically possible to complete the asset (i. e. achieve regulatory approval), enabling it to become available for use or sale.
- There must be a clear intention to use or sell the asset.
- Both the opportunity and the resources must exist to allow completion of the asset and to use or sell it in the future.
- The asset must bring the Group a future economic benefit.
- It must be possible to reliably calculate the development costs of the asset.

Research and development costs effect, among other items, non-capitalizable development expenses of STADA Research and Development GmbH (€ 14,797 thousand; previous year: € 11,052 thousand) and of STADA Arzneimittel AG (€ 1,062 thousand, previous year: € 1,592 thousand).

2.8. Other operating expenses

in € 000s	2005	Previous year
Goodwill write-downs/amortization	0	85
Value adjustment of accounts receivable and similar expenses	4,829	1,037
Losses on the disposal of non-current assets	554	42
Currency translation expenses	840	893
Special write-offs in non-current assets	13,478	8,658
Mirtazapine compensation payments	0	3,800
Remaining other operating expenses	12,282	7,843
Total	31,983	**22,358**

The remaining other operating expenses contain non-recurring personnel expenses of € 5,832 thousand (previous year: € 3,225 thousand).

2.9. Operating profit

in € 000s	2005	2004
Operating profit	127,120	87,839

2.10. Closing of the LipoNova/Reniale® project

in € 000s	2005	Previous year
Closing of the LipoNova/Reniale® project	-20,311	0

On October 12, 2005 STADA decided to close the LipoNova/Reniale® project. The expenses caused by this decision, which are to be incurred retroactively mainly in the third quarter 2005 and a small part in the fourth quarter 2005, apply to write-offs of the carrying amount of the investment in LipoNova GmbH (€ 6,860 thousand), personnel expenses (€ 1,640 thousand) and value adjustments on receivables and other assets and others (€ 11,811 thousand). After taxes, a total burden on net income of € 16,998 thousand is calculated.

2.11. Investment income

in € 000s	2005	2004
Investment income	251	401

This relates to profit distributions from unconsolidated equity holdings.

2.12. Interest result

in € 000s	2005	2004
Other interest and similar income	2,603	2,004
Interest and similar expenses	12,147	12,694
Interest result	-9,544	**-10,690**

Up to their repayment in June 2005 interest and similar expenses include interest on the convertible bond in the amount of € 2,750 thousand (previous year: € 7,406 thousand). In the previous year, in connection with this convertible bond, non-cash interest accrued in the amount of € 1,781 thousand is also included in interest and similar expenses.

2.13. Financial result

in € 000s	2005	2004
Investment income	251	401
Interest result	-9,544	-10,690
Financial result	-9,293	**-10,289**

In fiscal year 2005, the Group – without consideration of the bond which expired on June 26, 2005 – refinanced itself at interest rates between 2.8% and 4.7%.

2.14. Earnings before taxes

in € 000s	2005	2004
Earnings before taxes	97,516	77,550

Earnings before taxes includes depreciation and amortization of € 54,130 thousand (previous year: € 34,488 thousand) and € 160,392 thousand in personal expenses (previous year: € 136,026 thousand).

2.15. Taxes on income

in € 000s	2005	2004
Taxes within the accounting period	43,222	30,082
Taxes outside of the accounting period, net	2,279	-1,058
Taxes on income	45,501	29,024
Taxation ratio	46.7%	37.4%

The item “Taxes on income” includes taxes on income paid or due in the individual countries as well as deferred taxes. Other taxes that cannot be meaningfully attributed to sales, administration or research and development are reported under “Other operating expenses”.

Deferred taxes result from timing differences between carrying amounts in the tax accounts of individual companies and in the consolidated accounts, using the “liability method”.

Loss carryforwards are only capitalized if a future utilization of these claims is sufficiently likely to happen. Tax loss carryforwards capitalized as of the December 31, 2005 reporting date amount to € 1,823 thousand. Deferred taxes in the amount of approx. € 26.8 million were not capitalized on loss carryforwards of subsidiaries, since the prospect of future utilization is not sufficiently likely from today's perspective. IAS 12.81 requires the actual tax charge to be compared with what would theoretically have resulted if the appropriate tax rates were applied to consolidated pre-tax income reported. This is done for all domestic and foreign companies using the national tax rates applicable to their various legal forms.

The following deferred taxes reported arise from individual balance sheet items:

in € 000s	Dec. 31, 2005 Deferred tax assets	Dec. 31, 2005 Deferred tax liabilities	Dec. 31, 2004 Deferred tax assets	Dec. 31, 2004 Deferred tax liabilities
Intangible assets	1,352	31,134	1,161	20,663
Property, plant and equipment	5	4,635	21	402
Financial assets	177	22	0	0
Inventories	5,597	1,370	3,840	0
Receivables	180	888	3	584
Other assets	152	1	129	283
Pension provisions	1,238	0	1,100	0
Other provisions	1,085	0	0	676
Liabilities	679	3	6	2
Tax loss carryforwards	1,823	0	4,636	0
Offsetting	-906	-906	-1,227	-1,227
Total deferred taxes	11,382	37,147	9,669	21,383

As the following reconciliation shows, the actual Group tax charge for fiscal year 2005 was greater than the tax charge calculated solely by applying the appropriate tax rates to domestic and foreign Group companies:

in € million	2005	Previous year
Earnings before taxes	97.5	77.6
Tax rate for all domestic and international companies based on the respective tax rates	37.4%	34.0%
Theoretical tax expense	36.5	26.4
Tax effects due to application of IAS 12.34	2.8	1.3
Taxes outside of the accounting period	2.3	-1.0
Tax effects due to non-deductible expenses and other items	3.9	2.3
Actual tax expense shown on the income statement	45.5	29.0
Actual taxation ratio	46.7%	37.4%

STADA Arzneimittel AG is currently undergoing a rotational tax audit for the fiscal years 1999–2002. No final conclusions have emerged to date.

2.16. Net income

in € 000s	2005	Previous year
Net income	52,015	48,526

2.17. Net income distributable to shareholders of STADA Arzneimittel AG

in € 000s	2005	Previous year
Net income distributable to shareholders of STADA Arzneimittel AG	51,583	48,484

Unless otherwise stated, “net income” in this report refers to income attributable to the shareholders’ stake in STADA Arzneimittel AG, which under IFRS also represents the basis for calculating earnings per share and diluted earnings per share.

2.18. Net income relating to minority interests

in € 000s	2005	Previous year
Net income relating to minority interests	432	42

Minority interests reflect the shares of other partners in the companies STADA Asiatic, Croma Medic and Nizhpharm.

2.19. Earnings per share

Earnings per share	2005	Previous year
Net income distributable to shareholders of STADA Arzneimittel AG in € 000s	51,583	48,484
Average number of shares	53,317,303	53,348,910[1)2)]
Earnings per share in €	0.97	0.91[2)]

Basic earnings per share are calculated according to IAS 33.10 by dividing net income distributable to the shareholders of STADA Arzneimittel AG by the average number of shares outstanding, less treasury stock.

2.20. Diluted earnings per share

Diluted earnings per share	2005	Previous year
Net income distributable to shareholders of STADA Arzneimittel AG in € 000s	51,583	48,484
Average number of shares outstanding	53,317,303	53,348,910[1)2)]
Potentially diluting shares from warrant 2000/2015 (ISIN DE0007251845)	3,600,980	1,556,457[1)2)]
Average number of shares (incl. potentially diluting shares from warrant 2000/2015)	56,918,283	54,905,367[1)2)]
Diluted earnings per share in €	0.91	0.88[2)]

Diluted earnings per share are calculated according to IAS 33.24 by dividing net income distributable to the shareholders of STADA Arzneimittel AG by the average number of shares outstanding, less treasury stock and adjusted for the effect of outstanding warrants, taking into account the share price at the reporting date. It is assumed that all warrants potentially affecting dilution would be exercised.

1) Adjusted for the de facto 1:1 stock split on July 30, 2004.
2) Pursuant to IAS 33.31 in conjunction with IAS 33.22, a capital increase from existing funds changes the average number of shares without any concomitant change in the level of resources. The number of common shares in issue prior to the capital increase is adjusted in accordance with the proportional change in the number of outstanding common shares after the share issue as if the event (the de facto 1:1 stock split) had occurred at the beginning of the period under review. For the purposes of historical comparison, the historical figure for the average number of shares in each fiscal year ending prior to the conversion date will be doubled to adjust for the stock split when calculating the earnings per share.

3. Notes to the Consolidated Balance Sheet with Summary of Significant Accounting Policies

3.1. Intangible assets

Intangible assets in € 000s	Concessions, patents, licenses and similar rights	Goodwill	Advance payments	Total
Accumulated cost as of Jan. 1, 2005	**381,229**	**123,952**	**60,409**	**565,590**
Currency translation difference	2,708	109	715	3,532
Changes in the scope of consolidation	34,916		1,009	35,925
Additions	108,526	34,818	25,597	168,941
Disposals	5,547		887	6,434
Reclassifications	4,732		-4,732	0
Accumulated cost as of Dec. 31, 2005	**526,564**	**158,879**	**82,111**	767,554
Accumulated amortization as of Jan. 1, 2005	**91,127**	**18,359**	**8,527**	**118,013**
Currency translation difference	202	5	1	208
Changes in the scope of consolidation	715			715
Additions	35,880		1,275	37,155
Disposals	136		206	342
Write-ups			-400	-400
Reclassifications	117		-117	0
Accumulated amortization as of Dec. 31, 2005	**127,905**	**18,364**	**9,080**	155,349
Net book value as of Dec. 31, 2005	**398,659**	**140,515**	**73,031**	612,205

Intangible assets acquired are recognized at cost less straight-line amortization. The useful life of concessions, copyrights, trademarks, medical dossiers, regulatory drug approvals and software is between 3 and 20 years. Impairment losses are recognized pursuant to IAS 36 wherever indicated by impairment tests. During the period under review, impairment losses on drug approvals and brands in the amount of € 13,446 thousand occurred.

Goodwill reported under “intangible assets” in the consolidated financial statements amounting to € 140,515 thousand predominantly reflects differences arising from the consolidation of equity. These amounts stem from the initial consolidation of subsidiaries included in fiscal years since 1996.

Goodwill has been amortized over a maximum useful life of 20 years up to and including 2003. Starting in fiscal 2004 goodwill and intangible assets with indeterminate useful lives are no longer amortized on a straight-line basis. Instead, they are regularly tested for impairment once a year in the fourth quarter. Additional reviews take place if indications of impairment become apparent. In order to assess recoverability, the carrying amount of each cash-generating unit is determined by ascertaining assets, liabilities and provisions as well as corresponding goodwill. If the recoverable amount of a cash-generating unit is lower than the carrying amount, an impairment loss results.

The recoverable amount is defined as the higher of the fair value less costs to sell (IAS prior to 2004: "net selling price") and the value in use (i.e. the present value of estimated future cash flows from the cash-generating unit). The discounted cash flow method is used to determine anticipated cash flows, applying a uniform pre-tax rate of 11.9% (previous year 11.9%) throughout the Group and a planning horizon of three years. An inflation-adjusted growth rate of 1.5% (previous year 1,5%) has been assumed throughout the Group for the period after the planning horizon elapses.

In fiscal year 2005, based on the impairment tests which were carried out, no goodwill write-downs occured.

Development costs of € 3,763 thousand were capitalized in fiscal year 2005 (previous year: € 2,774 thousand). Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs and external services, together with a portion of directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life, generally 20 years.

If the requirements for capitalizing an internally-created intangible asset are not satisfied, the development costs are recognized immediately as expense in the period in which they are incurred.

3.2. Property, plant and equipment

Property, plant and equipment in € 000s	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other fixtures and fittings, tools and equipments	Advance payments and construction in progress	Total
Accumulated cost as of Jan. 1, 2005	**47,062**	**35,460**	**34,643**	**210**	117,375
Currency translation difference	1,256	2,169	514	310	4,249
Changes in the consolidated Group	11,119	18,816	2,798	2,737	35,470
Additions	2,259	2,402	5,332	4,855	14,848
Disposals	177	786	2,339	3,136	6,438
Reclassifications			109	-109	0
Accumulated cost as of Dec. 31, 2005	**61,519**	**58,061**	**41,057**	**4,867**	165,504
Accumulated depreciation as of Jan. 1, 2005	**14,023**	**23,447**	**19,242**	**0**	56,712
Currency translation difference	82	501	207		790
Changes in the consolidated Group	652	3,950	944		5,546
Additions	1,920	4,225	3,937		10,082
Disposals	152	479	1,535		2,166
Reclassifications					0
Accumulated depreciation as of Dec. 31, 2005	**16,525**	**31,644**	**22,795**	**0**	70,964
Net book value as of Dec. 31, 2005	**44,994**	**26,417**	**18,262**	**4,867**	94,540

Property, plant and equipment are reported at cost less depreciation. Subsequent acquisition costs are capitalized; financing costs are not capitalized. Where acquisitions are made in a foreign currency, subsequent changes in exchange rates have no impact on the recording of original costs.

Items of property, plant and equipment are depreciated according to their useful life using the straight-line method. The depreciation period may be up to 50 years in the case of buildings, 8 to 20 years in the case of technical facilities and 3 to 14 years for other plant and office furniture and equipment. To the extent necessary, unsceduled depreciation are recognized pursuant to IAS 36; these are reversed if the reasons for the original recognition of an impairment loss no longer exist.

Where items are rented or leased and beneficial ownership lies with the Group company concerned (finance lease), they are capitalized at the net present value of the lease installments in accordance with IAS 17 (amended 1997) and depreciated over their useful life. The corresponding payment commitments under future lease installments are reported as liabilities. The total value of capitalized leased assets is not of material significance when compared with the total volume of non-current assets.

3.3. Financial assets

Financial assets in € 000s	Equity investments available-for-sale	Loans against remaining investments	Other loans	Total
Accumulated cost as of Jan. 1, 2005	**16,034**	**0**	**65**	16,099
Currency transfer differences	23			23
Changes in the scope of consolidation	207			207
Additions	23,307		1	23,308
Disposals	6,886		6	6,892
Accumulated cost as of Dec. 31, 2005	**32,685**	**0**	**60**	32,745
Accumulated amortization as of Jan. 1, 2005	**36**	**0**	**0**	36
Additions	6,893			6,893
Disposals	6,886			6,886
Accumulated amortization as of Dec. 31, 2005	**43**	**0**	**0**	43
Net book value as of Dec. 31, 2005	32,642	0	60	32,702

Financial assets available for sale are generally reported at market value. Changes in market value attributable to normal share-price volatility are reported under shareholders' equity with no effect on income. In case of permanent reductions in value, an impairment test in accordance with IAS 39 is applied. If the market value of the asset cannot be reliably established, it is measured at acquisition cost less value adjustments. On this basis, equity investments were assigned a carrying amount of € 32,642 thousand as of December 31, 2005. All remaining financial assets (total carrying amount: € 60 thousand; previous year: € 65 thousand) are also recorded at acquisition cost.

Write-offs in the reporting year 2005 in the amount of € 6,860 thousand refer to holdings, acquired in 2004, in LipoNova GmbH within the context of the closing of the LipoNova/Reniale® project.

3.4. Non-current trade accounts receivable

in € 000s	Dec. 31, 2005	Previous year
Trade accounts receivable from third parties	1,065	923
Trade accounts receivable from non-consolidated Group companies	0	4,011
value adjustments vis-à-vis third parties	0	0
Total	**1,065**	**4,934**

Non-current trade accounts receivable from third parties are reported at nominal value and include, among other items, long-term loans to companies and equity investments consolidated pro rata.

3.5. Other non-current assets and prepaid expenses/deferred charges

in € 000s	Dec. 31, 2005	Previous year
Receivables due from the tax authorities	37	37
Other	31,875	12,907
Total	**31,912**	**12,944**

Other non-current assets mainly include customer loans and trade receivables.

3.6. Deferred tax assets

in € 000s	Dec. 31, 2005	Previous year
Deferred tax assets	9,559	5,033
Deferred tax assets in accordance with IAS 12.34	1,823	4,636
Total	**11,382**	**9,669**

Deferred taxes are the result of accounting differences in the Group's financial statements for management vs. tax purposes, as well as consolidation measures, provided these differences offset each other over time. Deferred taxes are accrued for according to IAS 12 (amended 2000). Under the “liability method” those tax rates will be used that are applicable at the balance sheet date or that have already been resolved and communicated for the future.
The “Deferred tax assets” item consists of imputable loss carryforwards insofar as it is probable that future taxable profits will enable these tax benefits to be utilized.

3.7. Inventories

in € 000s	Dec. 31, 2005	Previous year
Raw and auxiliary materials and manufacturing supplies	24,607	13,779
Work in progress	10,640	8,927
Finished goods	186,829	182,889
Advance payments to suppliers	1,966	417
Total	**224,042**	**206,012**

Inventories are measured at cost. As required by IAS 2, the cost of conversion includes both costs that are directly incurred in production and overheads that can be allocated to the production process, including reasonable depreciation on production facilities. Financing costs are not included. If required, the lower net realizable value is recorded.

The carrying amount of inventories recorded at net realizable value is € 18,670 thousand (previous year: € 24,760 thousand). Inventory costs are calculated based on weighted average costs. Write-downs on inventories at the balance sheet date amount to € 10,153 thousand (previous year: € 6.519 thousand) and are already reflected in the carrying amount of € 224,042 thousand.

3.8.Current trade accounts receivable

in € 000s	Dec. 31, 2005	Previous year
Trade accounts receivable from third parties	224,185	158,680
Trade accounts receivable from non-consolidated Group companies	8,375	2,630
Value adjustments vis-à-vis third parties	-2,306	-2,220
Total	**230,254**	**159,090**

Trade accounts receivable are reported at nominal value. Adequate provisions are made for default and transfer risks not covered by insurance.

3.9. Other current assets and prepaid expenses/deferred charges

in € 000s	Dec. 31, 2005	Previous year
Receivables due from the tax authorities	11,908	9,401
Prepaid expenses and deferred charges	10,161	3,940
Others	16,833	11,577
Total	**38,902**	**24,918**

3.10. Current securities

in € 000s	Dec. 31, 2005	Previous year
Securities classified as “held-to-maturity”	13	6
Securities classified as “available-for-sale”	0	2,783
Total	**13**	**2,789**

Securities classified as available-for-sale relate to shares in two subsidiaries.

3.11. Cash and cash equivalents

in € 000s	Dec. 31, 2005	Previous year
Checks, cash and bank balances	72,756	75,775

"Bank balances" consists of short-term call deposits and fixed-term deposits. Changes in cash and cash equivalents as defined by IAS 7 are shown in the cash flow statement of this report.

3.12. Share capital

As of the balance sheet date, share capital consisted of 53,500,300 common shares, each with an arithmetical par value of € 2.60 (prior year: 53,390,820).

The repeated increase in the number of shares over the course of 2005 was entirely due to the continuing exercise of options from STADA warrants 2000/2015. The number of shares as of December 31, 2005 thereby increased by 109,480 to 53,500,300 and the company's share capital of STADA Arzneimittel AG increased by € 284,648 to € 139,100,780. As of December 31, 2005, 444,496 warrants 2000/2015 for the subscription of 8,889,920 STADA common shares are still outstanding. Thus, in the reporting year 2005, 5,474 options were exercised in total. In the first quarter of the current fiscal year 2006, another 48 options were exercised by March 1, 2006. The number of shares has thereby risen by 960 to 53,501,260 and share capital increased by € 2,496 to € 139,103,276. This means that as of March 1, 2006 444,448 warrants 2000/2015 for the subscription of 8,888,960 in STADA common shares are still outstanding.

The Executive Board has been authorized by the Annual Shareholders' Meeting on June 14, 2005 to raise new authorized capital. This advance resolution authorizes the Executive Board, with the consent of the Supervisory Board, to increase the company's issued capital stock on one or more occasions on or before June 14, 2009, by up to a total of € 69,408,066.00 by issuing up to 26,695,410 registered shares with transfer restrictions against cash and/or non-cash capital contributions. The shareholders' statutory subscription rights may be excluded (a) for fractional amounts as well as (b) in the case of capital increases against cash contributions of up to 10% of the company's issued capital stock, provided the issue price of the new shares is not lower than the stock exchange price of those shares already quoted on the exchange with the same conditions pursuant to § 203 (1) 1 as well as §186 (3) 4 of the German Stock Corporation Act (AktG) and (c) in the case of capital increases against contribution in kind of up to 10% of the company's issued capital stock to be able to offer the company's new shares to third parties in the scope of business combinations or in purchasing companies, parts of companies or investments. The Executive Board has not made use of this authorization to date.

The Annual Shareholders Meeting of June 15, 2004, passed a resolution authorizing the company to purchase treasury shares. STADA made use of this authorization upon the resolution of the Executive Board on November 9, 2004. The shares were repurchased through the stock market. The authorization stated that the price paid by the company for each share must not be more than 10% above or below the price quoted for the shares in intraday XETRA® trading at around 1 p.m. on the trading day in question. The Annual Shareholders Meeting of June 14, 2005, renewed this resolution and granted an authorization to the company to purchase treasury shares until December 14, 2006. Repurchased shares can be used for planned acquisitions and as part of the existing employee share ownership program.

As of the reporting date, the company held 119,915 of its own shares, each with an arithmetical par value of € 2.60. This was equivalent to 0.224% of the share capital. As of December 31, 2004, STADA held 123,169 of its own shares. In 2005, STADA did not purchase any of its own shares, and sold 3,254 of its own shares at an average price of € 25.29.

Publication in accordance with § 25 section 1 German Securities Trading Act (WpHG)

Deutsche Bank AG, Frankfurt informed STADA Arzneimittel AG on July 12, 2005 in accordance with §§ 21 section 1, 24 WpHG in conjunction with § 32 section 2 InvG that their subsidiary, DWS Investment GmbH, Frankfurt, had, on July 7, 2005, exceeded the legal threshold of 5% of voting rights in STADA Arzneimittel AG and held a 5.01% share of the company's voting rights.

Deutsche Bank AG, Frankfurt informed STADA Arzneimittel AG on March 3, 2006 in accordance with §§ 21 section 1, 24 WpHG in conjunction with § 32 section 2 InvG that their subsidiary, DWS Investment GmbH, Frankfurt, had, on March 1, 2006, fallen below the legal threshold of 5% of voting rights in STADA Arzneimittel AG and held a 4.79% share of the company's voting rights.

3.13. Reserves and unappropriated retained earnings

Changes in the capital reserve are shown in the statement of changes in shareholders' equity and include the capital reserve of STADA Arzneimittel AG in accordance with HGB. An equity-to-assets ratio of 50.7% existed at the balance sheet date, December 31, 2005 (previous year: 62.6%).

3.14. Minority interests

Minority interests refer to the companies Croma Medic Inc., Nizhpharm OJSC and STADA Asiatic Ltd.

3.15. Non-current provisions

Provisions for pensions and similar obligations in € 000s	Dec. 31, 2005	Previous year
Pension provisions[1)]	15,489	12,625
Provisions for pensions and similar obligations	1,873	752
Total	17,362	**13,377**

The provisions for pensions and similar obligations reported in the consolidated financial statements of STADA Arzneimittel AG are based on actuarial principles. IAS 19 (Employee Benefits) stipulates valuation using the Projected Unit Credit method.

According to IAS 19, this procedure for determining the net present value of future entitlements requires future salary and pension increases to be included in the calculation, as well as known pensions and entitlements. Pension provisions refer to individual entitlements for employees of STADA Arzneimittel AG and ALIUD GmbH & Co. KG.

1) In addition to the above items, a partial amount of € 392 thousand (previous year: € 384 thousand) was recorded in short-term provisions.

Future benefits depend on the duration of employment and amount of pensionable remuneration. Future pension benefits are also subject to individual pension agreements. Percentages contained in individual pension agreements may vary.

in € 000s	Dec. 31, 2005	Previous year
Change in projected benefit obligations		
Balance as of Jan. 1	13,009	12,476
Service cost	465	488
Interest cost	730	767
Actuarial gain (-) / loss (+)	2,061	-353
Benefits paid	-384	-369
Balance as of Dec. 31	15,881	**13,009**
Plan assets		
Balance as of Jan. 1	0	0
Balance as of Dec. 31	0	**0**
Funded status		
Pension obligations not covered by plan assets as of Dec. 31	15,881	13,009
Unrealized gains / losses	0	0
Net amount recognized at Dec. 31	15,881[1)]	13,009[2)]

The table below shows the actuarial assumptions upon which pension plans are based:

in € 000s	Dec. 31, 2005	Previous year
Weighted-average assumptions for pension plans		
Discount rate	5.00%	5.50%
Expected return on plan assets	0	0
Rate of compensation increase	2.00%	2.50%
Rate of pension increase	1.25%	**1.25%**

Components of periodic pension cost shown for the relevant fiscal years are as follows:

in € 000s	Dec. 31, 2005	Previous year
Service cost	465	488
Interest cost	730	767
Expected return on plan assets	0	0
Actuarial gain (-) / loss (+)	2,061	-353
Net pension cost	3,256	**902**

1) Thereof € 15,489 thousand long-term and € 392 thousand short-term.
2) Thereof € 12,625 thousand long-term and € 384 thousand short-term.

3.16. Non-current financial liabilities

in € 000s	Dec. 31, 2005	Previous year
Convertible bonds	0	0
Amounts due to banks	258,723	103,109
Total	**258,723**	**103,109**

The liabilities of the STADA Group are generally reported at their repayment amount. Any difference between the amount paid out and the amount repayable on maturity is amortized. Liabilities in foreign currencies are converted at closing rates. If the requirements for hedging transactions under IAS 39.142 are met, then the hedge rate in accordance with IAS 39.136 and not the rate at the reporting date is applied. Liabilities to banks include certified debt in the amount of € 2,556 thousand.

3.17. Non-current trade accounts payable

in € 000s	Dec. 31, 2005	Previous year
Trade accounts payable to third parties	827	879

3.18. Other non-current liabilities

in € 000s	Dec. 31, 2005	Previous year
Tax liabilities	19	19
Personnel related liabilities	2,348	2,095
Other liabilities	430	208
Total	**2,797**	**2,322**

3.19. Deferred tax liabilities

in € 000s	Dec. 31, 2005	Previous year
3.19. Deferred tax liabilities	37,147	21,383

Deferred taxes are the result of accounting differences in the Group's financial statements for management vs. tax purposes, as well as consolidation measures, provided these differences offset each other over time. Deferred taxes are accrued for according to IAS 12 (amended 2000). Under the “liability method” those tax rates will be used that are applicable at the balance sheet date or that have already been resolved and communicated for the future. Further clarification of deferred tax liabilities is contained in note 2.15. “Taxes on income”.

3.20. Current provisions

in € 000s	Dec. 31, 2005	Previous year
Pension provisions	392	384
Other provisions	3,593	2,799
Total	**3,985**	**3,183**

Other provisions

in € 000s	Dec. 31, 2005	Previous year
Provisions set aside for damages		
Opening balance	953	**6,349**
Utilized	0	105
Released	794	6,756
Added	808	1,472
Currency translation differences	0	-7
Closing balance	967	**953**
Warranty		
Opening balance	1,846	**1,702**
Utilized	1,846	1,702
Released	0	0
Added	2,626	1,846
Closing balance	2,626	**1,846**

STADA reports provisions according to IAS 37.10; only liabilities of uncertain timing or amount are included in the item “Other provisions”. Liabilities incurred due to outstanding invoices or obligations vis-à-vis personnel and tax authorities, as well as other liabilities are no longer recorded as provisions, but under the relevant liability item (“Trade accounts payable” and “Other liabilities”).

The measurement of reported provisions takes into account all obligations identifiable on the balance-sheet date that are based on past transactions or past events. Provisions are only made in relation to a legal or constructive obligation to third parties.

3.21. Current financial liabilities

in € 000s	Dec. 31, 2005	Previous year
Convertible bonds	0	75,000
Amounts due to banks	48,214	4,064
Total	48,214	**79,064**

The liabilities of the STADA Group are generally reported at their repayment amount. Any difference between the amount paid out and the amount repayable on maturity is amortized. Liabilities in foreign currencies are converted at closing rates. If the requirements for hedging transactions under IAS 39.142 are met, then the hedge rate in accordance with IAS 39.136 and not the rate at the reporting date is applied.

In June 2000, the company issued a bond with warrants with a nominal value of € 75,000 thousand. The bond was divided into 75,000 bearer bonds at a nominal value of € 1 thousand each. Each individual bond carried six bearer warrants, each with an entitlement to subscribe to one no-par registered common share in STADA Arzneimittel AG.

Interest on the bond was payable starting on June 26, 2000, at the rate of 7.5% p.a. At an issue price of 105.94%, the issue yield of the bond with warrants on the day of issue was 6.087%. The bond ex warrants was thus 99.94% of par value.

In accordance with IAS 32, the bond was divided into shareholders' equity and debt components. Interest on the debt component accrues at the rate of 9% until 2004 and was € 1.8 million in 2004. In June of the fiscal year 2005 the bond was fully repaid as intended; thus, in fiscal year 2005 interest no longer accrued.

3.22. Current trade accounts payable

in € 000s	Dec. 31, 2005	Previous year
Trade accounts payable to third parties	104,465	72,912
Trade accounts payable to non-consolidated Group companies	414	0
Advances received on orders from third parties	1,708	723
Liabilities from outstanding charges	18,027	12,576
Total	**124,614**	**86,211**

3.23. Other current liabilities

in € 000s	Dec. 31, 2005	Previous year
Tax liabilities	33,072	17,241
Personnel related liabilities	17,601	12,685
Other liabilities	120,620	41,985
Total	**171,293**	**71,911**

3.24. Other financial obligations

In addition to provisions, debts and contingent liabilities, other financial obligations consist of:

in € 000s	Dec. 31, 2005	Previous year
Rental agreements and leases	39,249	47,154
Other obligations	214,643	109,796
Currency forward hedges	3,042	80,516
Total	**256,934**	**237,466**

Other obligations as of the balance sheet date include a capital guarantee provided by STADA Arzneimittel AG obligating STADA Arzneimittel AG vis-á-vis BIOCEUTICALS Arzneimittel AG to provide BIOCEUTICALS Arzneimittel AG with sufficient capital to avoid negative share capital and an excessive debt burden. This capital guarantee was limited, both on the balance sheet date of the year under review and that of the previous year, to € 25.0 million.

4. Notes to the Consolidated Cash Flow Statement

To allow for more transparency, the cash flow statement of the fiscal year 2005 in a separate line indicates the influence of changes in the balance sheet by companies consolidated for the first time.

Line 2.1.1. exclusively shows payments made for the acquisition of consolidated companies (acquisition price after deducting possible acquired cash and cash equivalents) in the reporting year. In addition, in line 2.1.2., payments for purchases of significant material intangible assets for the expansion of the product portfolio in the reporting year are disclosed separately from purchases of other intangible assets (line 2.1.3.). Thus, line 2.1.2. discloses such capital expenditures for intangible assets leading to sales growth for STADA due to acquisitions and clearly distinguishable from organic growth.

To allow for comparability with the previous year, the breakdown of the cash flow statement of the fiscal year 2004 has been changed accordingly.

4.1. Cash flow (gross)

Cash flow (gross) increased by 35% with significantly higher depreciation/amortization.

4.2. Cash flow from operating activities

Cash flow from operating activities consists of changes in items not affected by capital expenditure or financing, or changes in exchange rates, the scope of consolidation or measurement.

Cash flow from operating activities rose in 2005 by 329.3% to € 163.3 million. In addition to the increased operating performance of the Group, deferred income as a one-time special effect for later payments in 2006 and 2007 relating to the acquisition of the SANKYO branded products package in the amount of € 67.0 million is also included here.

4.3. Cash flow from investing activities

Cash flow from investment activities reflects the cash outflows for investments adjusted by the inflows from divestments.

In fiscal year 2005 payments for the purchase of consolidated companies relates to the acquisition prices of the companies purchased in the context of the Nizhpharm acquisition (€ 71.8 million including activated incidential expenses) and of Ciclum Farma Unipessoal LDA (€ 30.1 million) – less funds adopted (€ 10.4 million; € 0.1 million) if applicable. Disclosure of the previous year results from the takeover of Boniscontro & Gazzone S.r.l..

The largest position in investments in intangible assets for the short-term expansion of the product portfolio (as a rule in the reporting year) was the SANKYO product package (including the brands Mobilat® and Hirudoid®) in the amount of € 77 million.

A total of approx. € 90.3 million (previous year: approx. € 26.8 million) were used for investment in intangible assets.

In 2005 free cash flow (1. cash flow from operating activity plus 2. cash flow from investing activity) amounted to € -100,683 thousand (previous year: € -46,012 thousand).

€ 192,143 thousand were used for acquisitions in 2005 (previous year: € 39,808 thousand) (2.1.1. payments for capital expenditure for the purchase of consolidated companies after deducting possibly acquired cash and cash equivalents plus 2.1.2. Payments for material purchases of intangible assets for current expansions of the product portfolio). Thus, in 2005 free cash flow of the STADA Group adjusted for expenses for acquisitions amounted to € 91,460 thousand (previous year: € -6,204 thousand).

4.4. Cash flow from financing activities

Cash flow from financing activities encompasses changes in financial liabilities, as well as dividend payments or capital increases or related transaction costs.

Proceeds from capital increases in fiscal year 2005 lead to cash inflow of € 1,801 thousand. Total cash flow from financing activities amounted to € 105,789 thousand.

4.5. Net cash flow for the period

Cash flow for the period – the balance of cash inflows and outflows from operating activities, financing activities and investing activities, as well as from other changes in shareholders' equity and from currency translation as well as the influence of changes in the balance sheet by companies consolidated for the first time – changed by € -3,019 thousand and resulted in cash and cash equivalents of € 72,756 thousand at December 31, 2005.

Cash and cash equivalents includes cash and call deposits as well as short-term and highly liquid financial investments that can be converted to cash immediately and are subject only to minor price fluctuation risks.

Payments of income taxes and interest in the 2005 reporting period totaled € 24,134 thousand and € 12,368 thousand, respectively. Receipts from interest-bearing transactions amounted to € 1,292 thousand.

5. Segment Reporting

Segment Reporting (primary) in € 000s	Core segment Generics		Core segment Branded Products		Core segment Specialty Pharmaceuticals	
	2005	2004	2005	2004	2005	2004
Income and expenses						
External sales[1)]	739,028	608,255	211,437	139,607	25,189	24,742
Segment earnings / operating profit	93,281	59,999	37,103	18,197	4,980	6,525
Closing of LipoNova/Reniale® project	0	0	0	0	0	0
Investment income	0	0	0	0	0	0
Interest payments	4,998	3,862	2,223	1,544	210	107
Interest income	2,194	1,586	661	121	198	10
Earnings before taxes	90,477	57,723	35,541	16,774	4,968	6,428
Taxes on income	38,966	22,349	12,871	7,343	2,085	2,385
Net income	51,511	35,374	22,670	9,431	2,883	4,043
Net income distributable to shareholders of STADA Arzneimittel AG	51,423	35,422	22,368	9,428	2,883	4,043
Other information						
Segment assets	398,554	356,188	128,249	111,129	67,697	68,609
Liabilities	158,999	95,442	107,979	15,045	1,767	20,339
Capital expenditure	27,099	22,771	86,727	7,867	653	62
Depreciation / amortization	12,114	7,747	12,808	4,373	626	598
Other non-cash expenses	6,280	2,976	223	98	0	0

1) Sales were generated from transactions with other segments for the segments of Generics (€ 25,354 thousand), Branded Products (€ 817 thousand), Specialty Pharmaceuticals (€ 63 thousand), Commercial Business (€ 92 thousand), and Group holding company / other (€ 192,931 thousand).

Commercial business		holdings/ other		Group Eliminations within segments		Consolidated	
2005	2004	2005	2004	2005	2004	2005	2004
39,651	32,046	6,754	8,869	0	0	1,022,059	813,519
1,817	1,700	-10,068	1,423	7	-5	127,120	87,839
0	0	20,311	0	0	0	20,311	0
0	0	251	401	0	0	251	401
285	267	19,823	18,722	-15,392	-11,808	12,147	12,694
76	67	14,873	12,023	-15,399	-11,803	2,603	2,004
1,608	1,500	-35,078	-4,875	0	0	97,516	77,550
574	432	-8,995	-3,485	0	0	45,501	29,024
1,034	1,068	-26,083	-1,390	0	0	52,015	48,526
992	981	-26,083	-1,390			51,583	48,484
4,337	3,329	74,592	90,071	0	0	673,429	629,326
11,600	8,383	326,123	204,287	0	0	606,468	343,496
68	285	92,550	51,109	0	0	207,097	82,094
196	111	28,386	21,659	0	0	54,130	34,488
86	193	16,569	5,378	0	0	23,158	8,645

Segment Reporting (secondary) in € 000s

	Sales		Segment assets		Capital expenditure	
Segment Information	2005	2004	2005	2004	2005	2004
Europe	959,764	743,588	632,384	575,228	201,281	76,804
Belgium	93,558	65,221	61,645	50,454	1,149	1,182
Denmark	19,302	9,054	12,718	7,004	0	0
Germany	440,949	383,074	290,539	296,338	95,120	49,468
France	70,670	53,883	46,564	41,683	2,351	3,234
United Kingdom	30,284	31,114	19,954	24,069	77,144	1,903
Ireland	15,609	13,702	10,285	10,600	3,037	6,781
Italy	94,648	74,276	62,363	57,459	12,851	10,467
Lithuania	1,132	1,112	746	860	15	0
The Netherlands	38,591	39,738	25,427	30,741	812	716
Austria	10,409	8,189	6,858	6,335	86	152
Portugal	5,275	4	3,476	3	1,902	0
Russia	56,623	665	37,309	514	5,370	0
Switzerland	6,257	5,368	4,123	4,153	94	143
Spain	53,002	44,388	34,923	34,338	1,235	2,659
Czech Republic	6,123	5,394	4,034	4,173	99	99
Ukraine	6,452	1,258	4,251	973	16	0
Rest of Europe	10,880	7,148	7,169	5,331	0	0
Americas	34,166	46,086	22,512	35,651	113	4,786
USA	34,021	46,028	22,416	35,606	113	4,786
Rest of Americas	145	58	96	45	0	0
Asia	28,077	22,522	18,500	17,423	5,703	504
China	7,027	6,644	4,630	5,140	4,659	233
Kazakhstan	3,364	1,153	2,217	892	9	0
The Philippines	6,454	4,906	4,253	3,795	27	64
Thailand	2,394	2,698	1,577	2,087	80	57
Vietnam	6,103	5,180	4,021	4,008	928	150
Rest of Asia	2,735	1,941	1,802	1,501	0	0
Rest of World	52	1,323	33	1,024	0	0

In accordance with the “management approach” of IAS 14, reporting is based on the internal organizational and reporting structure of the STADA Group.

The following applies to the reporting in the **primary segments**: STADA continues to concentrate the product portfolio of the Group on products which are accessible in the three core segments Generics, Branded Products and Specialty Pharmaceuticals without the need for the Group to conduct its own research into new active ingredients.

STADA also conducts business and has equity interests in fields outside these three core segments. The objective of these activities is to supplement and support the Group's activities in the three core segments. Transactions that mainly involve trading and selling – such as in wholesaling activities – are grouped together in the commercial business segment. All other transactions, such as the sale of drug approvals and investments, are reported under Group holding company/other.

As there is a degree of segment overlap, allocation to one segment or another is also determined to a large extent by the market positioning. If positioning changes for parts of the product portfolio, associated sales are reclassified.

Assets and liabilities items are allocated to individual segments by objective criteria. Assets that cannot be allocated are reported in the Group holding company/other segment.

In the reporting in the **secondary segments** (geographical segments), net sales to third parties made by consolidated Group companies in the various national markets are reported for the following regions: Europe, America, Asia and Rest of the world.

In order to avoid an arbitrary breakdown, the allocation of assets to secondary segments was based on fixed codes linking sales to geographical segments.

STADA does not disclose net financial income as part of its secondary reporting. STADA operates predominantly in markets that are subject to well-developed state regulation on the national level. Disclosure of its Group profit allocation could conceivably lead to regulatory measures in local national markets that would be detrimental to STADA's interests.

6. Other disclosures

6.1. Events after the balance sheet date

Significant business events that occurred between the end of the fiscal year and the preparation of the financial statements are disclosed in the supplementary report.

6.2. Headcount

Average number of employees in the STADA Group

	Sales/ Marketing	Production	Logistics	Development	Administration	Total
2004	1,388	523	151	174	350	2,586
2005	1,523	1,365	238	237	529	3,892

In production, the number of employees in 2005, due primarily to the acquisition of Nizhpharm, increased disproportionately.

6.3. Notes to financial instruments

Currency risk – currency futures

IAS 39 requires that all financial assets and liabilities, as well as all derivatives regardless of their purpose, be reported in the balance sheet in the appropriate asset and liability account, normally at their market value. Market expectations with respect to financial derivatives must be accounted for on a regular basis and be reported either in the income statement or under shareholders' equity in the form of a revaluation reserve, depending on whether their function is as a fair value hedge or a cash flow hedge. Changes in the market value of the hedged item and of the financial derivative are always shown in the income statement in the case of a fair value hedge.

The hedge transaction conducted as a result of the acquisition of Nizhpharm is recognized as of December 31, 2004, in shareholders' equity as a provision for cash flow hedges in the amount of € -1.7 million. After the completion of the hedged item, the provision for cash flow hedges was released again.

On behalf of the STADA Group as a whole, STADA Arzneimittel AG employs fundamentally different financial derivatives to hedge assets, liabilities and anticipated future cash flows denominated in foreign currency. In the 2005 reporting year, STADA Arzneimittel AG made particular use of foreign-exchange futures contracts. The maturity dates of futures contracts are selected to match the company's anticipated cash flows. Generally, however, their terms do not exceed one year.

The following currency hedges were held on the balance sheet date of December 31, 2005: currency futures contracts for hedging Group demand in US dollars in the amount of USD 3.6 million. These contracts have a total market value of € 3.0 million.

Default risk

STADA Arzneimittel AG may be exposed to default risk if contracting parties fail to meet their obligations. To minimize credit risks, such agreements are only concluded with banks of impeccable financial standing. Domestic receivables are covered by a credit insurance policy (Hermes).

Interest rate risk

The company has an exposure to fluctuations in interest rates. A significant share of the interest rate-sensitive assets and liabilities consists of securities, cash and cash equivalents and debt. STADA Arzneimittel AG hedges these risks with financial derivatives only to a small extent.

Procurement price risk

Procurement operations can involve exposure to the risk of subsequent price changes. STADA Arzneimittel AG counters this potential risk by means of price escalation clauses linking procurement prices to current selling prices. This significantly reduces procurement risk.

6.4. Related party transactions

Executive Board and Executive Board remuneration

The members of the Executive Board on the balance sheet date were:

- Hartmut Retzlaff, Chairman of the Executive Board (under contract until March 31, 2008)
- Wolfgang Jeblonski, Chief Financial Officer (under contract until April 30, 2008)
- Dr. Klaus-Peter Reich, Chief Research, Development and Quality Assurance Officer (left the Executive Board of STADA Arzneimittel AG as of December 31, 2005)

Hartmut Retzlaff is also member of the Administrative Board of HSBC Trinkaus & Burkhardt KGaA, member of the Supervisory Board of BIOCEUTICALS Arzneimittel AG, member of the Supervisory Board of S.A. AAXL Pharma N.V., S.A. Eurogenerics N.V. and EG Labo SAS – Laboratoires EuroGenerics as well as member of the Board of Directors/Managing Directors of Boniscontro & Gazzone S.r.l., Clonmel Healthcare Ltd., Crinos S.p.A., Cross Pharma Ltd. (till November 30, 2005), EG S.p.A., Laboratorio STADA S.L. (Chairman), New Pharmajani S.p.A., SFS International Ltd., STADA Arzneimittel Ges.m.b.H, STADA Inc., STADA Financial Investments Ltd., STADA Pharmaceuticals (Asia) Ltd., STADA Service Holding B.V. and STADApharm AB.

Wolfgang Jeblonski is also member of the Entrepreneur's Advisory Board of DZ Bank AG, member of the Advisory Board of the Region Mitte of Deutsche Bank AG, member of the Advisory Board of Pictet Generics Funds, member of the Supervisory Board of S.A. AAXL Pharma N.V., S.A. Eurogenerics N.V. and EG Labo SAS – Laboratoires EuroGenerics as well as member of the Board of Directors/Managing Directors of Boniscontro & Gazzone S.r.l., Clonmel Healthcare Ltd., Crinos S.p.A., Croma Medic, Inc., Cross Pharma Ltd. (till November 30, 2005), DATApharm Company Ltd., EG S.p.A., Health Vision Enterprises Ltd. (Director), JSC Nizhpharm, Laboratorio STADA S.L., New Pharmajani S.p.A., PharmaCoDane Aps, SFS International Ltd., STADA Arzneimittel Ges.m.b.H, STADA Asiatic Company Ltd., STADA Import Export Ltd., STADA Inc. (Chairman), STADA Financial Investments Ltd., STADA Pharmaceuticals (Asia) Ltd., STADA Service Holding B.V. and STADApharm AB.

Dr. Klaus-Peter Reich was also member of the Executive Board of BIOCEUTICALS Arzneimittel AG (till December 31, 2005), member of the Advisory Board of NorBiTec GmbH (till December 31, 2005) as well as member of the Supervisory Board of Eurovax SAS (till November 30, 2005).

In the reporting period 2005, Peter Niemann also belonged to the Executive Board from January 1, 2005 to February 28, 2005 as Chief Production and Technology Officer.

Peter Niemann was also member of the Board of Directors/Managing Directors bei Boniscontro & Gazzone S.r.l. (till Feburary 28, 2005), Crinos S.p.A., (till February 28, 2005), Croma Medic, Inc., (till February 2005), EG S.p.A., (till February 28, 2005), Laboratorio STADA S.L., (till March 21,2005), New Pharmajani S.p.A., (till February 28, 2005) and STADA Service Holding B.V. (till February 28, 2005).

Total remuneration paid to the Executive Board amounted to € 3,455,180.85 for STADA Arzneimittel AG and to € 3,559,824.85 for the Group in 2005. Remuneration of the Executive Board can be broken down as follows: Chairman of the Executive Board € 1,623,505.76 (€ 636,998.41 fixed and € 986,507.35 variable); the Chief Production and Technology Officer for the period between January 1, 2005 until February 28, 2005 € 447,986.68 (€ 43,873.93 fixed and € 404,112.75 variable); the Chief Financial Officer € 749,262.79 (€ 345,150.04 fixed and € 404,112.75 variable); and the Chief Research, Development and Quality Assurance Officer € 739,069.62 (€ 296,649.62 fixed and € 442,420.00 variable).

Remuneration for former Executive Board Members is € 2,052,193.62. Current pension provision for this group amounts to € 2,321,446.00.

Since January 1, 2006, the Executive Board of STADA Arzneimittel AG has the following additional members:

- Dr. Alexander Oehmichen, Chief Legal, Human Resources & Corporate Development Officer (under contract until December 31, 2008)
- Christof Schumann, Chief Research & Development Officer (under contract until December 31, 2008)
- Hans Stols, Chief Operational Officer (under contract until December 31, 2008)

Dr. Alexander Oehmichen is also member of the Board of Directors/Managing Directors of Croma Medic, Inc., JSC Nizhpharm, Laboratorio STADA S.L. (since March 21, 2005), STADA Asiatic Company Ltd, STADA Service Holding B.V. (since March 3, 2005) and UAB STADA-Nizhpharm-Baltija (since April 15, 2005). In addition he was member of the Supervisory Board of Eurovax SAS (till November 30, 2005).

Christof Schumann is also member of the Executive Board of BIOCEUTICALS Arzneimittel AG, Deputy Advisory Board Chairman at NorBiTec GmbH as well as member of wissenschaftliches Weiterbildungsinstitut für pharmazeutisch-technische Assistenten GbR.

Hans Stols is also member of the Board of EGA (European Generics Medicines Association) as well as member of the Board of Directors/Managing Directors bei Quatropharma Holding B.V., Quatrosyst B.V., STADApharm AB, STADApharm AS and STADA Finland Oy.

There was no stock option plan in place for Executive Board members as of the balance sheet date. The breakdown of fixed vs. variable components of remuneration depends on the individual provisions of the employment contract of each member of the Executive Board.

There were no loans outstanding to members of the Executive Board as of the balance sheet date.

Supervisory Board and Supervisory Board Remuneration

The members of the Supervisory Board on the balance sheet date were:

- Dr. Eckhard Brüggemann, Herne (Chairman)
- Karl Hertle[1)], Bad Vilbel (Deputy Chairman)
- Dr. Martin Abend[2)], Dresden
- Heike Ebert[1)], Niddatal
- Uwe E. Flach[3)], Frankfurt am Main
- Dr. K. F. Arnold Hertzsch, Dresden
- Dieter Koch, Dänischenhagen
- Constantin Meyer, Seelze
- Adolf Zissel[1)], Bad Nauheim

Remuneration of the Supervisory Board is as follows pursuant to §18 of the articles of incorporation: For the relevant fiscal year, in addition to reimbursement of expenses, Supervisory Board members receive a) an annual fixed sum of € 25,000 and b) additional remuneration in the amount of 0.03% of Group earnings before taxes. The Chairman of the Supervisory Board receives triple this amount and his deputy twice the amount. Value added tax must be paid on the remuneration. In addition, Supervisory Board members receive an annual fixed remuneration of € 10,000 for their committee activities for the past fiscal year. The Chairman of a committee receives twice this amount in remuneration. Value added tax must be paid on the remuneration.

Total remuneration of Supervisory Board members amounted to € 829,554.56 during 2005. Remuneration in the Group can be broken down as follows: Chairman of the Supervisory Board, Dr. Eckhard Brüggemann, € 221,145.15 (thereof € 105,000.00 fixed and € 116,145.15 variable); Deputy Chairman of the Supervisory Board, Karl Hertle, € 149,096.77 (thereof € 70,000.00 fixed and € 79,096,77 variable); other members of the Supervisory Board: Dr. Martin Abend € 63,715.05 (thereof € 25,000.00 fixed and € 38,715.05 variable); Heike Ebert € 63,715.05 (thereof € 25,000.00 € fixed and € 38,715.05 variable); Uwe E. Flach € 92,048.38 € (thereof 55,000.00 fixed and € 37,048.38 variable); Dr. K. F. Arnold Hertzsch € 63,715.05 (thereof € 25,000.00 fixed and € 38,715.05 variable); Dieter Koch € 63,715.05 (thereof € 25,000.00 fixed and € 38,715.05 variable); Constantin Meyer € 63,715.05 (thereof € 25,000.00 fixed and € 38,715.05 variable); and Adolf Zissel € 37,697.19 (thereof € 25,000.00 fixed and € 12,697.19 variable). Remuneration for Reinhard Kraft, who left the Supervisory Board on June 15, 2004 – post adjusted for fiscal year 2004 – amounts to € 10,991.82 (thereof corrected fix € 411.00 and variable € 10,580.82).

1) Employee representatives.
2) Dr. Martin Abend was also Managing Director of DANO GmbH (April 29, 2005 - December 29, 2005). Dr. Abend had this position within the framework of a commissionary mandate. The company is the general partner of a real estate administration company.
3) Uwe E. Flach is also member of the Supervisory Board of Andreae-Noris-Zahn AG as well as Chairman of the Supervisory Board of GEHAG GmbH (since January 19, 2006). In addition, he was also member of the Supervisory Board of Deutsche Börse AG (till May 25, 2005), member of the Advisory Board of GHP Holding GmbH (till December 30, 2005) as well as Chairman of the Supervisory Board of ORGA Kartensysteme GmbH (till October 31, 2005).

Beyond this remuneration no additional monies or benefits have been granted to members of the Supervisory Board for personally rendered services, in particular for consulting or mediation services, other than in the following case: Supervisory Board member Constantin Meyer received royalty payments in the amount of € 14,823.28.

There were no loans outstanding to members of the Supervisory Board as of the balance sheet date.

In the course of their normal professional activities, individual members of the Supervisory and Advisory Boards who are self employed have business dealings with the company. These are not significant as regards their volume and nature.

6.5. Corporate Governance Code

On December 9, 2005, in accordance with §161 of the German Stock Corporation Act, the Executive and Supervisory Boards have issued their annual joint declaration of compliance with the German Corporate Governance Code. Shareholders are provided with permanent access to this declaration on the company's website www.stada.de (German website) and www.stada.com (English website). The company also publishes the declaration in this annual report.

6.6. Dividends

The German Stock Corporation Act specifies that distributable dividends relate to the unconsolidated earnings of STADA Arzneimittel AG as shown in the relevant separate HGB financial statements. STADA Arzneimittel AG's distributable profit as of December 31, 2005, amounted to € 22,233,662.77. The Executive Board recommends that a dividend of € 0.39 per common share (previous year: € 0.39 per common share) be appropriated from distributable profit.

Bad Vilbel, March 10, 2006

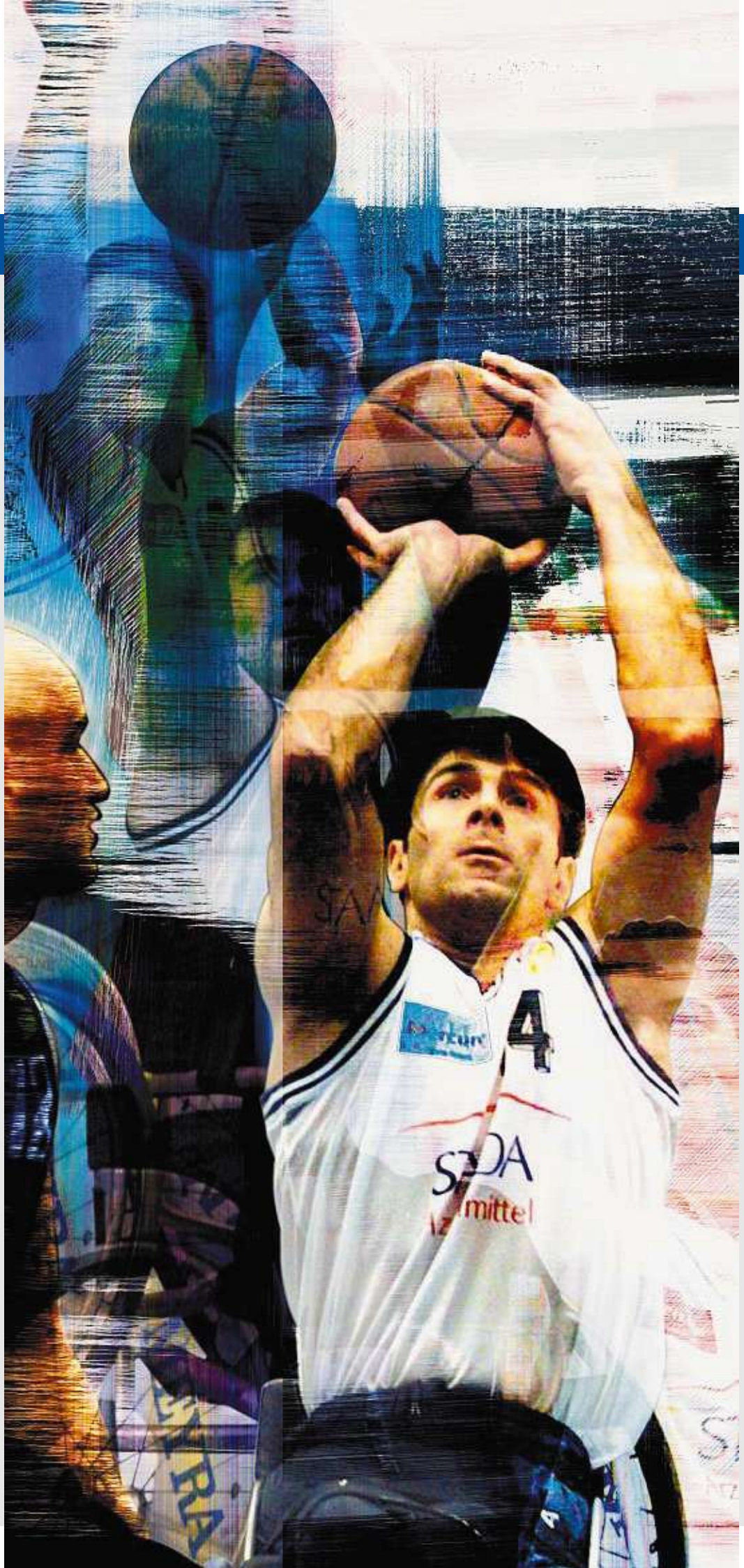
H. Retzlaff

W. Jeblonski

Dr. A. Oehmichen

C. Schumann

H. Stols



ADDITIONAL INFORMATION

CORPORATE GOVERNANCE DECLARATION

Joint Declaration of the Executive and Supervisory Boards of STADA Arzneimittel AG on Conformity with the German Corporate Governance Code, pursuant to § 161 of the German Stock Corporation Act (AktG)

At the time this declaration was submitted, STADA Arzneimittel AG complied with the recommendations of the German Corporate Governance Code in the version of June 2, 2005 (published in the electronic Federal Gazette on July 12, 2005) with the following exceptions:

Section 3.8: D&O Insurance – deductible for board members

The D&O insurance policy covering board members and top management, which is part of a common group insurance policy, does not contain a deductible since it is not customary in international practice to have such a deductible for top management, and in the opinion of the Supervisory and Executive Board, board members should not be placed in a worse position than the Company's top management.

Section 3.10: Corporate Governance Report

The reporting obligation in accordance with Section 3.10 of the Corporate Governance Code and the reporting requirements set out in §161 of the German Stock Corporation Act (AktG) partially deviate from one another in terms of content. The Executive Board and Supervisory Board have decided to orient the company's reporting on Corporate Governance in line with the legal requirements.

Section 5.4.1: Age limit for members of the Supervisory Board

The Supervisory Board's rules of order do not provide for an age limit because such an age limit would shorten the voting rights of the shareholders at the Annual Shareholders' Meeting.

Section 6.6: Shares held by members of the Executive Board and Supervisory Board

The purchase and sale of STADA shares and options by members of the Executive Board and Supervisory Board and by closely related persons mentioned in the law are reported to the Company itself and to the German Federal Financial Supervisory Authority (BaFin) in accordance with legal requirements and are published on the Company's website in accordance with legal requirements. However, the shares and the options to purchase and sell such shares held by individual members of the Executive Board and Supervisory Board are not published in the Notes to the company's financial statements. The Supervisory Board and the Executive Board are of the opinion that compliance with the legal requirements provides sufficient transparency.

Section 7.1.4: Consolidated financial statements – information about outside companies

STADA does not publish any disclosures relating to the previous year's equity or financial results of external companies in which STADA holds a material interest. STADA operates predominantly in markets that are subject to well-developed state regulation on the national level. The possibility exists that disclosure of the allocation of equity and/or profits within the Group could lead to a disadvantageous competitive situation in individual national markets. Transparency for shareholders is adequately guaranteed by detailed segment reporting on each line of business.

For STADA, the recommendations of the Corporate Governance Code serve as a general basis for Company's activity. In daily practice, however, individual situations can occur in which the application of the Code could lead to limitations in the flexibility of the Company or in the proven corporate practice. In these individual cases, contrary to the Declaration of Compliance, deviations form the recommendation of the Code can take place. STADA will, however, regularly review and, if necessary correct compliance with the Code and the above mentioned exceptions.

Since the most recent Declaration of Compliance was issued in the fourth quarter of 2004, STADA Arzneimittel has complied with the recommendations of the German Corporate Governance Code in the version applicable at the time, with the following exceptions:

Section 3.8: D&O Insurance – deductible for board members

The D&O insurance policy covering board members and top management, which is part of a common group insurance policy, does not contain a deductible since it is not customary in international practice to have such a deductible for top management, and in the opinion of the Supervisory and Executive Board, board members should not be placed in a worse position than the Company's top management.

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The Supervisory Board's rules of order do not provide for an age limit.

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Bad Vilbel, December 9, 2005

Dr. Eckhard Brüggemann
Chairman of the Supervisory Board

Hartmut Retzlaff
Chairman of the Executive Board

AUDITOR'S REPORT

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in shareholder's equity, the consolidated cash flow statement and the notes to the consolidated financial statements as well as the Group Management Report of the Executive Board prepared by STADA Arzneimittel Aktiengesellschaft, Bad Vilbel, for the fiscal year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the Group Management Report of the Executive Board in accordance with IFRS as applicable in the EU, and the supplementary provisions pursuant to Section § 315a section 1 of German Commercial Code (HGB) are the responsibility of the legal representatives of the company. Our responsibility is to express an opinion on these consolidated financial statements and the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code (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) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of net assets, financial position and results of operations in the consolidated financial statements in accordance with principles of proper accounting and in the Group Management Report of the Executive Board are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The 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 Executive Board 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 and based on the knowledge gained from our audit, the consolidated financial statements comply with IFRS as applicable in the EU as well as the supplementary provisions pursuant to § 315a section 1 of the German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations of the Group. The Group Management Report of the Executive Board is in agreement with the consolidated financial statements, gives an accurate picture of the Group's position, and suitably presents the opportunities and risks of future development.

Frankfurt am Main, March 13, 2006

TREUROG GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dieter Hanxleden
Wirtschaftsprüfer

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

The Supervisory Board of STADA Arzneimittel AG, in accordance with the duties imposed on it by law and the company's articles of incorporation, has regularly monitored the work of the Executive Board during the year under review and provided it with advice. This applies both to strategic decisions on the continued expansion of the STADA Group and to operational developments in the various Group companies during the course of the year.

In its eight sessions[1], the Supervisory Board received detailed reports from the Executive Board on all important business transactions and discussed these with the Executive Board.

The focus here was on:

- the company strategy,
- The economic situation of the company and in particular the sales, costs and earnings development as well as the financial condition of the Group,
- the market structures and the competitive situations in the individual national markets and in particular the development of market and units sold data as well as the effects of various state regulatory interventions on the Group and its individual subsidiaries,
- the international expansion of the Group,
- the Group's development projects and in particular the LipoNova/Reniale® and Biogenerics/BIOCEUTICALS Arzneimittel AG projects,
- the investment plans of the Group and in particular all acquisition projects and their financing,
- STADA's position in the capital markets,
- Corporate-Governance,
- Executive Board issues and in particular the departure of two Members of the Executive Board as well as the appointment of three new Executive Board Members,
- the management of risks and opportunities.

The committees established by the Supervisory Board, namely the Audit Committee[2] as well as the Human Resources and Strategy Committee[3], have dealt intensively with those themes of relevance for the respective committee.

1) The Supervisory Board meetings in 2005 took place on: January 28, March 29, May 6, June 13, August 5, September 16, October 28 and December 9.
2) The five meetings of the Audit Committee in 2005 took place on: January 28, March 23, May 6, October 28, and December 8.
3) The five meetings of the Human Resources and Strategy Committee in 2005 took place on: February 25, October 28, November 25, December 8 and December 21.

In addition, the Supervisory Board received a monthly written report on business trends and results in the individual areas of the Group.

All matters requiring the consent of the Supervisory Board in accordance with the articles of incorporation and rules of procedure were submitted to the Supervisory Board.

Overall, the Executive Board informed the Supervisory Board very openly and in detail, and all times about the company and its development and in particular about the risk situation of the Group in accordance with the findings of the Risk Management. Regular additional contact apart from the actual meetings of the Executive Board with the Chairman of the Supervisory Board also contributed to this.

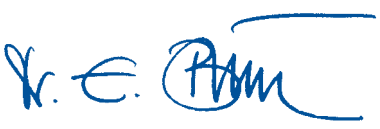
The Supervisory Board has satisfied itself that the company is being properly managed. The financial statements of STADA Arzneimittel AG and the consolidated financial statements as well as the company's management report for fiscal year 2005 have been audited by TREUROG GmbH, Wirtschaftsprüfungsgesellschaft, Frankfurt, and issued with an unqualified audit opinion.

The auditor attended the financial statements review meeting of the Supervisory Board on March 29, 2006 and presented a report on his audit findings.

The financial statements and the management report for both STADA Arzneimittel AG and for the Group as well as the proposal for the appropriation of profits were considered by the Supervisory Board. No objections were raised. The Supervisory Board therefore concurs with the outcome of the audit and approves the financial statements as well as the consolidated financial statements of the Group. The financial statements are thus adopted. In addition, the Supervisory Board expressly assents to the individual assessments of the business situation and to the outlook as well as to the proposal for the appropriation of profits as given in the management report of the Executive Board.

STADA had an extraordinarily positive operative development in 2005. Despite one-time special effects, net income was improved. This success is the result of the commitment and performance of the employees and the Executive Board as well as the management. The Supervisory Board wishes to express its gratitude for and recognition of these achievements.

Bad Vilbel, March 29, 2006



Dr. Eckhard Brüggemann
Chairman of the Supervisory Board

BOARD MEMBERS

The Executive Board
(as of January 1, 2006)

Hartmut Retzlaff
Chairman of the Executive Board

At STADA since 1986
Executive Board member since 1993
Chairman of the Executive Board since 1994
Contract until March 31, 2008

Dipl.-Kfm. Wolfgang Jeblonski
Chief Financial Officer

At STADA since 1991
Executive Board member since 1999
Contract until April, 30 2008

Dr. Alexander Oehmichen
Chief Legal, Human Resources & Corporate Development Officer

At STADA since 2003
Executive Board member since 2006
Contract until December 31, 2008

Christof Schumann
Chief Research & Development Officer

At STADA since 1997
Executive Board member since 2006
Contract until December 31, 2008

Hans Stols
Chief Operational Officer

At STADA since 1988
Executive Board member since 2006
Contract until December 31, 2008

The Supervisory Board

Dr. Eckhard Brüggemann, Herne (Chairman)
Karl Hertle[1)], Bad Vilbel (Deputy Chairman)

Dr. Martin Abend, Dresden
Heike Ebert[1)], Niddatal
Uwe E. Flach, Frankfurt am Main
Dr. K. F. Arnold Hertzsch, Dresden
Dieter Koch, Dänischenhagen
Constantin Meyer, Seelze
Adolf Zissel[1)], Bad Nauheim

1) Employee representative

The Advisory Board

Members of the Advisory Board are appointed by the Chairman of the Supervisory Board on the recommendation of the Executive Board and the Supervisory Board. According to the company's articles of incorporation, the duty of the Advisory Board is to support and advise the Executive and Supervisory Boards. Furthermore members of the Advisory Board are available to act as proxy for shareholders who do not wish to exercise their voting rights in person at the Annual Shareholders' Meeting. The Advisory Board appointed through 2008 currently includes:

Frank Füßl, Frankfurt am Main (Chairman)
Dr. Thomas Meyer, Seelze (Deputy Chairman)

Hansjürgen Bell, Bochum
Wolfgang Berger, Giessen
Gerd Berlin, Meiningen
Alfred Böhm, Munich
Dr. Jürgen Böhm, Kirchhain
Dr. Klaus Bsonek, Kleinostheim
Dr. Dieter Conrad, Neuental
Regine Heuer, Altenholz
Erich Kaufhold, Barth
Dr. Frank R. Leu, Giessen
Dr. Gerd Zweyrohn, Darmstadt

“IN MOTION” – THE VISUAL CONCEPT OF THIS ANNUAL REPORT

“In motion”

Basis of the visual concept “In motion” for this annual report are distorted photos of players from the wheelchair basketball club RSV Lahn-Dill. The existing motifs were depicted in abstract by means of digital technology and composition to visualize sporting attributes such as team ability, willpower, dynamism, the ability to concentrate and the capacity to react and assert oneself, in a super-enhanced and striking way.

The optically enhanced contents not only define the ideal of sport, but can also be transposed onto our modern world of business. After all, implementation is ultimately a major feature of a company's success.

The visual rendering of “dynamism” can be seen as the key element of the series of images, which consists of 12 motifs. Because for STADA, too, dynamic behavior, quick reactions and consistent decision making are essential.

RSV Lahn-Dill

The wheelchair basketball club RSV Lahn-Dill has been playing very successfully in the German wheelchair basketball league for many years. Among RSV Lahn-Dill’s greatest successes so far are winning the German Championships in 1998, 2004 and 2005 as well as winning the European Champion’s League in both 2004 and 2005 – the first German club ever to win this competition. STADA has been the club’s official sponsor since 1995.












GLOSSARY FROM A TO Z[1)]

Active pharmaceutical ingredient (API/active ingredient): In the pharmaceutical market: the pharmaceutically effective component of a drug.

Approval: Permission under drug laws to market a drug in a national market.

Audit: In the pharmaceutical market: control of facilities and documentation of manufacturers or their suppliers.

AVWG: Economic Optimization of Pharmaceutical Care Act, currently in the legislative period in the German parliament. It is expected to take effect in the second quarter of 2006.

Biogenerics: Generics with biopharmaceutical products, also known as biosimilars.

Biopharmaceuticals: Active drug ingredients produced biopharmaceutically, i.e. by means of genetically modified cell lines.

Biosimilars: Analogous for biogenerics.

Branded generics: Generics that are marketed under an independent brand name and are thus in-between branded products and generics. What generally distinguishes branded generics from branded products is that the price is lower than the price of the initial supplier's product.

Branded products: In the health care market: drugs, medical, or health care products sold under a product-specific brand name.

Centralized approval procedure: European approval procedure which is compulsory in the EU for new drugs and active ingredients in the field of biotechnology, that may lead to Europe-wide approval.

Commercial business: Purchase and subsequent sale of third-party products; in the pharmaceutical market this frequently refers to wholesale business or parallel imports.

1) Alphabetical sorting differs in English translation from German original.

Commercial property rights: Provide inventors or companies with protection against competition for an invention for a limited time period. The best-known commercial property right is the patent. SPCs still play an important role in the pharmaceutical market.

Decentralized European approval procedure: New EU approval procedure, possible since November 2005, that represents an alternative to the MR procedure. In contrast to the MR procedure, the new procedure allows an applicant for an approval for a pharmaceutical product to submit an application in several European countries at the same time, without the need to have an existing approval in one EU country.

Dosage form: Form in which an active ingredient has been produced by pharmaceutical manufacturing and in which it is administered to the patient, e.g. tablets, capsules, drops etc.

Dossier: Documentation required in an application for drug approval that describes the quality, safety, and efficacy of a drug.

Early entry: Early product launch of a first generic with approval of the initial supplier before expiration of relevant commercial property rights.

EMEA: European Medicines Agency, central EU authority for drug evaluation and approval, which are subject to the central approval procedure.

FDA: Food and Drug Administration, the approvals, supervisory and monitoring authority of the pharmaceutical market in the USA.

Freely-available drugs: Drugs with low potential risk which need not be sold in pharmacies.

Generics: Generics are drugs having the same active ingredient as an initial supplier product and the same therapeutic effect, but that are offered at significantly lower prices than the equivalent drugs of initial suppliers after the expiration of the patent or other applicable commercial property rights.

GKV: Public health insurance system in Germany.

GMG: The German law on modernizing the public health insurance system (“GKV-Modernisierungsgesetz” or “GMG”), which took effect on January 1, 2004.

GMP (Good Manufacturing Practice): International production standard in the pharmaceutical industry.

Health care products: Products that promote health, but are not considered either drugs or medical products.

Indication: Diseases for which a certain drug is used.

Initial supplier: In the pharmaceutical market: the company that first introduces a new patented active pharmaceutical ingredient based on the result in a national market.

INN (International Non-proprietary Name) generics: Generics named after the internationally recognized designation for the active ingredient, plus a company-specific suffix.

MR procedure: Mutual Recognition Procedure – European approval procedure enabling additional approvals in other EU countries based on the prior existence of national approval of a particular drug. The decentralized approval procedure has been in existence since 2005 as an alternative to the MR procedure.

Multisource products: Technical term for products in the health care market, usually drugs, that are available for marketing without the companies having to conduct their own basic research on new active ingredients. The commercial property rights for the active ingredients of multisource products have usually expired. Thus, off-patent active ingredients can as a rule be procured from a variety of raw material suppliers on the world market.

Oncology products: Cancer therapy products.

OTC market: Market for OTC (over the counter) products, i. e. drugs and medical or health care products that the customer is able to purchase, especially in pharmacies, without a doctor's prescription.

Patent: In the pharmaceutical market: Commercial property right granting active ingredients market exclusivity for a limited period (in the EU for example 20 years).

Pharmaceutical production: conversion of pharmaceutical substances into a dosage form and its packaging into a finished pharmaceutical product, e.g. tablet.

Prescription market: Market segment for drugs requiring a prescription, also termed the Rx market.

Prescription obligation: The legal requirement specifying that, depending on the potential risk involved, drugs may be dispensed to patients on prescription only.

Second supplier: In the pharmaceutical market: a company that markets a drug that is identical with respect to the qualitative and quantitative active ingredient composition to another drug introduced previously in the market.

Self-medication market: Market segment for drugs that patients select, pay for and administer themselves.

SPC: Supplementary Protection Certificate – commercial property right in the EU that extends the market exclusivity of the initial supplier by up to five years after patent expiration. SPCs must be applied for in each individual country; the date of the first EU approval is relevant for the beginning of the SPC period. The SPC period can vary from country to country.

Specialty pharmaceuticals: Specialty pharmaceuticals represent niche markets that can be differentiated from the general pharmaceuticals market. Such niche markets may be characterized by specific market entry barriers, specific indications, or marketing and distribution requirements and can be distinguished from the general pharmaceuticals market.

Tumour vaccine, autologous: A vaccine produced from autologous tissue for the treatment of cancer

PUBLISHING INFORMATION

Publisher
STADA Arzneimittel AG
Stadastraße 2-18
61118 Bad Vilbel
Phone: +49 (0) 61 01/6 03-0
Fax: +49 (0) 61 01/6 03-2 59
E-Mail: info@stada.de
Website: www.stada.de and/or www.stada.com

Contact
STADA Arzneimittel AG
STADA Corporate Communications
Phone: +49 (0) 61 01/6 03-1 13
Fax: +49 (0) 61 01/6 03-5 06
E-Mail: communications@stada.de

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Forward-looking statements

The STADA Arzneimittel AG annual report contains certain statements regarding future events (as understood in the U.S. Private Securities Litigation Reform Act of 1995) that express the beliefs and expectations of management. Such statements are based on current expectations, estimates and forecasts on the part of company management and imply various known and unknown risks and uncertainties, which may result in actual earnings, the financial situation, growth or performance to be materially different from the estimates expressed or implied in the forward-looking statements. Statements with respect to the future are characterized by the use of words such as “expect”, “intend”, “plan”, “anticipate”, “believe”, “estimate” and similar terms. STADA is of the opinion that the expectations reflected in forward-looking statements are appropriate; however, it cannot guarantee that these expectations will actually materialize. Risk factors include in particular: The influence of regulation of the pharmaceutical industry; the difficulty in making predictions concerning approvals by the regulatory authorities and other supervisory agencies; the regulatory environment and changes in the health-care policy and in the health care system of various countries; acceptance of and demand for new drugs and new therapies; the influence of competitive products and prices; the availability and costs of the active ingredients used in the production of pharmaceutical products; uncertainty concerning market acceptance when innovative products are introduced, presently being sold or under development; the effect of changes in the customer structure; dependence on strategic alliances; exchange rate and interest rate fluctuations, operating results, as well as other factors detailed in the annual reports and in other company statements. STADA Arzneimittel AG does not assume any obligation to update these forward-looking statements or adapt them to future events and developments.

Rounding

In the general portion of this annual report, STADA key figures are, as a rule, rounded to millions of euro, while the Notes present these figures with greater accuracy in thousands of euro. Due to rounding of these figures, differences may arise in individual figures between the general portion and the Notes, as well as from figures actually achieved in euro; these differences cannot be considered material.

FINANCIAL CALENDAR

2006

March 30, 2006	Publication of 2005 results with press and analysts' conference
May 15, 2006	Publication of Q1/2006 results
June 14, 2006	Annual Shareholders' Meeting
August 10, 2006	Publication of 2006 interim results with press and analysts' conference
November 14, 2006	Publication of Q3/2006 results

2007

March 29, 2007	Publication of 2006 results with press and analysts' conference
May 15, 2007	Publication of Q1/2007 results
June 20, 2007	Annual Shareholders' Meeting
August 14, 2007	Publication of 2007 interim results with press and analysts' conference
November 14, 2007	Publication of Q3/2007 results

Status at time of going to print; STADA reserves the right to change these dates. The current financial calendar can be found on the Internet at: www.stada.com.

The annual report, the interim report and the quarterly reports will be published on the dates listed above on the company website (www.stada.com), usually before trading begins on the Frankfurt Stock Exchange. Shareholders may receive printed copies of the reports on request.


Probetüne Rolf Scheidiger als Streetball-Mannschaft 2002
beim Schweizer Cup in Delemont 2002, wo sie den 3. Platz belegte
Basketball
kommen aus englischen Schulinstitutionen und bestanden aus
amerikanischen Basketballspielern in Europa begann man diesen attraktiven Sport

FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

Group sales in € million	IFRS 2005	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001
Total Group sales	1,022.1	813.5	745.2	633.5	537.8
Core segment sales, total	975.7	772.6	705.9	572.0	425.3
• Generics	739.0	608.3	549.1	444.5	326.0
• Branded Products	211.4	139.6	135.3	107.6	83.3
• Specialty Pharmaceuticals	25.2	24.7	21.5	19.9	16.0
Commercial sales	39.7	32.0	34.0	54.9	106.5
Other	6.8	8.9	5.3	6.6	6.0

Sales by region[1] in € million	IFRS 2005	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001
Europe	959.8	743.6	675.1	569.0	520.0
• Belgium	93.6	65.2	49.9	39.2	37.5
• Denmark	19.3	9.1	9.9	7.3	4.4
• Germany	440.9	383.1	378.0	330.8	280.7
• France	70.7	53.9	37.8	23.1	11.6
• UK	30.3	31.1	21.9	11.8	10.3
• Irleand	15.6	13.7	12.5	10.5	11.0
• Italy	94.6	74.3	60.7	37.5	13.1
• Lithuania	1.1	1.1	0.9	0.3	0.3
• The Netherlands	38.6	39.7	42.8	70.6	135.7
• Austria	10.4	8.2	7.9	5.5	47.0
• Portugal	5.3	0.0	0.1	0.0	0.0
• Russia	56.6	0.7	0.5	0.6	0.2
• Switzerland	6.3	5.4	3.8	3.0	2.2
• Spain	53.0	44.4	38.3	21.6	1.4
• Czech Republic	6.1	5.4	4.4	4.0	4.9
• Ukraine	6.5	1.3	0.8	0.3	0.3
• Rest of Europe	10.9	7.0	4.9	2.9	2.4
Americas	34.1	46.1	52.6	48.8	7.4
• USA	34.0	46.0	52.5	48.4	7.2
• Rest of Americas	0.1	0.1	0.1	0.4	0.2
Asia	28.1	22.5	17.3	15.6	10.3
• China	7.0	6.6	5.1	5.8	1.9
• Kasakhstan	3.4	1.2	0.9	0.2	–
• The Philippines	6.5	4.9	3.8	3.6	3.1
• Thailand	2.4	2.7	3.0	2.9	4.0
• Vietnam	6.1	5.2	2.9	1.8	0.8
• Rest of Asia	2.7	1.9	1.6	1.3	0.5
Rest of world	0.1	1.3	0.2	0.1	0.1

Since January 1, 2002, STADA has been keeping its consolidated accounts in accordance with International Financial Reporting Standards (IFRS), previously known as International Accounting Standards (IAS), as promulgated by the International Accounting Standards Board. Data prior to this date is based on accounting according to HGB. In addition all Group results mentioned in this annual report from before January 1, 2002 have been converted from the reporting currency used prior to this time (the German Mark) to the current Group currency, the euro. The official exchange rate (€ 1.00 = DM 1.95583) has been used exclusively in this retroactive adjustment.

1) Figures refer to the respective national market in which the sales were made.

Financial Results in € million	IFRS 2005	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001
Operating profit	127.1	87.8	85.6	77.4	42.4[1]
EBITDA	161.2	122.7	116.8	96.5	74.9
EBIT	107.1	88.2	85.7	73.2	54.7
Earnings before taxes (EBT)	97.5	77.6	72.1	61.0	47.8
Net income	51.6	48.5	43.9	35.1	24.7
Cash flow (gross)	109.9	81.3	78.8	62.5	40.7

Asset & capital structure in € million	IFRS 2005	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001
Total assets	1,349.8	1,020.4	955.1	741	476.7
Equity capital	684.8	639.0	614.5	324.1	232.0
Equity-to-assets ratio in percent	50.7%	62.6%	64.3%	43.7%	48.7%
Net debt	234.2	103.6	38.2	226.5	93.6

Capital expenditure / depreciation & amortization in € million	IFRS 2005	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001
Total capital expenditure	207.1	82.1	76.5	185.9	56.6
• on intangible assets	168.9	67.6	64.9	163.7	44.1
• on property, plant and equipment	14.8	7.0	11.2	20.5	12.1
• on financial assets	23.3	7.5	0.4	1.7	0.4
Total depreciation and amortization	54.1	34.5	31.1	23.3	20.1
• on intangible assets	37.1	26.6	23.4	16.2	13.5
• on property, plant and equipment	10.1	7.9	7.7	7.1	6.6
• on financial assets	6.9	0	0	0	0

Employees	IFRS 2005	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001
Average number of employees[2] per year	3,892	2,586	2,465	2,083	1,793

Key figures per share	IFRS 2005	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001
Market capitalization (year end) in € million	1,479.3	1,061.9	1,312.9	766.5	730.4
Year-end closing price of common shares in €	27.65	19.89	24.59[3]	19.15[3]	19.50[3]
Basic earnings per share in €[6]	0.97	0.91[3]	1.01[3]	0.92[3][4]	0.69[3][4][5]
Diluted earnings per share in €[7]	0.91	0.88[3]	0.95[3]	0.90[3][4]	–
Dividend per common share in €	0.39[8]	0.39	0.35[3]	0.325[3]	0.295[3]
Total dividend payments in € million	20.8[8]	20.8	18.7	13.0	11.0

1) Adjusted from HGB to IFRS.
2) Employees of companies consolidated at only 50% have since 2003 been included in accordance with their respective consolidation rate. The figures for the previous year were adjusted accordingly.
3) Adjusted for de facto 1:1 stock split on July 30, 2004.
4) Common shares plus preferred shares.
5) According to DVFA.
6) According to IAS 33.10.
7) According to IAS 33.24.
8) Proposed.

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STADA
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