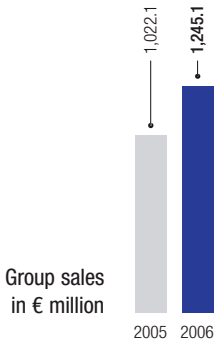
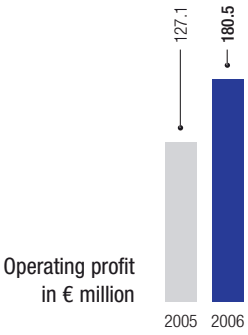
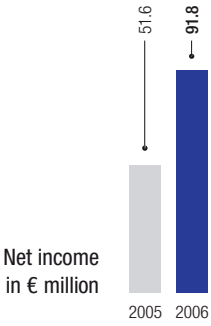
STADA
Arzneimittel

ANNUAL REPORT 2006







Key figures for the Group in € million	2006	2005	± %
Sales	1,245.1	1,022.1	+22%
Sales in core segments, total	1,170.3	975.7	+20%
• Generics	911.2	759.3[1]	+20%
• Branded Products	259.1	216.4[1]	+20%
Operating profit	180.5	127.1	+42%
Operating profit, adjusted[2]	*186.4*	*142.6*	*+31%*
EBITDA (Earnings before interest, taxes, depreciation and amortization)	232.6	161.2	+44%
EBITDA (Earnings before interest, taxes, depreciation and amortization), adjusted[2]	*233.0*	*176.6*	*+32%*
EBIT (Earnings before interest and taxes)	168.7	107.1	+58%
EBIT (Earnings before interest and taxes), adjusted[2]	*186.7*	*142.8*	*+31%*
EBT (Earnings before taxes)	145.2	97.5	+49%
EBT (Earnings before taxes), adjusted[2]	*163.2*	*133.3*	*+22%*
Net income[3]	91.8	51.6	+78%
Net income[3], adjusted[2]	*102.1*	*80.5*	*+27%*
Cash flow (gross)	153.2	109.9	+39%
Equity capital	863.1	684.8	+26%
Capital expenditure	236.3	207.1	+14%
Depreciation/amortization	63.9	54.1	+18%
Average number of employees[4]	5,442	3,892	+40%

Key share data	2006	2005	± %
Market capitalization in € million (year-end)	2,531.2	1,479.3	+71%
Year-end closing price (XETRA®) in €	43.45	27.65	+57%
Number of shares (year-end)	58,256,400	53,500,300	+9%
Average number of shares (without own shares)	53,983,327	53,317,303	+1%
Basic earnings per share in €[5]	1.70	0.97	+75%
Basic earnings per share in €[5], adjusted[2]	*1.89*	*1.51*	*+25%*
Diluted earnings per share in €[6]	1.62	0.91	+78%
Diluted earnings per share in €[6], adjusted[2]	*1.81*	*1.41*	*+28%*
Dividend per share in €[6]	0.62[7]	0.39	+59%
Total dividend payments in € million	36.0[7]	20.8	+73%

1) Retroactively adjusted to the segment definitions updated in 2006.
2) Adjusted for one-time special effects in 2005 and 2006.
3) 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.
4) Due to the initial consolidation of Hemofarm on August 1, 2006, this average number proportionately includes 1,391 employees of Hemofarm which has a total number of employees of 3,338. Therefore, without Hemofarm, the STADA Group had an average number of employees of 4,051 in 2006.
5) According to IAS 33.10.
6) According to IAS 33.31.
7) Proposed.

STADA AT A GLANCE

STADA – the business model

- Products with off-patent active ingredients ("multisource products") in the pharmaceutical and health care market
- Core segments:
  - Generics (73% of Group sales)
  - Branded Products (21% of Group sales)
- Core competencies:
  - International sales infrastructure
  - Long standing product development expertise
  - Continuous cost optimization in procurement and production
  - Experienced management of internal and external growth
- Focus on sustainable growth

STADA – 2006: the eleventh record year in a row

- Group sales +22%, net income +78% (adjusted +27%)
- Fast growing international business: sales in international business +31%
- Increased operating profitability: 14.5% (adjusted 15.0%)
- Successful product development: 331 product launches – start of the EMEA approval process for Epo-zeta
- Acquisition of 100% of the Serbian Hemofarm Group: largest takeover in STADA's company history
- Sale of sales companies in the USA and Switzerland
- Share price: new all-time high
- Dividend increase of 59% recommended by the Executive Board

STADA – the targets

- Continuation of the sustainable growth course – regardless of regulation and competition
- Further expansion of international sales infrastructure
- Constant portfolio expansion due to full product pipeline
- Permanent cost optimization – by taking advantage of the Hemofarm potentials
- Continuation of the active acquisitions policy
- Ongoing improvement in the operating profit margin

STADA – ANNUAL REPORT 2006

STADA – THE HEALTH COMPANY

STADA 2006 CONSOLIDATED FINANCIAL STATEMENTS: MANAGEMENT REPORT OF THE EXECUTIVE BOARD

STADA 2006 CONSOLIDATED FINANCIAL STATEMENTS: FURTHER DETAILS

ADDITIONAL INFORMATION

LETTER TO SHAREHOLDERS FROM THE CHAIRMAN OF THE EXECUTIVE BOARD

Dear shareholders,

It is not without a sense of pride that we note: both in sales and earnings, 2006 was another record year for STADA – now the eleventh in a row. In 2006, we also achieved our formulated target to further improve the Group's profitability. And shareholders who had invested in STADA at the beginning of the year recorded a significant increase in the value of their STADA shares at the end of the year.

The Executive Board would like to thank all employees who contribute each day to these successes through their knowledge and their great commitment. The Executive Board would also like to thank the Supervisory Board and the Advisory Board for their trusting and constructive cooperation.

The year 2006 was also a year of important strategic and operative course settings with long-term effects for further Group development.

Through the acquisition of the Serbian Hemofarm Group – by far the largest in STADA's 110-year company history – the door to Eastern Europe in terms of sales activities is now wide open; at the same time, this has provided us with access to low-cost in-house production and development centers. We accept the higher net debt for the Group connected to the acquisition in view of the significant synergy potentials. Because already in the current fiscal year 2007 we expect first positive impacts from them.

In 2006 we put our US business to test – and decided in favor of a temporary withdrawal from the US market as our local operating structures were not competitive. Indeed, the sale of our US subsidiary burdened the annual result 2006 with a book loss but it has led at the same time to a sustained improvement of the Group's operating performance.

The biosimilar projects were also put to test in 2006 – and as a result, the worldwide distribution rights for Epo-zeta were transferred to Hospira. As a specialist in the hospital business Hospira will be able to make optimum use of the market potential of this product which is used mainly in a clinical environment. Thus, the financing risks for STADA for these projects have been significantly reduced. And as we continue to hold a so-called call-option to acquire all BIOCEUTICALS shares, the associated long-term earnings opportunities remain undiminished.

Important strategic and operative course settings will continue to remain on our agenda also in the future.

The Hemofarm acquisition, for example, accelerates an already initiated paradigm shift in our production and development strategy.

In the past, in terms of existing resources and necessary volume flexibility, we relied to a high degree on contract manufacturing for pharmaceutical production. Due to our growth in recent years, many volumes of production have reached sufficient size for profitable in-house production. Thanks to the Hemofarm acquisition, low-cost in-house production capacities are now available for this.

The situation in product development is similar. Already several years ago we set the course for stronger investments in in-house developments in order to be subject to fewer supply commitments and thus achieve lower cost of sales for new products. The cost-attractive development capacity which has been added through the Hemofarm acquisition will allow us to continue and to accelerate this course.

These course settings in production and development cannot be implemented overnight but represent – partly due to existing contractual commitments, in particular however due to necessary changes in pharmaceutical legislation – a process which will continue for several years. Numerous project teams of our company are currently working out the necessary details for this.

Not only in the internal organization of business processes but also in our operative alignment in the markets, we will always face complex course settings, through which we will have to react to external, mainly regulatory changes.

The best example for this – unfortunately – is our home market Germany. A short winded health-care policy which has been solely focused on quick, frequently one-time cost cuts without any long-term concept constantly covers the market with new regulations – often even before some of these measures can be effective. Thus, in 2006 we had to deal with the highly complex structural market changes due to the Economic Optimization of Pharmaceutical Care Act (AVWG); in 2007 the Act for strengthening competition in public health insurance (GKV-WSG) is due to be dealt with on April 1. Here too, by interacting with the market and competitors we will consistently examine and if necessary adjust our operative alignment – structural changes and also reductions in personnel in the German sales companies are thereby possible.

Further important course settings await us as we continue our active acquisition policy. The principle alignment remains clear. On the one hand, our growth opportunities lie in the further expansion of our international sales structure, particularly in the East-European markets; on the other hand, economy of scale effects in connection with acquisitions can open up additional sales and earnings potential, for example through the acquisition of appropriate products for existing sales units. The question where and at what price we will then concretely acquire will be carefully assessed, as usual. Depending on the size of the acquisition we will thereby also consider appropriate capital measures.

Of course, we also constantly wonder how sustainable our business model is overall and whether we must – to accelerate growth or minimize risk – set a different course at central points.

One thing is clear: our business model will always face challenges through regulation or price competition in individual markets. In the health market and in particularly in the generics market this is part of daily business.

But from our point of view something else is also clear: the long-term structural growth potential of our markets is obvious. Medical progress, demographical development and increasing prosperity in developing and emerging countries are long-term, worldwide growth drivers for the health care and pharmaceutical market. And generics – as a natural answer to cost pressure and additionally driven by the regular market expansion through patent expirations of initial supplier products – will thereby probably be a market segment with particularly strong growth potential.

STADA's strategic positioning for a long time has been directly targeting this growth potential. The central operative success factors continue to be our consistent internationalization, our strong product development and our long-term experience with the acceleration of the Group growth through acquisitions. Of great importance for our success is also our proven ability to organize, at ever lower costs, specific and complex business processes, particularly in product development, production and procurement, as a network of internal and external resources. And in our opinion, one of STADA's central success factors lastly is also our independence. In addition to its identity-forming function for employees and clients, it is, in our view, a guarantee for flexibility and market proximity.

In view of this list of success factors the answer to the question for the sustainability of our business model is clear and unambiguous: we continue to be convinced that STADA's business model will be sustainable in the future, too. From the Executive Board's perspective, growth and value enhancement continue to be goals for STADA which, also in the years to come, we will be able to achieve on our own.

Hartmut Retzlaff
Chairman of the Executive Board

STADA – THE HEALTH COMPANY

STADA STRATEGY

Focus on markets with high structural growth potential

Worldwide, STADA has for many years been successfully active in health care markets which are characterized by significant growth and earnings opportunities. In the scope of the strategic positioning "STADA – The Health Company", STADA focuses on the two core segments[1)] Generics and Branded Products. In view of costs and risks, STADA deliberately does not conduct any own research, but focuses on products with off-patent active ingredients, so called "multisource products", that are readily available. This makes it possible for the Group to offer a majority of its products as low-priced generics.

International sales infrastructure

An essential factor for success of the STADA business model is market proximity through the international network of local sales companies. Only through its local sales presence in the individual national markets, which due to the different health care systems differ strongly, is the Group capable to take advantage of the respective structural growth potential for its own growth. In order to rapidly accommodate the frequent variations in structural conditions of the respective national health care markets, the local STADA sales companies have a high level of sales autonomy. In individual national markets, STADA thereby also relies on sales companies which operate parallel to one-another or focus on specific market segments if the respective market structures require this to take optimal advantage of the potential.

Constant portfolio expansion

The continuous expansion of its product portfolio – visible in form of the annual high number of product launches within the Group – is a central success factor for STADA. In view of costs and regulatory requirements, the objective of the Group's development activities that are based on many years of experience – which also include the use of external development partners – is to provide the sales companies with a product portfolio that is always up-to-date. This applies in particular to generics for which the launch of new products promptly after expiration of the commercial property rights is one of the central operative success factors. For several years already, STADA has been selectively increasing in-house development of important active ingredients to reduce supply commitments, which are frequently associated with the use of external development partners, and thereby lower the cost of sales. Through the ongoing integration of the Serbian Hemofarm Group which was acquired in 2006, successively more cost-attractive in-house capacities will be available.

Continuing cost optimization

Particularly in its largest core segment Generics, STADA has a price-sensitive business model. An important success factor therefore is the continuing cost optimization with the target of reducing costs more quickly than the achievable

1) With effect from fiscal year 2006 the previously third core segment Specialty Pharmaceuticals has been allocated to these two core segments as, after in the year of reporting the licensing of the distribution rights for Epo-zeta, this segment will not reach a size which is significant for the Group in the foreseeable future (see "STADA Segments – Rearrangement of the Core Segments").

market prices of the products sold – in particular driven by regulation and competition – drop. Thus, the STADA Group has always had a lean and therefore also flexible Group structure.

Within the framework of this ongoing cost optimization, one focus continues to be the cost of sales. For reasons of flexibility and cost, STADA does not carry out its own production of raw materials and active ingredients, utilizing instead a worldwide network of raw materials suppliers. For pharmaceutical production[1)], in view of existing resources and necessary volumes flexibility, the Group has so far relied to a high degree on contract manufacturing. But due to the growth in recent years, many volumes of production have reached now sufficient size for profitable in-house production. In addition, through the acquisition of Hemofarm, STADA has significantly enlarged its Group-owned production capacities in cost-attractive locations. The share of in-house production in pharmaceutical production should therefore considerably increase in the years to come thus making an important contribution to the continuing cost optimization.

Cost optimization potentials will also be developed in the sales area. For fully developed national sales companies, the continuous expansion of the current product portfolio is frequently possible without the additional need for sales capacities. This is associated with cost-reducing economy of scale effects. Furthermore, it is regularly assessed whether the sales capacity can be adjusted and, in particular, reduced or whether demand mechanisms for Group products in the individual markets change.

Successful acquisition policy

In addition to STADA's high organic growth, the Group's active acquisition policy is the basis of the sustainable and successful growth course. STADA can thereby rely on its many years of experience in selecting suitable acquisition objects as well as in integrating acquired products and companies into existing business activities. To create a sufficient financial framework for this, appropriate capital measures are imaginable.

Success factor independence

One of STADA's central strategic success factors, in the assessment of the Executive Board, is also independence. In addition to its identity-forming function for employees and clients, it guarantees flexibility and market proximity. From today's perspective, in view of the obvious successes and the anticipated growth opportunities of the independent STADA Group, there is no strategic or operative need for a change neither to accelerate growth nor to minimize risk.

Continuation of the proven Group strategy

Over the last years STADA has continuously shown successful development with significant rates of increase in sales, earnings and enterprise value. This indicates that the Group strategy to date has proven itself. Against this backdrop, STADA will also adhere to this strategy in the future in order to continue the sustained growth course.

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

STADA SEGMENTS

Rearrangement of the core segments

Until now, the STADA Group had the three core segments Generics, Branded Products and Specialty Pharmaceuticals. In 2006, STADA updated the segment definitions; the separate disclosure of the small core segment Specialty Pharmaceuticals will therefore be dispensed with as of the current reporting year.

The updated definition of the STADA Generics segment now also complies with the structures in many East-European pharmaceutical markets where STADA has been present since fiscal year 2006 through the takeover of the Serbian Hemofarm Group (see "Management Report of the Executive Board – Acquisitions and Disposals"). Against the backdrop of these markets' historical development, initial supplier products, against which a difference in prices through generics could be established, frequently do not exist in these countries; according to general market understanding, generics – independent of price positioning and specific product designation – are usually defined there as all products with off-patent active ingredients that are marketed without claiming a unique position which would be typical of brands.

The definition of the segment Branded Products was updated too and thereby adjusted to general market understanding by further aligning it to the unique positioning typical of the market.

The former segment Specialty Pharmaceuticals will not achieve a significant sales volume[1)] for the Group in the foreseeable future due to the transfer of the worldwide distribution rights for Erythropoietin-zeta (Epo-zeta) to the clinic specialist Hospira in the fourth quarter of 2006 (see "Management Report of the Executive Board – Acquisitions and Disposals"). In addition, Specialty Pharmaceuticals do not differ from the other core segments due to principally different business processes but solely due to sales differentiations. Against this backdrop, with effect from fiscal year 2006, STADA decided to no longer report the core segment Specialty Pharmaceuticals.

Based on the segment definitions updated in 2006, the former Specialty Pharmaceuticals were therefore allocated to the two core segments Generics and Branded Products. For the consolidated financial statements 2006, a total of € 20.3 million sales of the Specialty Pharmaceuticals sales in the total amount of € 25.1 million (previous year: € 25.2 million) achieved under the old definition in 2006 will thereby be disclosed in the Generics segment and a total of € 4.8 million in the Branded Products segment.

The updated segment definitions as well as a reconciliation of the segment Specialty Pharmaceuticals are presented in the appendix of this annual report (see "Appendix – [Notes IFRS] – 5").

1) According to IAS 14.35.

all the best :) stada.com

ALL THE BEST

People all over the world wish each other “all the best”.

STADA wants to ensure that this wish can be fulfilled for every individual by providing health care that everyone can afford. This is a condition that STADA’s products and services must always meet and an important building block for the reputation and success of STADA with doctors, pharmacists and patients all over the world.

STADA Arzneimittel

STADA – “ALL THE BEST” in English.

Generics

Generics – a global growth market

In fiscal year 2006, Generics contributed 73.2% (previous year: 74.3%) to STADA Group sales and thus continued to be the largest of the Group's two core segments by far. A part of this growth is based on the acquisition of the Serbian Hemofarm, whose product portfolio includes approx. 75% of generics.

Generics have a high structural growth potential. The basis for this on the one hand is the pressure to contain costs in numerous national health care markets because generics allow, in many indication areas, a low-cost medical therapy without quality cutbacks. On the other hand, the continuous expiration of patents or other commercial property rights ensures a constant automatic expansion of market potential available for generic competition. Historical data as well as forecast market data demonstrate the growth momentum of generics which is characterized by these two sustainable market trends.

The volume of the worldwide generics market reached approx. € 45 billion in the year 2006 (previous year: approx. € 40 billion); generics thus had a market share in the global pharmaceutical market of approx. 8.5% (previous year: approx. 8.0%). According to these market data, between 2002 and 2006, the annual growth rate of the global generics market thus was approx. 13% on average.[1)] Also in most of Europe's national markets, in 2006, generics grew significantly. In Germany, Europe's largest pharmaceutical market, with a high market share of generics as compared to the rest of Europe, of approx. 21.6%, in the year 2006, generics recorded – despite comprehensive regulatory interventions – a sales growth of approx. 6% while the overall German pharmaceutical market increased by only approx. 3% in sales due to these interventions.[1)2)]

Generics in selected EU markets in 2006[3)]

Market	Total pharmaceutical market in € million	Change from previous year in %	Generics market in € million	Change from previous year in %	Generics market share[4)]
Germany[2)]	22,080	+3%	4,780	+6%	21.6%
France	19,590	+2%	1,570	+17%	8.0%
UK	12,700	+4%	2,770	+16%	21.8%
Italy	11,910	+2%	420	+19%	3.5%
Spain	8,920	+7%	540	+15%	6.1%
The Netherlands	4,670	+8%	915	+17%	19.6%
Sweden	2,820	+5%	395	+11%	14.0%
Belgium	2,750	-2%	235	+14%	8.5%
Portugal	2,420	+5%	350	+18%	14.6%
Finland	1,720	0%	290	-7%	16.9%
Austria	1,710	+4%	140	+8%	8.2%
Denmark	1,670	+9%	260	+18%	15.8%
Ireland	1,400	+12%	115	+25%	8.3%
Czech Republic	1,400	+4%	710	+6%	50.6%
Lithuania	390	+17%	200	+18%	51.5%

1) STADA estimate based on data from IMS Health (worldwide provider of information services for the pharmaceutical industry) at ex-factory prices for the largest generics markets. The market data on generics fluctuate (in some cases substantially) due to differerent market definitions from source to source.

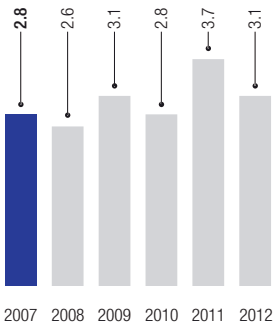
2) Based on sales volume in pharmacies (i.e. not including warehousing effects which occured in 2006).

3) STADA estimate at ex-factory prices based on market data provided by various international market research institutes.

4) In terms of total pharmaceutical market by sales.

According to forecasts of international market research institutes, generics will continue to show stronger increase rates than the total pharmaceutical market. While the annual growth rate for the worldwide pharmaceutical market between 2006 and 2011 is estimated at approx. 6%, forecasts for the annual increase rate of the worldwide generics market are at approx. 13% in the same period.[1)]

Newly available sales volumes for generics marketing in the four countries Germany, UK, France and Italy in € billion per year[2)]



The pharmaceutical market in the EU is expected to grow by approx. 5% per year between 2006 and 2011 while the average growth forecast for generics in the EU is at approx. 10% p.a. in the same period[1)]. As the respective relevant commercial property rights within the EU expire on different dates from country to country, STADA still has significant launch potentials in the EU countries, for active ingredients it is already marketing in individual national markets. In Germany, the United Kingdom, France, and Italy alone – the four pharmaceutical markets with the highest sales in the EU – the sales volume of active ingredients that will become available for generic competition in these national markets from 2007 to 2012 amounts to approx. € 18 billion[2)].

Experts have also predicted high growth rates for the East-European pharmaceutical markets in which STADA is present with its own local sales companies since the takeovers in the years 2005 (Nizhpharm, Russia) and 2006 (Hemofarm Group, Serbia, Montenegro, Russia, amongst others). Thus, for the pharmaceutical markets of Eastern Europe, average annual increases of approx. 13% for Russia, approx. 8% for Serbia and Montenegro together, approx. 7% for Rumania and 6% for Bosnia-Herzegovina have been forecast for 2006 to 2011.[3)] Especially for generics, too, strong growth rates are predicted in the individual national markets of Eastern Europe; thus, until 2011 the Russian generics market should increase by approx. 17% per year and the Rumanian generics market by approx. 16% per year.[4)]

Challenges for the generics business

There is no question that spending restraints in the different national health care systems form the basis for the long-term growth potential of generics suppliers. However, due to the associated low price expectations, the generics market is a very price-sensitive segment.

The operative answer to the continuous price pressure which is typical for generics is STADA's continuous cost optimization as well as the constant portfolio expansion with product launches promptly after expiration of the respective relevant commercial property right. Reactions to lasting or temporary challenges occurring in individual national markets due to regulation and/or competition must be specifically and flexibly targeted at the individual national market. Such reactions can for instance include portfolio adjustments, sales rearrangements or in particular cases also the temporary abandonment of an own sales presence.

1) STADA estimate based on data from IMS Health at ex-factory prices for the largest generics markets.
2) STADA estimate of 2005 sales volumes at ex-factory prices for active ingredients for which STADA currently expects the patents or other commercial property rights relevant for generics competition to expire by 2012, based on data provided by various international market research institutes. 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, 2007) 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.
3) STADA estimate at pharmacy retail prices based on data provided by various international market research institutes.
4) STADA estimate at ex-factory prices based on external data.

Positive outlook for STADA's generics business

Despite the challenges which will always occur in the individual national health care markets, STADA, due the Group's strong, increasingly international positioning, expects to continue to benefit from the large structural growth potential for generics also in the future. In addition to the organic growth of the STADA generics segment expected thereby, appropriate acquisitions should also contribute to this.

Branded Products

Strong Branded Products within the STADA Group

Branded Products represent STADA's second largest core segment with a 20.8% share in Group sales (previous year: 21.2%).

In the Branded Products segment, as part of its strategic positioning the Group also focuses on so-called multi-source products, i.e. products with off-patent active ingredients. The STADA Group's current Branded Products portfolio includes primarily non-prescription so-called over-the-counter products (OTC products), but in some national markets also prescription drugs.

The competitive situation in the core segment Branded Products is characterized in particular by a high level of product-specific marketing and sales activities; the individually selected extent of these activities has a significant influence on the operative margin of the respective branded product.

In the future, as was the case in the past, Branded Products will probably principally benefit from the long-term growth trends of the health care and pharmaceutical markets. This effect, however, and for OTC products in particular, is partly influenced by the economic trends of the individual national markets as such products usually are not or only in partly reimbursed, and in each case, whether the patients are ready to bear these costs also depends on the economic situation. Moreover, branded products can also be subject to significant regulatory influences, for example through changed reimbursement rules.

STADA's strategy in the Branded Products segment therefore relies on so-called "strong brands", i.e. on branded products which, due to their high degree of public awareness – ideally with a position as local market leader – and through intense promotional or sales support have preferably a growth potential which is as unaffected by local market trends as possible.

STADA has a selective approach for the international alignment of the Branded Products segment. Depending on market attractiveness and local availability, STADA's branded products are not sold in all national markets where the Group has been present so far. Predominantly, the STADA Group's branded products are rather nationally positioned; due to acquisitions, but also due to targeted internationalization, the so far small number of partly supranationally marketed branded products has however gradually grown within the STADA Group.

Expansion of the core segment Branded Products through targeted acquisitions

In fiscal year 2006, STADA was able to further expand the core segment Branded Products through the takeover of the Serbian Hemofarm Group, whose product portfolio includes approx. 8% of branded products (see "Management Report of the Executive Board – Acquisitions and Disposals").

In addition, the Branded Products sector already expanded at the end of 2005 through the acquisition of a package of eleven European branded products of the SANKYO Group; the best known of the acquired products are Mobilat® and Hirudoid®. In the reporting year 2006, through the successive inclusion of the sales thereby acquired in the STADA Group's scope of consolidation, this acquisition significantly increased sales in the Branded Products segment (see "Management Report of the Executive Board – Acquisitions and Disposals").

Further growth for STADA's Branded Products business should continue to be stimulated by appropriate acquisitions also in the future. Such acquisitions offer particular earnings opportunities through scaling effects in sales if the acquired branded products can be marketed via existing Group structures without setting up additional sales structures.

Non-core activities

Small contribution of non-core activities

For STADA, non-core activities are businesses and equity interests in fields outside the core segments. The objective of these is to supplement and support the Group's activities in the core segments. Activities that mainly involve trading and selling – such as in wholesaling activities – are grouped together in **Commercial Business**. All other activities, such as the sale of drug approvals and equity interests, are reported under **Group holdings/other**.

In fiscal year 2006, with € 74.7 million (previous year: € 46.4 million) STADA's non-core activities continued to make a small contribution of 6.0% (previous year: 4.5%) to Group sales. The year-to-date increase in the share of non-core activities in Group sales thereby is mainly due to the acquisition of the Serbian Hemofarm Group which, since its initial consolidation as of August 1, 2006, added non-core-activities sales of € 14.6 million to the Group.

The non-core activities that the Group is engaged in are continuously reviewed to confirm whether at least in the medium term they can be expected to generate a positive contribution to activities in the core segments. If this is not the case, they are possibly restructured, reduced or sold. This applies in particular to the non-core-activities flown to the STADA Group through the Hemofarm acquisition. Therefore, in the fourth quarter of 2006, Hemofarm's small crop protection business was already sold (see "Management Report of the Executive Board – Acquisitions and Disposals"); further disposals in this sector are strived for.

OPERATIVE ALIGNMENT

Employees

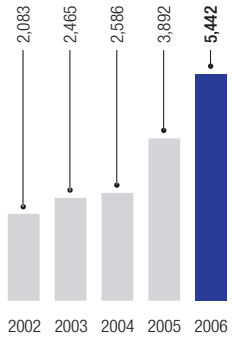
Principles of personnel management

For STADA, the employees are the real pillars of the Group's business success. The Group's operative alignment in personnel management therefore targets the creation of a motivating environment in which the employees can make full use of their experience, competence and commitment in the daily business processes. This environment should also be attractive in external comparisons so that STADA can secure and further develop employees as a success factor also in the future.

In personnel management, STADA therefore also makes use of a decentralized organization which allows better targeting of the employees' needs at the Group's individual locations. This is especially true of the international subsidiaries that can operate independently within the company guidelines in many areas in personnel management, such as remuneration policy, recruitment and qualification measures.

STADA documents – exemplary for the local alignment of the Group's personnel management – the activities undertaken in this area at its headquarters in Bad Vilbel in an annually published personnel and social report which includes details on the personnel policy for the Group companies located in Bad Vilbel. This report has also been published on STADA's website, www.stada.de.

STADA's employees development on an annual average



Development of the number of employees in 2006

In fiscal year 2006, particularly due to the takeover of the Serbian Hemofarm Group, the number of the Group's employees clearly increased.

While the STADA Group had an average of 3,892 employees in 2005, this figure increased to 5,442 in the reporting period. Due to the initial consolidation of Hemofarm on August 1, 2006 – with an average total number of employees of Hemofarm of 3,338 in the five months of consolidation in the STADA Group – this average number includes an arithmetical total of 1,391 employees of Hemofarm. Without Hemofarm, the average total number of employees in the STADA Group would have amounted to 4,051 employees.

Thus, the clear increase in the personnel number in the fields of production/procurement (+54%) and product development (+18%) has also been significantly influenced by the Hemofarm acquisition, but mirrors at the same time STADA's systematically pursued expansion of in-house production and in-house development.

In Germany, which continues to be STADA's largest national market and which, at the same time, is the country where STADA has its headquarters, the average number of employees in 2006 was 1,103 (previous year: 1,042). Internationally, STADA had an average of 4,338 employees in 2006 (previous year: 2,850). An average of 989 employees were employed at the Group's headquarters in Bad Vilbel in 2006 (previous year: 944).

Average number of employees in 2006

	Total	Sales/ Marketing	Production/ Procurement	Product Development	Administration
Belgium	104	83	3	7	11
Bosnia-Herzegovina	130	69	38	0	23
China	112	92	0	2	18
Denmark	17	2	8	0	7
Germany	1,104	574	219	117	194
Finland	9	6	0	0	3
France	86	54	6	12	14
UK	21	7	0	3	11
Ireland	254	35	197	4	18
Italy	130	101	7	5	17
Kazakhstan	5	1	0	0	4
Lithuania	17	11	0	0	6
Macedonia	9	9	0	0	0
Montenegro	63	12	40	0	11
The Netherlands	154	32	100	8	14
Austria	30	25	0	0	5
The Philippines	142	108	1	3	30
Portugal	38	30	0	2	6
Rumania	17	17	0	0	0
Russia	1,399	358	806	59	176
Serbia	1,079	170	667	37	205
Spain	205	184	0	8	13
Thailand	29	24	0	0	5
Czech Republic	33	33	0	0	0
Ukraine	15	9	0	0	6
Vietnam	160	11	129	10	10
Rest of world	80	70	1	3	6
Total Group	5,442	**2,127**	**2,222**	**280**	**813**

Sales and Marketing

National sales companies as a central strategic success factor

In recent years, STADA has gradually set up an international network of local sales companies. In view of the different structural framework conditions for sales of drugs worldwide, these sales companies, due to their market proximity, form the basis for taking optimum advantage of opportunities offered in the individual national markets.

In fiscal year 2006, STADA once again expanded this global sales network. Through the acquisition of the Serbian Hemofarm, the Group was able to further strengthen its previous presence in the important growth markets of Eastern Europe, thus once again advancing the international expansion of Group activities.

As of the balance sheet date of fiscal year 2006, STADA was represented in 27 countries with 40 sales companies. The focus thereby remains the EU. There, STADA is active in all important national markets with its own subsidiaries. Today, as in the past, Germany remains the largest national market. However, due to the increasing expansion of STADA's international sales presence, the relevance of the German market for the success of the STADA Group has steadily decreased. The regional development in the individual local markets is described in the "Management Report of the Executive Board – Regional Development".

Outside the EU, STADA was, as of the balance sheet date, also represented through its own sales companies in the non-EU countries Bosnia-Herzegovina, Macedonia, Russia, Serbia and Montenegro as well as the Ukraine.

In Switzerland, STADA sold its 50% stake in the generics supplier Helvepharm AG at the end of the second quarter of 2006 due to sales strategy reasons (see "Management Report of the Executive Board – Acquisitions and Disposals").

In the USA, STADA, against the backdrop of limited operative possibilities in the existing business structures and concurrently high price and margin pressure in the US generics market, sold the Group's local business in the third quarter of 2006 (see "Management Report of the Executive Board – Acquisitions and Disposals").

In Asia, as of the balance sheet date, the STADA Group has sales companies in China, Kazakhstan, the Philippines, Thailand and Vietnam.

In addition, STADA is active in the export business in a total of 39[1)] countries in which the Group usually does not have its own local sales companies.

1) Including Switzerland and the USA after the disposals of the local sales companies previously owned by STADA.

STADA sales structure (as of December 31, 2006)[1]

Europe

Belgium	Eurogenerics S.A., Brussels
Bosnia-Herzegovina	Hemofarm Banja Luka d.o.o.[2], Banja Luka
Denmark	PharmaCoDane ApS, Kopenhagen
Germany	STADApharm GmbH, Bad Vilbel STADA GmbH, Bad Vilbel STADA Medical GmbH, Bad Vilbel ALIUD PHARMA GmbH & Co. KG, Laichingen cell pharm GmbH, Bad Vilbel Hemopharm GmbH, Bad Homburg
Finland	Oy STADA Pharma Ab[3], Helsinki
France	EG Labo SAS - Laboratoires Eurogenerics, 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
Macedonia	Hemofarm Komerc d.o.o.[2], Scoplje
Montenegro	Hemomont d.o.o.[2], Podgorica
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
Rumania	Hemofarm S.R.L.[2], Temisvar
Russia	JSC Nizhpharm, Nizhny Novgorod (99,58 %)
Sweden	STADApharm AB[4], Malmø
Serbia	Hemofarm A.D.[2], Vrsac Multivita d.o.o.[2], Vrsac Hemovet - Symbiofarm d.o.o.[2], Belgrade (77,98 %)
Spain	Laboratorio STADA SL, Barcelona
Czech Rep.	ALIUD PHARMA CZ, s.r.o., Prague
Ukraine	Nizhpharm-Ukraine Ltd., Kiev

Asia

China	Health Vision Enterprise Ltd., Hong Kong (51 %[5]) STADA Pharmaceuticals (Asia) Ltd., Hong Kong
Kazakhstan	Nizhpharm-Kazakhstan Ltd.[6], Almaty
The Philippines	Croma Medic Inc.[7], Manila
Thailand	STADA Asiatic Co., Ltd., Bangkok (60 %)
Vietnam	STADA Vietnam J.V. Ltd., Ho Chi Minh City (50 %)

Export

to 39 countries	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 August 1, 2006.
3) Consolidated since January 1, 2006.
4) Currently not consolidated.
5) Consolidated at 50 %.
6) Name of the company has been translated from Cyrillic into English.
7) The stake was increased from 60% to 80% in 2006. Due to the irrevocable contractual agreements to take over the remaining 20% stake in several tranches at a pre-determined price by the year 2009, in accordance with IFRS, the 100% consolidation without minority interests is already carried out.

These exports are transacted, among other sources, via STADA's subsidiary, STADA Pharma International, which has partially its own representative offices and/or branches. As of December 31, 2006, such offices and/or branches existed in Egypt, Bulgaria, Poland, Rumania, Slovakia and Czech Republic.

In addition, the now well-established sales structures in important national markets increasingly contribute to profit increasing economy of scale effects. Since the expansion of the product portfolio in such markets does not require any further sales expansion, additional sales and earnings can be achieved while the percentage of cost of sales decreases.

Priority market orientation

The STADA Group's pronounced market orientation is an essential component of the strategy. Against this backdrop, the individual STADA sales companies are responsible, in line with agreed-upon goals, for the operative business management in their respective national markets. This applies especially to the area of sales and marketing, whose activities for each national market are aligned with the specific target groups. Depending on market structure and consequently demand relevance, sales and marketing activities focus on patients and/or consumers, doctors, doctors' cooperatives, pharmacies, pharmacy cooperatives, hospitals, wholesalers and other service providers in the health care market as well as on cost bearers such as statutory health insurance organizations or private insurances. Due to the different demands of the target groups, in some national markets, several sales companies are active which pursue coordinated and partially even operationally networked multiple sales strategies.

For example, in Germany, seven different STADA sales companies are currently active with specialized sales concepts aimed at different target groups and/or providing different product ranges.

The individual national STADA sales companies also partly cooperate cross-nationally, for example in the framework of sales cooperations with wholesalers in such countries where wholesalers can influence the demand for STADA Group products or will be able to do so in the foreseeable future.

Through these market-oriented multiple sales concepts, the Group can flexibly react to changing demands in the individual national markets because, due to the close cooperation, product assignments and market presentation can be adjusted to changed market conditions on short notice. In individual markets, also if market structures change – e.g. through new regulatory measures – this can mean that the sales structures possibly have to be changed, expanded or reduced.

Further organic and acquisitive expansion of the sales infrastructure

In addition to organic expansion, STADA will continue to take active advantage of growth opportunities via targeted acquisitions in order to further expand the existing sales infrastructure. Such acquisitions can be companies in

individual national markets that complement the current sales network in a reasonable way or products that can be integrated into existing sales structures and thus open additional earnings potentials for the Group.

Product development

Longstanding product development experience

An essential success factor for the Group's organic growth is the long-term experience and high degree of expertise in product development.

In the scope of the Group strategy, STADA thereby deliberately does not conduct any research on new active ingredients, but rather focuses on development activities for multisource products, i.e. products containing active ingredients that already are or will be off-patent.

The Group thereby continues to focus on the following key 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 with 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

Worldwide development network

An essential part of STADA's business model includes the development of a significant part of the several hundred new national approvals each year, thus providing the sales companies with a continuous flow of new products for marketing. To this end, as of the balance sheet date, approval procedures for more than 80 active ingredients in over 40 countries were conducted within the STADA Group.

In view of this comprehensive product development, STADA, in addition to in-house developments, also relies – as usual in the industry – on external development partners to a notable extent. In doing so, the Group sometimes even cooperates with competitors in order to keep the development costs as low as possible. An essential success factor in the scope of development activities is the capability to manage such a global network in a cost effective and timely manner in terms of the respective commercial property rights.

Thereby, longstanding time horizons are to be taken as a basis. Already today, STADA is working on new products with possible launch dates after 2013; currently, the approval horizon is between three and four years, i.e. for all products of central importance for the Group which will be introduced within the next three to four years, development has usually been already completed and they have entered the approval procedure.

The Group places special importance on the international utility of development results. This applies to the EU in particular. Against this backdrop, in addition to national approval procedures, STADA also frequently takes advantage of EU-wide approval procedures. Due to its sales network, STADA can take advantage of economy of scale effects as, for internationally conducted approvals, a drug can be produced with a uniform dosage and thus produced in larger batches.

Increasing share of in-house developments

In order to further optimize costs, STADA, for several years, has increasingly stepped up its internal product development capacities to further increase the share of in-house product development. This enables the Group to reduce the initial contractual dependency on individual suppliers, thus being able to achieve much lower procurement cost and cost of sales for these new products in the first years on the market. The cost-attractive development capacities of the Serbian Hemofarm Group which was acquired in 2006 should also contribute to this. It is to be considered, however, that partly due to existing contractual agreements, but especially due to the long-term development activities, this is a process which will take several years.

Segment-specific development strategies

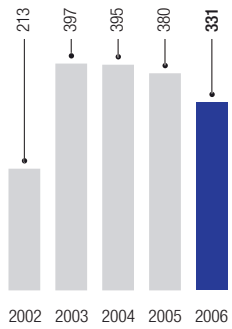
In the Generics segment, the launch of new products promptly after expiration of the respective commercial property rights or patents is of the highest importance, in particular because this frequently determines the long-term market success. As a rule, any new active ingredient becoming available for generics competition with potentially significant sales expectations is therefore considered a Group-wide development project at STADA. Under consideration of the local patent and approval circumstances in the individual national markets as well as the relevant market strategies, the Group then decides which active ingredients newly available for sale will be included in the local portfolio and at what point in time. In some national markets, STADA, due to sales strategy reasons, thereby frequently pursues a full-portfolio policy i.e. all relevant active ingredients and from these usually all dosage forms and strengths regardless of their individual market significance are included in the portfolio.

In the scope of development activities for branded products, product and country-specific growth and/or earnings opportunities as well as compatibility with the existing portfolio and Group structures are used as selection criteria.

Further continuous flow of new products

The Group's strength in development and approval is mirrored in the high number of annual product launches. Thus, at Group level 331 products were launched in the market in the reporting year (previous year: 380 products).

Number of product launches in the STADA Group per year



Due to the continuing well-filled product pipeline, STADA will be able to launch numerous new products in the individual national markets in the future, too. This applies in particular to generics in the EU.

But the Group will also have further approval activities in countries outside the EU in which STADA has own sales companies or is active in export business. The basis for this is the large number of existing approval dossiers for the EU states.

Biosimilar projects

Since the year 2001, STADA has pursued various biosimilar[1] projects through BIOCEUTICALS Arzneimittel AG, a company initiated by STADA and predominantly financed via venture capital. These are in varying stages of development.

BIOCEUTICALS' most advanced project is Erythropoietin-zeta[2] (Epo-zeta) which has been in the EU approval process since June 30, 2006. Based on the information provided by the responsible EU approval agency EMEA in the course of the current procedure, STADA and BIOCEUTICALS continue to assume that there is a chance to obtain an approval for Epo-zeta for the indication "dialysis" by the end of the current fiscal year 2007. For the indication "oncology", BIOCEUTICALS is currently carrying out complimentary studies, and also strives for an EMEA approval for Epo-zeta for this indication in the foreseeable future.

After the completion of pre-clinical studies for the Filgrastim[3] biosimilar project was delayed, the beginning of clinical studies, from today's perspective, is still expected in the current fiscal year 2007.

As a result of a rearrangement of the biosimilar projects in the fourth quarter of 2006, the interferon-beta project will not be pursued further since the marketing opportunities do not justify the high expenditures for the completion of the project.

In the course of this rearrangement, comprehensive international distribution rights for Epo-zeta were transferred to Hospira (see "Management Report of the Executive Board – Business and General Conditions – Biosimilar projects").

1) A biosimilar is defined as a biopharmaceutical product, i.e. a drug with a protein as an active ingredient which is produced by genetically modified cell lines which, despite different producing cell lines, compared to an initial supplier product which is already on the market, is so similar that the biosimilar has proven therapeutic equivalence.
2) Erythropoietin (abbreviation Epo) is a biopharmaceutical active ingredient in protein form, which is produced by living cell lines. Depending on the individual cell lines used and the production process associated with it, so-called glyco structures (oligosaccharide-chains) can differ minimally. Epo-alpha and Epo-beta have been launched on the market; the Erythropoietin biosimilar being developed by BIOCEUTICALS is Epo-zeta. Erythropoietin is used, among other things, for dialysis patients to stimulate hematopoieses as well as in cancer therapy.
3) Filgrastim is a biopharmaceutical active ingredient in protein form, which is produced by living cell lines. Filgrastim is used, among other things, in the treatment of a neutropenia, for example following cytotoxic chemotherapy or bone marrow transplants.

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เวลาของการ“ส่งความสุข“ให้แก่กันและ
กันใกล้จะมาถึงซึ่งทุกคนในโลกกำลังกระทำกัน
รวมทั้งเรา
STADA ต้องการส่งพรนี้ให้แก่ทุกท่าน
ประสงค์สิ่งใดให้สมประสงค์ตามจิตนาการทุกประการ
ให้ทุกท่านสามารถรักษาสุขภาพที่ดีได้ด้วยราคาที่ย่อมเยา
ซึ่งนั่นคือปรัชญาและนโยบายของ STADA
ที่เพิ่มคุณภาพและการบริการที่ดีขึ้น
ทำให้เราประสบความสำเร็จของเราทั่วโลก

STADA
Arzneimittel

Procurement and Production

Global procurement of raw materials

In view of flexibility and costs, STADA does not manufacture any raw and auxiliary materials necessary for pharmaceutical production in its own facilities, but has for years been utilizing a worldwide network of raw materials suppliers. The procurement costs of raw and auxiliary materials, in particular due to the costs of the active ingredients, constitute slightly more than half of the total cost of sales. Therefore, the Group utilizes, to a significant degree, low-priced suppliers from so-called low cost countries for this – provided they meet STADA's quality requirements.

Increase in number of Group-owned production facilities

Due to the acquisition of the Serbian Hemofarm in fiscal year 2006 (see "Managment Report of the Executive Board – Business and General Conditions – Acquisitions and Disposals"), the number of production facilities increased by six additional facilities in various East-European countries in the reporting period. Thus, for the internal pharmaceutical production, i.e. the production of the dosage form and its packaging, STADA currently operates its own production facilities in:

- Germany (Bad Vilbel)
- Ireland (Clonmel)
- the Netherlands (Etten-Leur, packaging only)
- Russia (Nizhny Novgorod and Obninsk)
- Vietnam[1] (Ho Chi Min City[2])
- Serbia (Vrsac, Sabac, Dubovac)
- Bosnia-Herzegovina (Banja Luka)
- Montenegro (Podgorica)
- China (Beijing[3])

Adequate investments ensure that all Group-owned production facilities are constantly maintained at the level required by legal stipulations and technical production considerations.

Increasing in-house production for the purpose of continuous cost optimization

In addition to Group production facilities, in view of existing resources and necessary volume flexibility, contract manufacturers have for years produced and packaged numerous products on the basis of STADA's approval. This applies particularly to special dosage forms such as sterile medications which can be produced by specialized manufacturers at substantially lower cost.

Due to growth in recent years many volumes of production within the STADA Group have now reached sufficient size for profitable in-house production. In addition, after the takeover of Hemofarm, STADA now also has own cost-attractive production capacities. STADA will therefore expand pharmaceutical in-house production further.

1) 50:50 joint venture with a local partner.
2) Second production facility under construction.
3) A production unit which is not consolidated in the Group solely aimed at the local market demand.

While the share of pharmaceutical production for which STADA utilizes contract manufacturers still amounted to approx. 70% in fiscal year 2005, this figure was only 60% in fiscal year 2006. In the scope of continuous cost-optimization, the share produced by contract manufacturers for STADA should be further reduced in the future, too. Thus, STADA not only increasingly utilizes its own cost-attractive production capacities, but also relies on low-cost countries when making use of external capacities. Overall, it must be considered, however, that partly due to existing contractual commitments, but in particular due to necessary changes in pharmaceutical legislation this is a process which will continue for several years.

In the scope of external production, STADA continues to involve, as much as possible, suppliers of active ingredients and auxiliary materials 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.

Quality Management

As a supplier of health care products, product safety and product quality are top priorities for STADA.

In the scope of regular and comprehensive audits, Group Quality Management examines the quality standards established by STADA – which in part go clearly beyond the regulations required by law – in the Group's own production sites as well as in the facilities of suppliers and contract manufacturers.

In principal, the business processes and in particular the production processes are geared to meet the relevant regulatory standards. Additionally, the Group seeks certification under internationally recognized external quality management systems for individual processes where it makes sense.

At the Bad Vilbel location, STADA, for instance, follows the relevant ISO standards in addition to the GMP standards and is certified under EN ISO 9001/2000 and EN ISO 13485/2000. In environmental management, the Group 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

Positive development of global stock markets

In general, the stock markets developed in a positive manner in 2006 as the comparison of the scores of the respective national and international indices at the beginning and at the end of the year demonstrate. For the first time, the Dow Jones exceeded the 12,000 point-mark and recorded a plus of approx. 16% over the year 2006. The EuroStoxx went up by a total of approx. 15% in the course of 2006, thereby exceeding the threshold of 4,000 points. The German benchmark index DAX as well as the index segment MDAX, of which the STADA share is a part, rose strongly by approx. 22% to 6,597 points and by approx. 28% to 9,405 points in the course of the year.

Significant share price increase of the STADA share in 2006

The STADA share developed in an extremely positive manner in 2006, thereby showing an even stronger increase than the relevant indices.

After STADA's restricted registered common share opened with € 27.74 on January 2, 2006 (first trading day), the closing price was € 43.45 on December 29, 2006 (last trading day) – simultaneously an all time high for the STADA share. Thus, the STADA stock went up by approx. 57% in the course of 2006. In the same period the MDAX recorded an increase of only approx. 28%.

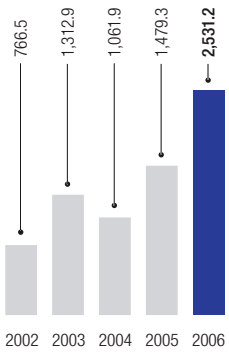
Indexing STADA share vs. MDAX (January 1, 2005 – December 31, 2006)

Increase in share capital

As of the balance sheet date, the share capital of STADA Arzneimittel AG consisted of 58,256,400 registered common shares, each issued with an arithmetical portion of share capital of € 2.60 (prior year: 53,500,300 registered common shares). Due to several increases in the number of shares carried out in the course of 2006, which were entirely due to the exercise of options from STADA warrants 2000/2015[1)], the number of shares grew by 4,756,100 to 58,256,400 and share capital by approx. 8.9 % to € 151,466,640 as of December 31, 2006. Thus, as of December 31, 2006, 206,691 warrants 2000/2015 for the subscription of 4,133,820 STADA common shares were still outstanding. In the reporting period, 237,805 options were thereby exercised in total.

Equity structure of STADA Arzneimittel AG	Dec. 31, 2006	Dec. 31, 2005
Number of restricted registered common shares	58,256,400	53,500,300
Number of warrants 2000/2015[1)]	206,691	444,496
Number of potential shares from warrants 2000/2015[1)]	4,133,820	8,889,920

STADA market capitalization in € million (year-end)



Market capitalization exceeds € 2.5 billion

Due to the increases in share price and number of shares STADA's enterprise value clearly increased in 2006. Thus, at the end of 2006, market capitalization was € 2.531 billion, or USD 3.329 billion, compared to € 1.479 billion, or USD 1.751 billion, at the end of 2005.

According to the index system of Deutsche Börse AG, which only takes free float into consideration, STADA's market capitalization on the MDAX was in position 14 in 2006. In the previous year STADA placed 17th. In 2006, the average trading volume at the XETRA® trading and the Frankfurt Stock Exchange doubled as compared to the previous year amounting to € 18.7 million per day, while the average daily transaction volume in 2005 was € 9.3 million.

STADA key share data	2006	Previous year
Number of shares (year-end)	58,256,400	53,500,300
Number of own shares (year-end)	117,346	119,915
Resulting number of voting shares (year-end)	58,139,054	53,380,385
Average number of shares (without own shares)	53,983,327	53,317,303
Year-end closing price (XETRA®) in €	43.45	27.65
High (XETRA® closing price) in €	43.45	31.00
Low (XETRA® closing price) in €	27.80	20.29
Market capitalization (XETRA®) in € million (year-end)	2,531.2	1,479.3
Earnings per share in €[2)]	1.70	0.97
Diluted earnings per share in €[3)]	1.62	0.91
Dividend per share in €	0.62[4)]	0.39

1) The legally binding option terms and conditions are published on the Company website under www.stada.de and www.stada.com.
2) According to IAS 33.10.
3) According to IAS 33.31.
4) Proposed by the Executive Board and Supervisory Board.

New resolution on authorization for the purchase and sale of own shares

Due to the resolution adopted at the Annual Shareholders' Meeting on June 14, 2005, the company, based on § 71 (1) 8 of the German Stock Corporation Act (AktG), was authorized to buy own shares of up to 10% of the share capital existing at the time the resolution was adopted. The Annual Shareholders Meeting decided on June 14, 2006, to replace this authorization by a new resolution, valid for 18 months, i.e. until December 14, 2007. Details concerning this matter are published on the company's website at www.stada.de and www.stada.com.

In fiscal year 2006, STADA did not purchase any of its own shares and sold 2,569 of its own shares at an average price of € 32.45. As of the balance sheet date, STADA thereby held 117,346 of its own shares compared to 119,915 shares which the company had held as of December 31, 2005.

In addition, various changes to the articles of incorporation were decided during the Annual Shareholders' Meeting 2006[1)]. Details concerning these matters are also published on the Company's website at www.stada.de and www.stada.com.

Continuing broadly based shareholder structure

According to Deutsche Börse AG's definition, STADA's free float continues to be 100%. During the entire year of 2006, – except for the first quarter of 2006 in which DWS Investment had held more than 5% of STADA Arzneimittel AG for several weeks – no investor had reported to STADA to hold more than the 5% threshold subject to report of STADA Arzneimittel AG's share capital.

As of the balance sheet date, a total of approx. 36,000 shareholders held interests in the share capital of STADA Arzneimittel AG. Based on results of regularly carried out analyses of STADA's shareholder structure, STADA assumes that approx. 54% of STADA's shares are held by institutional investors and that approx. 16% of STADA's capital is held by pharmacists and doctors.

Intensive capital market communications

It is the objective of STADA's communication with the capital market participants to comprehensively, frankly and timely inform institutional investors, financial analysts and private investors on the Company and important events.

An important instrument to do so is STADA's comprehensive and regularly updated internet presence which aims at informing all capital market participants at the same time and in the same way. At www.stada.de and www.stada.com, interested individuals can not only find compulsory information such as ad hoc releases and financial reports, but also comprehensive company and share information such as company profile, company presentations for investors and current share price information on STADA including so-called peer group comparisons.

Beside the traditional press conferences and analysts' conferences to introduce annual and half-year results, STADA, in fiscal year 2006, again also held numerous external corporate presentations and investor conferences, in Germany and internationally, to present itself to institutional investors in the most important European and US capital market centers. These events are regularly published on the Company's website at www.stada.de and www.stada.com.

1) With regard to the resolution made at the Annual General Meeting on June 14, 2006 on the limitation of the question and speaking rights of shareholders to an appropriate amount of time depends on the appeal in a shareholder's lawsuit. The lower court decision was made in STADA's favour.

STADA 2006 CONSOLIDATED FINANCIAL STATEMENTS: MANAGEMENT REPORT OF THE EXECUTIVE BOARD

BUSINESS AND GENERAL CONDITIONS

Overview of fiscal year 2006

2006 – Eleventh record year in a row

In 2006, STADA continued with the successful business development and the sustainable growth course of recent years – a prospect set forth by the Executive Board at the beginning of the fiscal year. With strong sales growth and, at the same time, a clear increase in the profit margins – also adjusted for special effects – 2006 was the eleventh record year in a row for the Group.

2006 – Key results

In the view of the Executive Board, the key results of fiscal year 2006 are:

- Sales (€ 1,245.1 million, +22%), operating profit (€ 180.5 million, +42%, adjusted € 186.4 million, +31%) and net income[1)] (€ 91.8 million, +78%, adjusted € 102.1 million, +27%) increased again – despite comprehensive regulatory interventions and intensive competition in individual markets. The operating profit margin thus further improved to 14.5% (adjusted 15.0%).
- STADA continued its active acquisition course with the largest acquisition in the company's history to date. STADA paid approx. € 493.9 million for 100% of shares in the Serbian Hemofarm (annual sales 2005: approx. € 205.5 million) thereby developing additional East-European markets as well as gaining access to comprehensive in-house low-cost production capacities.
- The loss-making sales company in the USA was sold with a limited disposal loss of € 6.3 million after taxes.
- STADA product development once again proved itself to be an important success factor: the product portfolio was expanded by 331 product launches worldwide. In the area of biosimilars the EU approval process for Epo-zeta was started; through the reorganization of the biosimilar activities, the ratio of opportunities and risks of these activities for the Group, concurrently, could be appropriately balanced.
- The STADA share reached a new all-time high in 2006. Overall, STADA's enterprise value in the form of market capitalization increased by 71% to € 2.531 billion in 2006 – partly also due to an increase in share capital from the exercise of options.

Optimistic outlook

Thus, in fiscal year 2006 STADA fully reached the growth targets set for sales and earnings; additionally, strategic positioning and operative alignment were further improved. Against this backdrop, the Executive Board stands by its optimistic outlook that STADA's business model will continue to be sustainable in the future and growth as well as value enhancement, also in the years to come, can be achieved on its own.

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.

Business Model and Structural Environment

Strategic focus on growth markets

For years, the business activities of STADA Arzneimittel AG and STADA Group companies have been strategically focused on long-term growth markets, namely the health care and particularly the pharmaceutical market.

Due to cost and risk aspects, STADA thereby deliberately does not conduct any research on new active ingredients for pharmaceutical products, but focuses on the development and marketing of products with active ingredients whose commercial property rights, such as patents, have expired and can therefore be readily procured – so-called multisource products.

If product group specific characteristics covering several indication and/or in particular also a lower pricing are at the forefront of marketing, these multisource products are called generics; this is STADA's largest core segment. STADA's second core segment comprises Branded Products which also have a multisource character in the case of STADA, but for which the specific product characteristics and especially the brand name of the individual product are at the forefront of marketing.

In the course of updating the segment definitions the products of the previously independent core segment Specialty Pharmaceuticals were allocated to the other two core segments due to the low sales relevance of this segment (see "Management Report of the Executive Board – Development of Segments"). Additionally, STADA also pursues so-called non-core-activities such as commercial business which aim at supporting and supplementing the core segments.

The two remaining core segments in which STADA is active are characterized worldwide – due to medical progress as well as an ever increasing life expectancy, among others – by a basis of demand that is usually consistently rising and relatively independent of influences from general economic conditions. This, however, is confronted with limited financial resources – both on the part of the individual and on the part of the respective health care systems. In the individual national health care and pharmaceutical markets the state or state-organized institutions therefore usually assume the task to ensure, via regulatory measures, that access to health care is available at acceptable costs to as large a portion of the population as possible.

On the one hand, the health care and pharmaceutical markets worldwide – regardless of their often very different national regulations – are thus characterized by permanent price pressure and a high regulation density, but on the other hand by a long-term growth potential, particularly for products with a tendency to lower pricing such as generics. Overall, significant growth rates will continue to be expected for the pharmaceutical and especially for generics markets worldwide (see "Management Report of the Executive Board – Prognosis Report").

The business model of the STADA Group is aimed at turning this global structural growth potential into own growth under consideration of the respective regulatory and competitive conditions in the individual national markets.

At the same time, through continuous cost optimization – regardless of the high price sensitivity of the STADA business model – a further improvement of the operating profit margin should be achieved. Therefore, the cost

reduction contribution of the individual segments must regularly exceed the expected gradual price decline in the core segment Generics, in particular.

The STADA Group's business model has shown sustainable success and value enhancement. Over the last five financial years, the average growth rate of Group sales is 19% p.a., and the growth rate of net income is 25% p.a.; at the same time, STADA's market capitalization more than tripled from € 730.4 million (December 31, 2001) to € 2.531 billion (December 31, 2006).

Operative alignment of the STADA Group

The STADA Group's operative alignment is essentially characterized by the premises of market proximity, flexibility and cost orientation.

In sales, STADA has 40 sales companies in 27 countries with a focus on Europe which are responsible for the operative management of local sales activities in the framework of agreed-upon targets. Particularly in individual national generics markets which respectively are characterized by strongly differing regulatory conditions, this national sales presence is an essential condition for business success. Through its regional implementation and market proximity, the STADA sales structure also ensures a quick adjustment of local structures to frequently changing structural conditions and competitive situations in individual national health care markets.

An increasing Group size thereby also creates cost-reducing economy of scale effects in sales as, for fully developed national sales companies, the continuous expansion of the current product portfolio is frequently possible without the need for additional sales capacities. Furthermore, if demand mechanisms for Group products in the individual markets change, the Group regularly assesses whether the sales capacity can be adjusted and, in particular, reduced.

The Group's product development aims – in view of development costs as well as future production costs and in consideration of the respective regulations – at the regular launch of a large number of products promptly after expiration of the respective commercial property rights. This requires a long-term preparation of the development activities; the current planning and processing horizon in STADA's product development already reaches far into the next decade. In addition to external development partners, in the scope of product development STADA increasingly makes use of in-house development capacities; the reduction of contractual dependency associated with this contributes to better procurement costs and possibly also to lower contract manufacturing costs of a self-developed new product during the first years on the market. Additionally, the gradual transfer of previously externally awarded development projects to in-house capacities which have been significantly expanded by low-cost units since the acquisition of the Hemofarm Group should lead to an increased cost optimization.

In procurement and production, the focus of business activities continues to be on a further reduction of cost of sales in the scope of the continuous cost optimization concept followed for many years by STADA. The Group thereby continues to abstain from the in-house production of active ingredients or auxiliary materials, but procures these on the world market – increasingly also from suppliers in low-cost countries which meet the Group's quality requirements. For pharmaceutical production[1)], in view of existing resources and necessary volumes flexibility,

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

STADA relied to a high degree on contract manufacturing in the past. However, due to growth in recent years, many production volumes have now reached sufficient size for profitable in-house production; at the same time, in 2006 STADA was able to strongly expand the Group-owned cost-attractive production capacities through the acquisition of the Serbian Hemofarm Group (see "Management Report of the Executive Board – Acquisitions and Disposals"). Against this backdrop, in the framework of continuous cost optimization the share of in-house production in pharmaceutical production, which was approx. 40% in 2006, should be significantly increased in the years to come.

Besides the high organic growth, the active acquisition policy is the basis of the Group's sustainable successful growth course. STADA can thereby rely on many years of experience not only in selecting suitable acquisition objects, but also in integrating acquired products and companies into existing business activities. This is usually financed with credits; additionally, appropriate capital measures are also imaginable.

STADA's operative alignment is in principle based on the organization of a complex network of internal and external resources, particularly in sales and marketing, product development as well as procurement and production. Thus, the expertise and commitment of the employees is an essential condition for the STADA Group's success as they are responsible for managing these complex business processes. This is why STADA pursues a long-term personnel policy which aims at motivation and the long-term loyalty of the workforce. Important management positions, including Executive Board positions[1] are generally filled from within the ranks of STADA's personnel.

In the view of the Executive Board, STADA's independence is an additional central strategic success factor. In addition to its identity-forming function for employees and clients, it guarantees flexibility and market proximity. In view of the long-term successful development and the Group's growth opportunities, there is no need for a change from the Executive Board's current perspective.

Acquisitions and Disposals

In 2006, STADA continued its active acquisition course of recent years; at the same time, through various disposals, STADA was able to improve operating profitability and strengthen the focus on the core business.

Significant acquisitions in the STADA Group

Acquisition object	Capital expenditure/ purchase price	Consolidated since	Contribution to sales in 2006
Hemofarm A.D., Serbia – acquisition of 100%	€ 496.4 million	August 1, 2006	€ 86.8 million
SANKYO branded product package (including Mobilat®) (inkl. Oy STADA Pharma Ab, Finland)	Already in 2005 € 82.0 million	Nationally staggered in the course of 2006	€ 27.8 million overall
Croma Medic Inc., Philippines – increase of stakes from 60% to 80%[2]	€ 0.8 million	January 1, 2006	Sales already consolidated in the previous year to 100%
Čajavec - Sistemi Upravljanja A.D., Bosnia-Herzegovina – Acquisition of 67.3%	€ 3.1 million	September 26, 2006	No external sales, because it is a production company

1) Effective January 1, 2006, Hans Stols, Christof Schumann as well as Dr. Alexander Oehmichen were appointed to the Executive Board of STADA Arzneimittel AG. Effective August 4, 2006, Hans Stols departed the Executive Board for personal reasons; at the same time Dr. Hans-Martin Schwarm was appointed to the Executive Board. In addition to the new members, Hartmut Retzlaff (Chief Executive Officer) and Wolfgang Jeblonski remain members of the Executive Board.

2) Due to the irrevocable contractual agreements to take over the remaining 20% stake in several tranches at a pre-determined price by the year 2009, in accordance with IFRS, the 100% consolidation without minority interests is already carried out.

Acquisition of the Serbian Hemofarm – largest takeover in company history

In the third quarter of 2006, with the takeover of the Serbian Pharmaceuticals Group Hemofarm A.D., Vrsac, Serbia, STADA completed the largest acquisition in its history. To this end, STADA had, in Serbia, on July 14, 2006, submitted a public takeover offer to the local Commission for Securities for all 3.3 million shares of the company Hemofarm A.D. which has been listed on the stock exchange in Belgrade since 2002. Hemofarm's management welcomed STADA's takeover offer.

Within the framework of the takeover offer, STADA, on August 14, 2006, acquired 97.9% of the Hemofarm shares at a price of RSD 12,345 (at the date of the takeover approx. € 148.73) for each Hemofarm share, thereby achieving the possibility of a squeeze-out under Serbian law. STADA initiated the relevant procedure on August 25, 2006 and, with the acquisition of the remaining Hemofarm shares, successfully completed it on September 8, 2006. The acquisition of shares by means of the squeeze-out procedure was also carried out at a price of RSD 12,345 (at the closing date of the squeeze-out procedure € 149.46) per Hemofarm share. Over the course of the third quarter of 2006, STADA thereby paid a total of € 493.9 million for the acquisition of 100% of all Hemofarm shares; this was financed through existing credit lines.

In 2005, the last full year before the acquisition, the Hemofarm Group, consisting of the Serbian Hemofarm as well as its various national and international subsidiaries, generated sales of RSD 17,261.2 million (approx. € 205.5 million[1)] on the publication date of the intent to acquire on July 14, 2006). The Hemofarm net income including minority interest was RSD 2,289.9 million in 2005 in local currency (approx. € 27.3 million on the publication date of the intent to acquire on July 14, 2006).

The sales focus of the Hemofarm Group is in Eastern Europe, particularly in Serbia, Montenegro, Bosnia-Herzegovina, Russia as well as in further CIS countries. In 2005, the Hemofarm Group was represented worldwide by 27 subsidiaries in 11 countries and employed 3,625 people as per the end of 2005. At the time of the takeover, the Group had 5 production locations in various East-European countries. From the Executive Board's perspective, the acquisition of the Hemofarm Group is an important strategic step in further expanding sales activities to Eastern Europe. With the takeover, STADA consistently moves the internalization of the Group forward. At the same time, STADA thereby gained access to low-cost production units and development centers in this region.

A comprehensive integration program has already been started with the majority takeover of Hemofarm in the middle of August of 2006. Besides the quick integration of Hemofarm and its subsidiaries in the strategic and operative planning as well as in the Group's controlling, reporting and financing structures, the focus here lies on the sectors of procurement, production and development. STADA expects significant synergy effects with medium term additive earnings potential in the amount of clear double-digit millions from this integration. Since its initial consolidation as of August 1, 2006, the Hemofarm Group has contributed sales of € 86.8 million[1)] to STADA Group sales in the reporting year 2006 (see "Management Report of the Executive Board – Regional Development – Serbia").

Effects of the acquisition of a package of branded products (e.g. Mobilat®) from fiscal year 2005

STADA purchased on December 12, 2005, i.e. towards the end of fiscal year 2005, through agreements between various STADA subsidiaries and the SANKYO PHARMA Group Europe a package of eleven European branded pro-

1) Worldwide sales of the Hemofarm Group after adjusting for disposals in 2006 (until July 2006 under the former owner); RSD 16,376.9 million; in 2005: RSD 15,679.9 million.

ducts with annual sales in 2004 of approx. € 38 million and sales focuses in the United Kingdom, Germany, Italy and Belgium; among the best known of these brands is Mobilat®[1]. In Finland, at the beginning of 2006 STADA thereby also took over the local sales organization with nine employees and integrated it in the Group.

According to the contractual agreements the various approvals and trademarks are gradually taken over until April 2007. During the first half of 2006, STADA successively took over sales responsibility for the respective products in the individual national markets. Consolidation of respective product sales within the Group also correspondingly took place on a staggered basis. It has, however, been secured in the contract that STADA draws economic benefit from the entire product package already from the signing of the agreements. Agreed-upon payments for the takeover of the whole product range total € 82.0 million; the payments are also staggered from the signing of the agreements up to the current fiscal year 2007.

As initial sales contributions from this acquisition occurred in the STADA Group only in 2006, STADA views – regardless of the actual acquisition date in 2005 and in the interest of a transparent presentation of the acquisition effects – all STADA Group sales from the products of the acquired SANKYO product package in the reporting year 2006 as non-organic sales contributions. These total € 27.8 million.

Increase of the stakes in Croma Medic, Philippines, to 80%

Per December 31, 2006 the stake in Croma Medic, Manila, Philippines was increased from 60% to 80%. STADA thereby paid a purchase price of € 0.8 million for this 20% stake in Croma Medic. Due to the irrevocable contractual agreements to take over the remaining 20% stake in several tranches at a pre-determined price by the year 2009, in accordance with IFRS, the 100% consolidation without minority interests has already been carried out.

Acquisition of approx. 67% in Čajavec - Sistemi Upravljanja A.D.

To round off its production capacities the Serbian subsidiary Hemofarm A.D., on September 26, 2006, acquired approx. 67.3% of shares in the production company Čajavec - Sistemi Upravljanja A.D. at a total price, including all contractual agreements, of € 3.1 million.

Significant Disposals in the STADA Group

Diposals	Book profit/ disposal loss	Deconsolidated since	In 2006 in the STADA Group still consolidated sales contribution	In the previous year in the STADA Group consolidated sales contribution
STADA Inc., USA – sale of 100%	- € 12.0 million[2]	August 21, 2006	€ 12.9 million	€ 28.4 million
Helvepharm AG, Switzerland – sale of the 50% held	€ 1.0 million	June 30, 2006	€ 2.4 million	€ 2.2 million
Hemovet S.A., Serbia – sale of 100%	€ 2.2 million	October 27, 2006	€ 0 million[3]	€ 0 million
Defibrotide products, Italy – sale of Prociclide® und Noravid®	€ 6.5 million	December 28, 2006	€ 7.1 million	€ 6.3 million

1) Product for topical pain and trauma treatment.
2) Subject to the final determination of the purchase price.
3) Consolidation period August 1 – October 27, 2006.

Sale of STADA sales company in the USA

Against the backdrop of limited operative possibilities in the existing business structures and concurrently high price and margin pressures in the US generics market, STADA sold the Group's local not profitable business in the third quarter of 2006 (see "Management Report of the Executive Board – Regional Development – USA").

On August 21, 2006, STADA Arzneimittel AG and DAVA Pharmaceuticals Inc., New Jersey, USA, executed a contract which was concluded on July 13, 2006 for the sale of all shares of the wholly-owned subsidiary STADA Inc., Cranbury, New Jersey, USA to DAVA.

Thereby, after the originally provided payment modalities were adjusted when the contract was exercised, DAVA paid STADA US-$ 0.8 million on the closing date. Due to the complex mechanisms with regard to the purchase price adjustments and the dependence of the first payment on the final balance sheet at the date of the sale, there is currently no final determination of the first purchase price installment. An additional claim of the buyer was met in the third quarter of 2006 by means of a balance sheet adjustment of the purchase price receivable via a provision.

The agreement also calls for additional, staggered payments of further parts of the purchase price until 2009 which are covered by bank guarantees and which amount to US-$ 15 million after 18 months and, finally, US-$ 20 million after 36 months.

Against this backdrop, in the third quarter of 2006, STADA thus showed a selling loss from the deconsolidation of the US business of approx. € 12.0 million before taxes (disclosed as a single line item below operating profit in the income statement) or approx. € 6.3 million after taxes.

With this sale, STADA executed a complete withdrawal from the US business, since all necessary drug approvals, approval applications, brand names, development projects as well as existing inventories were transferred to STADA Inc. by different STADA Group companies and were thus – together with the local sales subsidiary STADA Pharmaceuticals Inc. – also sold.

DAVA was still able to use the acquired company's name until February 17, 2007. The contractual agreements also call for STADA's Irish subsidiary, STADA Production Ireland Ltd., to take on contract manufacturing for some former STADA Pharmaceuticals Inc. products for a period of five years.

In 2006, the sold US business still contributed sales of € 15.4 million of Group sales until August 21; the respective sales from the previous year still amounted to € 34.0 million.

Sale of the 50% stake in the Suisse sales company Helvepharm AG

In Switzerland, STADA held a 50% stake in the Swiss generics supplier Helvepharm AG.

For sales strategy reasons, STADA sold this stake in the third quarter of 2006, retroactively taking effect as of June 30, 2006 (see "Management Report of the Executive Board – Regional Development – Switzerland"). At a selling price of € 2.5 million for 50% of the shares a book profit of approx. € 1 million was achieved, which is disclosed under other operating income. Against the backdrop of the sale STADA has only been realizing license and export sales in Switzerland since the beginning of the third quarter of 2006. In the medium-term, an own STADA sales company continues to remain a business policy option in this national market.

Sales in the amount of € 2.4 million of the sold Helvepharm equity interest were still consolidated in the STADA Group according to the equity stake until June 30, 2006; the respective sales of the previous year consolidated in the STADA Group amounted to € 2.2 million.

Sale of the crop protection business Hemovet in Serbia

In the scope of the planned concentration on the core business the Serbian subsidiary Hemofarm sold its crop protection business Hemovet d.o.o. in the fourth quarter of 2006 for a price of approx. € 7.5 million and with a low book profit in the amount of € 2.2 million, which is disclosed under other operating income, to local Serbian investors. Since acquisition in the thrid quarter of 2006 until the date of sale on October 27, 2006 this company – due to the usual strong seasonality of business development with almost complete sales focus in the first half of the year – only contributed € 0.3 million to STADA Group sales.

Sale of Defibrotide products in Italy

Effective December 28, 2006, different STADA Group companies concluded contracts with Gentium S.p.A., Como, Italy, on the sale of the rights for two prescription branded products with the active ingredient Defribotide[1] which is still under patent protection in Italy. These two branded products are Prociclide® and Noravid®, which were previously sold by the local Italian STADA sales company Crinos S.p.A. The sales price totals € 16.0 million. In addition, Gentium will pay royalties for sales achieved in the future for the indication Hepatic veno-occlusive disease; these royalty payments will last a total of seven years, from the day of the respective launch by Gentium in different European countries.

The contract stipulates that Crinos since January 1, 2007, can no longer market both products in form of ampoules. However, Crinos continues to have – until December 31, 2008 – the right to sell the products as capsules. In 2006, the sales realized by Crinos with both products totaled € 7.1 million (previous year: € 6.3 million), of which approx. € 5.4 million resulted from capsules (previous year: € 4.7 million) and approx. € 1.7 million from ampoules (previous year: € 1.6 million).

The payments of Gentium are staggered until end of 2008. Through this transaction, STADA achieved a book profit in the amount of € 6.5 million, which is disclosed under other operating income.

1) Anti-thrombotic and vascular protection active ingredient.

Organic sales development after adjusting for acquisition and disposal effects

The sales contribution of Group companies initially consolidated over the course of 2006 and acquired products (including the SANKYO branded products package that was acquired at the end of 2005) totaled € 114.6 million in 2006.

The sales contribution of Group companies deconsolidated over the course of 2006 and products sold still totaled € 15.3 million in 2006; the sales of the previous year still totaled € 30.6 million.

By adjusting the Group's sales development for the influences of initial consolidations and deconsolidations, these effects contributed a total of 10 percentage points to Group growth in fiscal year 2006; organic sales growth of the Group thus amounted to 12% in fiscal year 2006.

Biosimilar Projects

Venture capital financed project structures

Since the year 2001, STADA has pursued various biosimilar projects through **BIOCEUTICALS Arzneimittel AG**, a company initiated by STADA and predominantly financed via venture capital. A biosimilar is defined as a biopharmaceutical product, i.e. a drug with a protein as an active ingredient which is produced by genetically modified cell lines which, despite different producing cell lines, compared to an initial supplier product which is already on the market, is so similar that the biosimilar has proven therapeutic equivalence.

After capital increases of BIOCEUTICALS in January and October 2006 STADA now, as per December 31, 2006, holds 14.99% of shares in BIOCEUTICALS for which total payments of € 16.3 million have been made. STADA continues to provide BIOCEUTICALS with a credit line facility with an interest rate that is partly usual for risk capital and of which a total of € 29.6 million had been used as of December 31, 2006. In addition, a capital guarantee from STADA for the benefit of BIOCEUTICALS exists, which had not been used as of December 31, 2006.

Moreover, since the project started STADA continues to hold a call option which can be exercised yearly from 2011, according to which the Group can acquire all shares in BIOCEUTICALS at a price which can be determined via a formula.

Focus of the current BIOCEUTICALS activities on Erythropoietin and Filgrastim

In the course of a rearrangement of the current biosimilar projects in the fourth quarter of 2006, BIOCEUTICALS concentrated its development work on biosimilar projects for two biopharmaceutical active ingredients, Erythropoietin[1)] and Filgrastim[2)].

1) Erythropoietin (abbreviation Epo) is a biopharmaceutical active ingredient in protein form, which is produced by living cell lines. Depending on the individual cell lines used and the production process associated with it, so-called glyco structures (oligosaccharide-chains) can differ minimally. Epo-alpha and Epo-beta have been launched on the market; the Erythropoietin biosimilar being developed by BIOCEUTICALS is Epo-zeta. Erythropoietin is used, among other things, for dialysis patients to stimulate hematopoieses as well as in cancer therapy. The current market volume for Erythropoietin at ex-factory prices, based on market data from various international market research institutes, is estimated at approx. € 1.1 billion per year for the EU and approx. € 4.6 billion per year for the USA.

2) Filgrastim is a biopharmaceutical active ingredient in protein form, which is produced by living cell lines. Filgrastim is used, among other things, in the treatment of a neutropenia, for example following cytotoxic chemotherapy or bone marrow transplants. The current market volume for Filgrastim at ex-factory prices, based on market data from various international market research institutes, is estimated at approx. € 550 million per year for the EU.

The **Erythropoietin-zeta** (Epo-zeta) project, which is in the EU approval process since June 30, 2006, thereby is in an advanced development status. Based on the information provided by the EMEA in the course of the current procedure, STADA and BIOCEUTICALS assume that there is a chance to obtain an approval for Epo-zeta for the indication "dialysis" until the end of the current fiscal year 2007. For the indication "oncology", BIOCEUTICALS is currently carrying out complimentary studies, and also strives for an EMEA approval for Epo-zeta for this indication in the foreseeable future.

The production partner for Epo-zeta is Norbitec GmbH, Uetersen. In the course of the Group's rearrangement of the biosimilar projects BIOCEUTICALS, per contract from December 6, 2006 and with economic effect as of January 1, 2007, has increased its own stake in Norbitec from the previous one third to now two thirds[1]; the remaining third of shares continues to be held by Nordmark Arzneimittel GmbH & Co. KG, Uetersen. Norbitec will produce Epo-zeta exclusively for BIOCEUTICALS and therefore already has its own new production facility on the factory grounds of Nordmark with probably sufficient capacities for the first years of marketing.

The second project currently run by BIOCEUTICALS is the development of a biosimilar with the active ingredient **Filgrastim**. After the completion of pre-clinical studies for this project has been delayed, from today's view, the beginning of clinical studies is still expected for the current fiscal year 2007. STADA holds the worldwide exclusive distribution rights[2] for this project via its subsidiary cell pharm.

Since the fourth quarter of 2006, the former BIOCEUTICALS project **Interferon-beta-1a**[3] will not be pursued further since the marketing opportunities did no longer justify the high expenditures for the completion of the project.

Transfer of Epo-zeta distribution rights to Hospira

In the course of the reorganization of the biosimilar projects in fiscal year 2006, the distribution rights for Epo-zeta were to a large extent transferred to the globally active hospital and clinic supplier Hospira Inc., Lake Forest, Illinois, USA.

Within the framework of comprehensive contractual agreements, BIOCEUTICALS got back the worldwide exclusive distribution rights for Epo-zeta from the previous rights holder, the STADA subsidiary cell pharm, and simultaneously transferred these exclusively for the countries of the EU (with the exception of Germany), several additional European countries (Andorra, Iceland, Liechtenstein, Norway, San Marino, Switzerland) as well as the USA and Canada to Hospira. Furthermore, Hospira received a right of first refusal for the distribution rights of Epo-zeta in all other countries of the world.[4] In Germany following an approval, Epo-zeta will be distributed respectively semi-exclusively by Hospira and cell pharm, whereby cell pharm has now received significantly improved conditions from the licensor, BIOCEUTICALS.

1) Seller was the NewLab BioQuality AG, Bielefeld.
2) Within the framework of the reorganization, STADA has now begun to investigate whether the marketing potential for Filgrastim can be expanded through the inclusion of licensees.
3) Interferon beta-1a is used in the treatment of multiple sclerosis.
4) In some of these other countries (e.g. Russia and Serbia) STADA will, according to the contractual arrangement with Hospira, also be able to market Epo-zeta via its own subsidiaries.

For the allocated distribution rights, BIOCEUTICALS received from Hospira a payment of a total of € 16.4 million. In detail, Hospira paid BIOCEUTICALS for the acquired distribution rights € 12.4 million for the EU and € 4 million for the USA and Canada upon the conclusion of the agreement. In addition, BIOCEUTICALS will receive further payments, each depending on the progress of the project in the total amount of up to € 26.5 million. These additional payments, which depend on indication-related project progress in the individual distribution area (so-called "milestone payments") are divided as follows: a total of up to further € 12.5 million for the EU as well as a total of up to further € 14 million for the USA and Canada.

These agreed milestone payments clearly improve the financial basis for BIOCEUTICALS and relieve STADA of the previous necessity of credit financing the further current business operations of BIOCEUTICALS up to the achievement of its own earnings following the initial market launch of a product developed by BIOCEUTICALS.

Following the launch in the individual national markets, Hospira will additionally pay BIOCEUTICALS sales-related license payments which are partially dependent on the amounts procured and the market prices achieved in the individual contract areas and will procure the product from BIOCEUTICALS for the EU at contractually agreed prices.

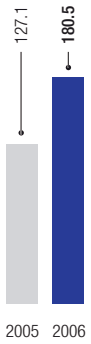
Hospira cooperates with STADA and BIOCEUTICALS in preparing a US application for approval for Epo-zeta. A timeframe for the submission of a US approval process for Epo-zeta is, however, not yet foreseeable due to the not yet available requirements for biosimilar products from the American approval authority, FDA.

The marketing of Epo-zeta by the specialized hospital and clinic supplier Hospira promises to take full advantage of the marketing potential for this product, and not only at short- and medium-term in the EU, but also at long-term particularly in Hospira's home market, in the US. Thereby, following the market launch, presumably much higher sales for Epo-zeta can be expected and therefore also higher earnings for BIOCEUTICALS from royalty fees and production profits. BIOCEUTICALS will therefore presumably be able to return the loans and bank guarantees provided by STADA more quickly and possibly will be able to distribute earnings to the investors, which include STADA with a share of 14.99%. STADA is also relieved of the necessity of developing its own specialized sales capacities for Epo-zeta and the high costs and risks associated with this.

From the Executive Board's perspective, with this rearrangement STADA achieved the desired security of long-term earnings potentials while at the same time curbing the risks involved in the financial commitment in the biosimilar projects. In view of the previously mentioned call option according to which STADA can acquire all shares in BIOCEUTICALS from 2011 at a price that can be determined via a formula, long-term opportunities for STADA in the area of biosimilars continue to exist regardless of the rearrangement.

EARNINGS SITUATION

Operating profit in € million



EBITDA in € million

EBIT in € million

EBT in € million

Net income in € million

Development of Sales

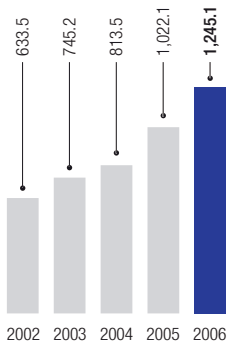
Clear increase in Group sales in 2006

In fiscal year 2006 STADA showed an increase in **sales** of 22% to € 1,245.1 million (previous year: € 1,022.1 million).

Included in this were acquisition-related effects in a total amount of € 114.6 million in sales or 11 percentage points. In addition, deconsolidated Group companies contributed, up to the point of time of their individual deconsolidation or sale, sales in the amount of € 15.3 million to Group sales in 2006; the last full-year sales contribution of these companies and products amounted to a total of € 30.6 million in the previous year 2005.

Under consideration of these initial consolidations, the Group recorded an organic sales growth of 12% in fiscal year 2006 (see "Management Report of the Executive Board – Acquisitions and Disposals").

Group sales in € million



In fiscal year 2006, the **core segments** (Generics and Branded Products) reported sales growth of 20% to € 1,170.3 million (previous year: € 975.7 million). These two core segments thus contributed 94.0% (previous year: 95.5%) to Group sales[1)] in 2006.

1) For the updating of the segment definitions and its effects as well as for the integration of the previous core segment Specialty Pharmaceuticals in the two remaining core segments see "Management Report of the Executive Board – Development of Segments".

In the reporting period, **international sales**, with an increase of 31%, grew again at a stronger rate as compared to the overall sales of the Group so that sales outside of Germany had a share of 61.3% in 2006 (previous year: 56.9%). For a full fiscal year, this results in a share of international business in Group sales of approx. two thirds based on the current Group structure.

Development of Earnings

Development of the STADA Group's key earnings figures

				Adjusted for one-time special effects				
in € million	2006	2005	± %	*2006*	*2005*	*± %*	*Margin[1] 2006*	*Margin[1] 2005*
Operating profit	180.5	127.1	+42%	*186.4*	*142.6*	*+31%*	*15.0%*	*13.9%*
EBITDA	232.6	161.2	+44%	*233.0*	*176.6*	*+32%*	*18.7%*	*17.3%*
EBIT	168.7	107.1	+58%	*186.7*	*142.8*	*+31%*	*15.0%*	*14.0%*
EBT	145.2	97.5	+49%	*163.2*	*133.3*	*+22%*	*13.1%*	*13.0%*
Net income	91.8	51.6	+78%	*102.1*	*80.5*	*+27%*	*8.2%*	*7.9%*
Earnings per share in €[2]	1.70	0.97	+75%	*1.89*	*1.51*	*+25%*		
Diluted earnings per share in €[3]	1.62	0.91	+78%	*1.81*	*1.41*	*+28%*		

Positive profit development – also after adjustment for high one-time special effects

Overall, the earnings situation of the STADA Group developed positively in the reporting period. STADA was able to increase earnings for the eleventh time in a row in 2006; thereby, operating profitability further grew in the Group.

Due to high one-time special effects in the reporting year 2006 as well as in the previous year 2005, the most important key earnings figures are disclosed both unadjusted and adjusted in this report. The adjustment of the key earnings figures shows that profit of fiscal year 2006 is burdened by one-time special effects of a total of € 18.0 million before and € 10.3 million after taxes. This is an offsetting of one-time special effects which burden earnings in the amount of € 27.7 million before and € 17.4 million after taxes and of one-time special effects which increase earnings in the amount of € 9.7 million before or € 7.1 million after taxes.

The burdens from the closing of the US activities (see "Management Report of the Executive Board – Acquisitions and Disposals") with approx. € 12.0 million before and approx. € 6.3 million after taxes are the largest part of the burdening one-time special effects in fiscal year 2006.

Other burdens in the amount of € 13.8 million before or € 9.9 million after taxes result from unscheduled depreciation as well as in the amount of € 1.9 million before or € 1.1 million after taxes from compensation payments to an initial supplier due to the entry of a generic product prior to patent expiry, this because STADA could not assert its own legal interpretation of the day of patent expiry.

The positive one-time special effects in the amount of € 9.7 million before taxes come from realized book profits for disposals in 2006 (see "Management Report of the Executive Board – Acquisitions and Disposals").

1) Related to Group sales.
2) In accordance with IAS 33.10, own shares held are not considered in the earnings per share (EPS) calculation. Calculation of earnings per share is thereby based on an average of 53,983,327 outstanding shares as of December 31, 2006 (corresponding number of outstanding shares as of December 31, 2005: 53,317,303).
3) According to IAS 33.31.

The one-time special effects of fiscal year 2005 – as a basis for the year-on-year comparison – resulted at that time in a net burden of € 35.8 million before taxes and € 28.9 million after taxes; of this, the biggest part in the amount of € 20.3 million before and € 17.0 million after taxes related to the closing of the LipoNova/Reniale® project at that time.

Both this year's burdens from the closing of the US activities and the special effects from the closing of the LipoNova/Reniale® project in the previous year are stated according to IFRS in the consolidated income statement below operating profit in the lines "Closing of the US activities" and "Closing of the LipoNova/Reniale® project". The Group's operating profit development is thereby not affected by these two one-time special effects.

After the adjustment for these aforementioned one-time special effects, earnings and profitability of the STADA Group still rose clearly in fiscal year 2006 as compared to the previous year.

In 2006 **net income** increased by 78% to € 91.8 million (previous year: € 51.6 million) and thereby grew at a stronger rate as compared to sales growth. Net income adjusted for one-time special effects in 2006 and 2005 grew by 27% to € 102.1 million (previous year: € 80.5 million).

Earnings per share[1] in 2006 thereby amounted to € 1.70 (previous year: € 0.97), adjusted earnings per share were € 1.89 (previous year: € 1.51). At the same time, **diluted earnings per share**[2] amounted to € 1.62 (previous year: € 0.91), adjusted diluted earnings per share were € 1.81 (previous year: € 1.41).

The other key **earnings figures** also achieved clear growth in the reporting period. Operating profit in 2006 recorded a plus of 42% to € 180.5 million (previous year: € 127.1 million), adjusted operating profit showed a plus of 31% to € 186.4 million (previous year: € 142.6 million). **Earnings before taxes** (EBT) recorded growth of 49% to € 145.2 million in 2006 (previous year: € 97.5 million), adjusted earnings before taxes of 22% to € 163.2 million (previous year: € 133.3 million). **Earnings before interest and taxes** (EBIT) grew by 58% to € 168.7 million in the reporting period (previous year: € 107.1 million), adjusted earnings before interest and taxes by 31% to € 186.7 million (previous year: € 142.8 million). **Earnings before interest, taxes, depreciation and amortization** (EBITDA) increased by 44% to € 232.6 million in fiscal year 2006 (previous year: € 161.2 million), adjusted earnings before interest, taxes, depreciation and amortization by 32% to € 233.0 million (previous year: € 176.6 million).

Thus, in 2006, STADA reached the target, pursued over the long-term, of improving the Group's **operating profit margin**: it grew by 14.5% in 2006 (previous year: 12.4%); the adjusted operating profit margin was 15.0% in 2006 (previous year: 13.9%).

Development of Costs

Continuous cost optimization as a basis for an improvement in the operating profit margin

Overall, in the Executive Board's view, the operating costs in the STADA Group developed – in consideration of the effects of the Hemofarm consolidation since August 1, 2006 – positively in the fiscal year 2006. The continuous

1) In accordance with IAS 33.10, own shares held are not considered in the earnings per share (EPS) calculation. Calculation of earnings per share is thereby based on an average of 53,983,327 outstanding shares as of December 31, 2006 (corresponding number of outstanding shares as of December 31, 2005: 53,317,303).

2) According to IAS 33.31.

cost optimization that has been consistently pursued by the Group for years significantly contributed to this and thus forms the basis for the targeted continuous improvement of the operating profit margin.

Cost of sales grew at a rate approximately proportional to sales in the reporting period and amounted to € 618.8 million (previous year: € 509.5 million). Their share in sales, which at Group level is not only dependant on the development of costs, but also on the segment mix as well as regional price and discount effects, therefore was 49.7% in 2006 (previous year: 49.9%).

The biggest items which influence cost of sales are the procurement costs of the active ingredients and auxiliary materials used in production as well as the labor costs which can be 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.

As cost of sales is the by far largest cost item in the STADA Group's income statement and thus has a particularly strong influence on the Company's success, it will continue to be in the focus of the Group's ongoing cost optimization in the future, too.

Gross profit rose to € 626.2 million (previous year: € 512.5 million). The sales-related gross margin thus improved in fiscal year 2006 to 50.3% (previous year: 50.1%).

Selling expenses, in which costs for sales representatives and sales departments, together with product-related marketing expenditures are included, rose, as expected, at a rate lower than the rate of growth in sales to € 323.2 million in 2006 (previous year: € 271.4 million). Compared to the previous year, this represents lower selling expenses as a percentage of sales of 26.0% (previous year: 26.6%). STADA assumes that the Group's percentage of selling expenses can be still further reduced in the medium-term, particularly through economy of scale effects due to the increasing Group size.

General and administrative expenses slightly increased to € 91.0 million (previous year: € 69.7 million) in the reporting year or to a share in Group sales in the amount of 7.3% (previous year: 6.8%). STADA will strive that this continuing low level of general and administrative expenses due to the lean Group structure will not significantly grow in the future.

Personnel expenses decreased in fiscal year 2006 to € 187.7 million (previous year: € 160.4 million). The ratio of personnel expenses to sales in the reporting period thereby fell to 15.1% (previous year: 15.7%). The annual average of 5,442 employees (previous year average 3,892 employees) results in a clearly reduced sales average per employee of approx. € 229 thousand (previous year: € 263 thousand). The influence of the initial consolidation of Hemofarm since August 1, 2006 is particularly noticeable for these key figures. Adjusted for the influence of the Hemofarm acquisition, the average number of employees in the Group is 4,051 in 2006; adjusted average sales per employee therefore clearly increased as compared to the previous year and amounted to approx. € 286 thousand.

Research and development costs increased in 2006 to € 32.2 million (previous year: € 30.7 million). It should be considered here that it is only a matter of development costs because STADA, due to its business model, does not carry out any research into new active ingredients. Related to Group sales, the rate of research and development

costs in fiscal year 2006 amounted to 2.6% (previous year: 3.0%). This concerns non-activatable development costs which accrue primarily in connection with regulatory requirements and optimizations for existing products.[1)]

Other operating expenses grew to € 53.0 million in the reporting period (previous year: € 32.0 million). The reported amortization on intangible assets thereby amounted to € 13.8 million in fiscal year 2006; this amortization was particularly required in the Group Holdings/other segment due to impairments tests for acquired products.

Other operating expenses also include burdens from currency effects which amount to a total of € 16.1 million in 2006 (previous year: € 0.9 million). This is countered by profits from currency effects – reported under other operating income – in the amount of € 16.7 million (previous year: € 1.4 million) so that **currency effects** in 2006 led to a positive balance of € 0.6 million for the Group. Only since the consolidation of the Hemofarm Group have both those currency effects which burden earnings and those which have a positive earnings effect reached a mentionable size for the STADA Group due to the reliance on foreign currency financing which existed there.

In addition to the above-mentioned currency effects which increase earnings, book profit from disposals in the amount of € 9.7 million, in particular, is reported under **other operating income**.

Total incurred losses from the **closing of the US activities** in the amount of € 12.0 million are reported in a separate line of the consolidated income statement in 2006 – in accordance with IFRS below the operating profit. The same applies to the reporting in the previous year for the closing of the LipoNova/Reniale®-project in 2005. Operating profit thereby remains unaffected by these two items.

Financial result

The **financial result** of the Group, which in 2006 was characterized by interest expenses for the borrowed funds which was used primarily for the financing of acquisitions, amounted to € -23.3 million (previous year: € -9.3 million).

Interest expenses grew in the reporting period – in particular due to the credit financed acquisition of Hemofarm – to € 29.1 million (previous year: € 12.1 million).

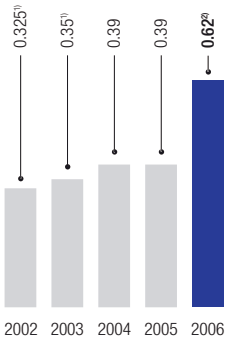
Tax rate

Income taxes in 2006 rose to € 52.7 million (previous year: € 45.5 million). The **tax rate** thereby fell in the reporting year to 36.3% (previous year: 46.7%). Indeed, until the disposal of the US activities in August 2006 the tax rate was still burdened by effects, tax deductible to only a limited extent, from these activities; however, STADA is increasingly generating earnings in countries with national tax rates that are significantly lower than the Group tax rate. In 2006, the effects of the acquired Serbian Hemofarm Group contributed to this, in particular. Against the backdrop of a further internationalization of the Group, STADA expects an again decreasing tax rate in the medium term.

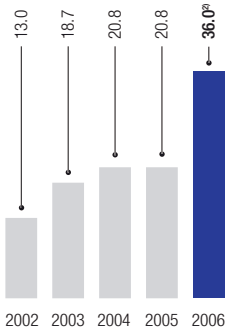
1) For the amount of the activated development costs, see Appendix (Notes IFRS) – 3.1.

Dividend

Dividend per common share
in €



Total dividend payments
in € million



The Executive Board proposes to the Supervisory Board that they recommend to the next Annual Shareholder's Meeting on June 20, 2007 a dividend for fiscal year 2006 in the amount of € 0.62 per common share. This represents a 59% increase compared to the previous year.

It should be considered hereby that the dividend payments with the acceptance of this proposal, at 73%, would be increased at a greater rate than the dividend per share, because the number of shares over the course of the year 2006 increased by approx. 9% to 58,256,400 due to the conversion of STADA warrants 2000/2015 (see "Management Report of the Executive Report – Financial Position" as well as Appendix [Notes IFRS] – 3.13.).

The proposed total dividend payments[3] thereby amount to € 36.0 million (previous year: € 20.8 million) and thus represent a share of net income in the amount of approx. 39% (previous year: approx. 40%)[4]. In 2006, this proposal by the Executive Board thereby follows the long-standing company tradition of a dividend ratio in the amount of approx. 40 % of net income.

With this proposal on increasing dividends, the Executive Board intends to underscore the fact that, in their opinion, the Group's long-term growth trend remains sustained. At the same time, shareholders should appropriately benefit from the increased net income.

1) Adjusted for the de facto 1:1 stock split on July 30, 2004.
2) Proposed.
3) Without taking into consideration possible own shares at the dividend date.
4) Proposed dividend ratio in terms of unappropriated retained earnings of STADA Arzneimittel AG approx. 95% (previous year: approx. 94%)

DEVELOPMENT OF SEGMENTS

Development of core segments

Updating of the core segment definitions

In the scope of primary segmentation, which is based on the sales differentiation in the Group product portfolio, the STADA Group was previously divided into the three core segments Generics, Branded Products and Specialty Pharmaceuticals.

However, the previous segment Specialty Pharmaceuticals will not reach a size which is significant for the Group in the foreseeable future due to the transfer of the worldwide distribution rights for Erythropoietin-zeta (Epo-zeta) to the US hospital and clinic supplier Hospira in the fourth quarter of 2006 (see "Management Report of the Executive Board – Business and General Conditions – Biosimilar Projects") in accordance with IAS 14.35. In addition, Specialty Pharmaceuticals do not differ from the other core segments due to principally different business processes but solely due to sales differentiations.

Against this backdrop, with first effect from full fiscal year 2006, STADA decided not to report separately the core segment Specialty Pharmaceuticals anymore. Based on the segment definitions for Generics and Branded Products updated in 2006, the previous Specialty Pharmaceuticals were allocated to these two segments (for the wording of the up-dated segment definitions as well as a reconciliation of the segment Specialty Pharmaceuticals see "appendix [Notes IFRS] – 5").

Pleasing sales growth in core segments

Sales growth of the core segments in fiscal year 2006 was overall pleasing.

Sales in what continues to be the by far the biggest core segment Generics were up in the fiscal year 2006 by 20% to € 911.2 million (previous year: € 759.3 million). This included acquisition-related effects – through the retroactively as of August 1, 2006 executed initial consolidation of Hemofarm acquired in the third quarter of 2006 – of € 65.2 million or 9 percentage points. For the consolidated financial statements 2006, € 20.3 million of the Specialty Pharmaceuticals sales in the total amount of € 25.1 million (previous year: € 25.2 million) achieved under the old definition in 2006 were allocated to the Generics segment. The Generics share of Group sales in 2006 thereby amounted to 73.2% (previous year: 74.3%).

In terms of sales, STADA's five strongest generic active ingredients contributed 14.2% to Group sales in the reporting period (previous year: 15.4%).

Measured by sales, the stomach medicine Omeprazole continues to be STADA's best-selling active ingredient, both in the core segment Generics and in the Group as a whole. In the reporting year, STADA achieved sales of € 78.5 million with products containing this active ingredient (previous year: € 70.0 million). Their share of Group sales in 2006 thereby amounted to 6.3% (previous year: 6.8%).

Top 5 generic active ingredients in the Group in 2006

Active ingredient	Indication	Sales 2006 in € million	Change from previous year
Omeprazol	Stomach medicine	78.5	+12%
Simvastatin	Cholesterol lowerer	42.6	+5%
Enalapril	ACE inhibitor	21.7	+36%
Amoxicillin	Antibiotic	17.9	+65%
Mirtazapine	Antidepressant	16.3	-5%
Total		177.0	

In the **Branded Products** core segment, sales increased by 20% to € 259.1 million in 2006 (previous year: € 216.4 million). € 27.8 million or 13 percentage points thereby result from the staggered inclusion of sales from the acquisition of the SANKYO product package in the fourth quarter of 2005, and € 6.9 million or 3 percentage points come from the Hemofarm branded products sales. For the consolidated financial statements 2006, € 4.8 million of the Specialty Pharmaceuticals sales in the total amount of € 25.1 million (previous year: € 25.2 million) achieved under the old definition in 2006 were allocated to the Branded Products segment. The Branded Products share of Group sales in the reporting period thereby amounted to 20.8% (previous year: 21.2%).

Top 5 branded products in the Group in 2006

Branded product	Indication	Sales 2006 in € million	Change from previous year
Grippostad®	Cold medicine	19.5	+0%
Ladival®	Sun screen	17.8	+63%
Chondroxid®	For the treatment of degenerative joint diseases	16.3	-25%
Mobilat®	Topical pain and trauma treatment	14.1	–
Kamistad®	Mouth sore ointment	8.3	+22%
Total		76.0	

The Group's five best-selling branded products generated a total of 6.1% of Group sales in 2006 (previous year: 6.4%). In 2006, Grippostad® once again was the best-selling branded product in the STADA Group with a share of Group sales in the amount of € 19.5 million (previous year: € 19.5 million).

Non-core activities support core segments

STADA's non-core activities, which include businesses and equity interests in fields outside the two core segments, are aimed at supplementing and supporting the Group's activities in the two core segments. To the extent that these activities mainly involve trading and selling, they are grouped together in the commercial business segment. All other activities, such as the sale of drug approvals and equity interests, are reported under Group holdings/other.

Commercial business, which achieved sales in the amount of € 63.7 million in 2006 (previous year: € 39.7 million), thereby accounted for a share of 5.1% (previous year: 3.9%) in Group sales. Sales, which are listed under the position **Group holdings/other**, amounted to € 11.0 million in the reporting period (previous year: € 6.8 million).

Clearly improved operating profits in the segments

Operating profit in the **Generics** segment grew in 2006 by 53% to € 149.7 million (previous year: € 97.7 million); a € 3.3 million profit contribution thereby results from the previous Specialty Pharmaceuticals segment. Operating profit in the **Branded Products** segment reported a plus of 33% to € 50.0 million (previous year: € 37.7 million); a € 0.7 million profit contribution thereby results from the previous Specialty Pharmaceuticals segment.

The operating profit margin of **Generics** was thus 16.4% (previous year: 12.9%). The operating profit margin of **Branded Products** was 19.3% (previous year: 17.4%).

Operating segment profit in **Commercial Business** increased in 2006 by 250% to € 6.4 million (previous year: € 1.8 million). Commercial Business thereby recorded an operating profit margin of 10.0% (previous year: 4.6%). The operating segment profit in the area **Group holdings/other** decreased in particular through unscheduled depreciation in this segment by 154% to € -25.6 million (previous year: € -10.1 million).

Regional Development

In the reporting of the secondary segments, which is based on a regional differentiation according to individual national markets, are shown all respective net sales to third parties made by consolidated Group companies in the respective national markets.

However, in the scope of this reporting of the secondary segments, STADA does not disclose financial results of the consolidated companies in this Group Annual Report. As STADA is mainly active in markets which are subject to distinct government regulation on a national level, the stressing of its local Group profit allocation could stimulate detrimental regulatory measures in individual national markets.

The increasing internationalization of the STADA Group is also clearly visible in terms of the regional sales development. In fiscal year 2006, sales from the Group's international activities rose to achieve a share of Group sales of 61.3% (previous year: 56.9%).

The clear focus of international activities thereby remains on Europe with a share (including Germany) in Group sales 2006 of 94.8% (previous year: 93.9%). The share of the US in Group sales 2006 was 1.5%[1)] (previous year: 3.3%), the share of Asia amounted to 3.4% (previous year: 2.7%) and the share of the rest of the world was 0.2% (previous year: 0.0%).

In **Germany**, which continues to be the largest national market for STADA, sales in the reporting period were increased by 9.3% to € 481.9 million (previous year: € 440.9 million).

1) For the US sales disclosure is to be taken into consideration that own sales activities in the US were retroactively deconsolidated as of August 21, 2006 (see "Management Report of the Executive Board – Acquisitions and Disposals").

Sales by segments and national markets in € million[1]

	Generics[2]	Branded products[2]	Commercial business	Group holdings/ other	Total sales 2006	Total sales 2005	±% in Euro	±% in local currency[3]	Share of Group sales 2006
Belgium	108.1	1.6	–	–	109.6	93.6	+17%		9%
Bosnia-Herzegovina[4]	4.6	0.6	2.9	1.1	9.3	0.3	–[7]		1%
China	2.6	0.0	2.9	–	5.5	7.0	-22%	-20%	0%
Denmark	4.1	0.1	19.4	–	23.6	19.3	+22%	+23%	2%
Germany	386.2	89.8	1.5	4.3	481.9	440.9	+9%		39%
Finland	0.9	4.5	–	-0.3	5.1	0.4	–[7]		0%
France	74.6	5.0	–	–	79.6	70.7	+13%		6%
UK	27.7	12.4	–	–	40.1	30.3	+32%	+32%	3%
Ireland	10.9	3.9	2.0	–	16.9	15.6	+8%		1%
Italy	53.3	48.8	6.8	0.0	109.0	94.6	+15%		9%
Kazakhstan	1.5	3.0	–	–	4.5	3.4	+33%	+27%	0%
Lithuania	0.1	0.8	–	–	0.9	1.1	-19%	-19%	0%
Macedonia[4]	1.3	0.0	0.1	0.1	1.6	–	–[7]		0%
Montenegro[4]	1.9	0.1	0.3	0.5	2.9	–	–[7]		0%
The Niederlands	25.5	11.0	2.3	–	38.9	38.6	+1%		3%
Austria	9.7	1.5	–	0.0	11.3	10.4	+8%		1%
The Philippines	0.6	0.0	6.8	–	7.4	6.5	+15%	+9%	1%
Portugal	8.6	1.7	–	–	10.3	5.3	+95%		1%
Rumania[4]	5.4	0.3	–	0.1	5.8	1.9	–[7]		0%
Russia[4]	40.9	46.3	0.0	0.3	87.5	56.6	+55%	+50%	7%
Switzerland[5]	2.7	0.1	–	3.8	6.6	6.3	–[8]		1%
Serbia[4]	33.4	4.3	7.5	1.0	46.1	0.0	–[7]		4%
Spain	53.8	7.2	–	0.1	61.1	53.0	+15%		5%
Thailand	1.5	0.3	0.2	–	2.0	2.4	-16%	-21%	0%
Czech Republic	6.0	2.3	–	–	8.3	6.1	+36%	+29%	1%
Ukraine	3.2	6.2	0.0	–	9.4	6.5	+46%	+46%	1%
USA[6]	18.1	0.4	–	0.0	18.5	34.0	–[8]		1%
Vietnam	6.4	1.3	10.8	–	18.4	6.1	+201%	+209%	1%
Other countries[4]	17.6	5.6	0.2	0.0	23.2	11.2	+81%		2%

In 2006, the STADA Group's market share of the German pharmaceutical market rose again in terms of units sold. Overall, it amounted to approx. 5.4% in the reporting period (previous year: approx. 4.9%); thus, STADA occupied position 3 in 2006 with approx. 81 million packages sold in this market. Measured by sales, STADA as a Group here took position 10 in 2006 with a market share of 2.5% (previous year: 2.3%).[9]

1) Sales below € 0.05 million were rounded to € 0.0 million.
2) Retroactively adjusted to the updated segment definitions in 2006.
3) In some cases, figures were converted into local currency since the invoicing company's reporting currency was euros.
4) Local sales from the Hemofarm acquisition consolidated since August 1, 2006.
5) Local Suisse business consolidated until June 30, 2006.
6) Local US business consolidated until August 21, 2006.
7) Not comparable due to initial consolidation in 2006.
8) Not comparable due to deconsolidation in 2006.
9) STADA estimate at ex-factory prices based on market data provided by various international market research institutes for the 12 month value 2006.

Due to the Economic Optimization of Pharmaceutical Care Act (AVWG) which took effect on May 1, 2006, the German market – and in particular the generics market segment – was subject to significant and complex regulatory changes in 2006.

Various regulations of the Economic Optimization Pharmaceutical Care Act (AVWG) thereby show, in themselves, effects that clearly burden earnings for generics suppliers. These include regulations such as an additional, variable mandatory discount of 10% of the ex-factory price for products in the generics market which are distributed at the expense of the public health care system (so-called "generics rebate"[1]), a strong AVWG-conditioned reduction of reference prices[2] as well as new regulations on patient co-payments[3] as of July 1, 2006, which significantly increased price pressure for parts of the generics portfolio in the German market.

Moreover, specific temporary market reactions to detailed regulations of the AVWG could be observed in 2006. Thus, prior to the AVWG, comprehensive stockpiling activities on prescription generics, beyond the usual extent, were carried out in the German market on the part of the pharmacy and wholesaler distribution channels; the reduction of these over-reaches in the distribution channels could be felt in the German generics market in form of lower sales up into the fourth quarter of 2006.

On the other hand, the comprehensive ban on discounts outside of the drug price regulation introduced by the AVWG lead to considerable additional earnings, in particular for generics suppliers which, to a significant degree, had traditionally given such discounts before the AVWG took effect. For the most part, these positive effects have so far balanced out the above-mentioned burdens. Furthermore, in the medium term, the prospect exists that further detailed regulations of the AVWG, such as the so-called bonus-malus regulation in the area of pharmaceutical supply for doctors, can lead to a further increase in generics penetration in Germany and thus to positive volume effects for generics suppliers.

As a consequence of these specific market effects in connection with the AVWG, in Germany, the generics market as a whole – based on sell out figures in pharmacies – grew by only approx. 6% in 2006. Due to warehousing effects in connection with the AVWG, the German generics market actually lost 2% of its value based on sell in figures to the pharmacy distribution channel.[4] In the STADA Group, however, these sales in Generics, the largest core segment, as per the end of the year, i.e. in December 2006, increased by 9% to € 386.2 million in Germany in the reporting period (previous year: € 354.2 million). Thereby, STADA increased the Group's market share in the German generics market to 9.3%[5] (previous year: 8.4%) in 2006 according to data from various international market research institutes and achieved a market share of 10.0%[6] in December 2006. Thus, STADA continues to occupy position 3 in this market.

Generics sales in Germany under the umbrella brand name "STADA" thereby achieved (through the subsidiaries STADApharm GmbH and STADA Medical GmbH), in a year-on-year comparison, stable sales in Germany in the amount of € 245.5 million in 2006 (previous year: € 243.8 million); sales under the label "AL" (by the subsidiary

1) As of January 1, 2007, each price reduction of a product is deducted from this mandatory discount; already before this, the mandatory discount did not apply as soon as a product was reduced to a price that was at least 30% below the reference price.
2) STADApharm GmbH alone, the bigger one of the Group's two generics sales lines in Germany, in connection with the AVWG reduced over 500 pharmacy retail prices for more than 100 active ingredients by up to more than 50% as of July 1, 2006. The price reductions thereby affected more than 50% of STADApharm's portfolio of prescription active ingredients. Based on the pharmacy retail prices of that date, including value-added tax, the total volume of the reductions as of July 1, 2006 amounted to approx. € 32 million on an annual basis. STADA's second generics sales line in Germany, ALIUD Pharma GmbH, also made significant AVWG-related price reductions as of July 1, 2006.
3) According to a regulation provided by the AVWG, health insurance organizations can exempt patients from co-payments for generics with a price that is at least 30% below the reference price when overall savings can be achieved by doing so. As of July 1, 2006 the health insurance organizations had applied this exemption possibility to 79 reference price groups; as of November 1, 2006 this regulation was introduced for 130 additional reference price groups.
4) Data from IMS Health at ex-factory prices.
5) STADA estimate at ex-factory prices based on market data provided by various international market research institutes for the 12 month value 2005 bzw. 2006.
6) STADA estimate at ex-factory prices based on market data provided by various international market research institutes for the monthly value of December 2006.

ALIUD Pharma GmbH, which operates exclusively via a mailing concept and therefore employs no sales force and can be positioned lower in terms of price), which the STADA Group uses in Germany as a second umbrella brand name for generics, strongly rose by 29% to € 120.7 million in the reporting period (previous year: € 93.2 million). In Germany, further generics of the Group are sold under the umbrella brand name cell pharm (via the subsidiary cell pharm GmbH, which is specialized in cancer therapeutics) as well as Hemofarm (via the subsidiary Hemofarm GmbH[1)], which is focused on generics for self-medication).

As of April 1, 2007, with the GKV-WSG[2)] an additional act regulating the German health care system will take effect and then lead to comprehensive structural changes in the German health care market and related markets. Among other things, the financial strength of the German health care system is thereby improved through an increase in contributions and also through tax subsidies. It is also planned to change the distribution of resources to health insurance organizations into a fund model. In addition, competitive structures should be strengthened in all organizational and health care forms of the health care system. In the pharmaceutical area, for example, measures are planned against pseudo-innovations as well as, in particular, additional savings clauses and stimulating elements for direct contractual price agreements between health insurance organizations, individual service providers and suppliers.

The complex effects of the new reform will depend, among other things, on the competitive reaction to it and can therefore not be accurately assessed at this point in time. Overall, from today's perspective, STADA expects, notwithstanding this reform that the Group's worldwide long term growth course can continue. For the current fiscal year 2007, STADA will in addition react to a possible permanent burden of earnings due to structural market changes by means of appropriate measures to secure earnings, if required, which can particularly also include reductions in personnel in the German sales companies. Currently, as a preventive measure in this connection, approx. 10% of the positions in the Generics sales force are temporarily unfilled – this was achieved by taking advantage of normal fluctuation in personnel.

Sales generated **in Germany** in the core segment of **Branded Products** (in particular through the subsidiary STADA GmbH) increased by 8% to € 89.8 million in 2006 (previous year: € 83.0 million); the branded products package acquired from the SANKYO Group in December 2005 (see "Management Report of the Executive Board – Acquisitions and Disposals") contributed € 5.9 million sales to this, with the branded product Mobilat®, among others, which was newly positioned in the market for topical pain and trauma treatment in the second quarter of 2006 (consolidated sales in Germany in 2006: € 4.9 million).

STADA's important branded products continue to be market leaders in their respective segments in the German pharmacy market. Examples of such market leading branded products in Germany are Grippostad® C (sales in 2006 € 15.7 million, previous year € 16.0 million) with a market share of approx. 29% in the market for flu drugs[3)], Kamistad® (sales in 2006 € 6.7 million, previous year: € 6.0 million) with a market share of approx. 24% in the market for prescription-free stomatoligical products[3)], and Hoggar® (sales in 2006 € 6.0 million, previous year: € 5.6 million) with a market share of approx. 35% in the market for prescription-free oral sleep aids and relaxants[3)]. STADA's sun screen portfolio under the brand Ladival® (sales in 2006 € 16.9 million, previous year: € 10.3 million) clearly remains market leader in the market for sunscreens sold in pharmacies[4)] with a market share of approx. 43%.

1) In the framework of the acquisition of the Hemofarm Group consolidated in the STADA Group since August 1, 2006.
2) GKV-WSG: act for strengthening competition in public health insurance.
3) STADA estimate at ex-factory prices based on market data provided by various international market research institutes.
4) STADA estimate at pharmacy retail prices based on market data provided by various international market research institutes.

STADA will continue to support and expand the strong position of the Group's Branded Products in the German OTC market by means of adequate investments in marketing and sales.

In **Belgium**, STADA's second biggest national market in 2006, STADA also recorded a pleasing development in the reporting year. Inventory build-ups by wholesalers in the fourth quarter 2006 also contributed to this, because at the beginning of 2007, the local STADA sales company[1] converted its to date direct deliveries to pharmacists to delivery via wholesalers. Sales increased by 17% to € 109.6 million (previous year: € 93.6 million). With the local Belgian sales companies the STADA Group continues to be the clear market leader in the Belgian generics market in fiscal year 2006 with a market share in terms of sales of approx. 46.1% overall (previous year: approx. 41.8%); in terms of units sold, STADA remains market leader in the overall Belgian pharmaceutical market.[2]

STADA assumes that it will be able to keep its clear leading position in the Belgian generics market – and this also under possibly changing structural conditions which could result from a possible partial introduction of tender models for individual active ingredients in the second half of 2007.

In **Italy**, STADA's third largest national market in 2006, sales in the reporting period went up by 15% to € 109.0 million (previous year: € 94.6 million); of this, generics account for € 53.3 million (previous year: € 41.8 million) and branded products for € 48.8 million (previous year: € 45.2 million). With a market share of approx. 16.0% (previous year: approx. 14.4%), STADA remains on position 2 in the Italian generics market.[2]

The Group assumes that its Italian sales companies will continue to be able to launch numerous products in the market in 2007 and that the Group's clear growth in Italy will thus continue on a basis adjusted for disposals; it must be thereby considered that STADA sold two products there in the fourth quarter of 2006 with the active ingredient defibrotide generating sales of € 7.1 million and, staggered until December 31, 2008, respective sales will no longer be included in Group sales after that date in accordance with specific contractual provisions (see "Management Report of the Executive Board – Acquisitions and Disposals").

In **Russia**, in 2006, STADA Group sales increased in the local currency by 50% to RUB 2,973.3 million or in Euro by 55% to € 87.5 million. In 2006, Russia therefore was STADA's fourth largest national market in terms of sales.

The ongoing very positive business development of Nizhpharm, which has been the STADA Group's local subsidiary since the beginning of 2005 and mainly focuses on branded products (63% share in Nizhpharm sales), continued to contribute the major part of this increase. Nizhpharm thereby temporarily benefited from state reimbursement programs for individual products (e.g. for the branded product Chondroxide®[3] which was included in such a reimbursement program until May 31, 2006); however, a clear plus in sales of 37% was achieved for Nizhpharm products which patients had to pay themselves in 2006. Such self-paid products continue to be the major part of Russian Nizhpharm sales with a share of 95%.

1) As of January 1, 2007, the previous Belgian STADA subsidiary AAXL Pharma S.A. was renamed Neocare S.A. and started its own sales activities – parallel with the established sales company Eurogenerics S.A. – in the Belgian market.
2) STADA estimate at ex-factory prices based on market data provided by various international market research institutes.
3) Approx. € 5.8 million (previous year: € 12.1 million) of the Chondroxide® annual sales in 2006 in the amount of € 14.5 million (previous year: € 20.8 million) result from state reimbursement programs.

In addition, the Russian subsidiary of the Hemofarm Group acquired in 2006 (see "Management Report of the Executive Board – Acquisitions and Disposals"), whose business focus is primarily in the area of generics, achieved Group sales in Russia in the amount of € 16.2 million since its initial consolidation on August 1, 2006. Of this amount, approx. 3% or € 0.5 million was achieved within the framework of state reimbursement programs.

Due to effects from the Hemofarm acquisition, the expected structural growth of the Russian market as well as numerous planned product launches, STADA anticipates a further strong expansion of the Russian business for the current fiscal year 2007. STADA is also evaluating, in view of the structural growth potential in Russia, further appropriate acquisitions there.

In **France**, STADA achieved overall – in spite of regulatory-related significant price reductions in the entire product range, by approx. 15% as of February 1, 2006 – especially due to pleasingly strong volume growth in 2006 a sales increase of 13% to € 79.6 million (previous year: € 70.7 million). In the fourth quarter of 2006, inventory build-ups by pharmacists, which took place in advance of compulsory discount reductions as per January 1, 2007, also contributed to this. Thus, the local sales company, which achieved position 6 in the intensely competitive French generics market in 2006, was able to roughly maintain its market share of approx. 6.2% (previous year: approx. 6.3%) of the local market.[1)]

In 2007, STADA again expects – not lastly also due to once again numerous product launches – a clear growth in sales in the French market. However, the margin situation in the French business continues to be burdened due to the price reductions and a continuing intensive discount competition.

In **Spain**, STADA achieved sales growth of 15% to € 61.1 million in 2006 (previous year: € 53.0 million). The local generics business made a particular contribution to this, and now again takes position 4 (previous year: position 5) in the Spanish generics market with a market share of approx. 9.3% (previous year: 8.9%).[1)] The concluding amalgamation of the local sales lines under the name of "Laboratorio STADA SL" in the course of a comprehensive rearrangement in 2006 thereby formed the structural basis for the positive business development in Spain.

For the outlook it must be taken into account that the sales licenses of two local branded products licensed in Spain with a sales volume of € 2.3 million expired at the end of 2006 and these sales thus no longer apply for the Group in 2007. Furthermore in Spain in 2007 regulatory related significant price reductions are expected. However, in the current fiscal year, STADA expects further growing Group sales in Spain in 2007 due to a continuing clear volume growth in the generics segment and planned product launches.

In **Serbia**, STADA achieved – after the successful takeover of the Hemofarm Group and its retroactive initial consolidation as of August 1, 2006 (see "Management Report – Acquisitions and Disposals") – in fiscal year 2006 sales in local currency in the amount of RSD 3,882.5 million and in Euro of € 46.1 million. Thereby, already in the year of the acquisition, this was – also due to a strong Serbian Dinar – a mentionable contribution to the STADA Group's operating profit.

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

Due to the clear market leadership of its local Serbian Group companies with a local market share of overall approx. 24.4%[1] in the Serbian pharmaceutical market, STADA is particularly dependent on the structural market environment and regulatory influences there; from STADA's current perspective, the local Serbian market environment, regardless of possible regulatory measures, also in 2007, should lead to an increase in Group sales – adjusted for temporary disposals (see "Management Report of the Executive Board – Acquisitions and Disposals") as well as the differing consolidation period – in Serbia as compared to 2006.

In **the Netherlands**, with € 38.9 million (previous year: € 38.6 million) STADA Group sales grew by 1% in 2006. Business development of the Dutch STADA sales companies was and continues to be characterized by the ongoing highly competitive market environment. However, STADA expects further growth in the Dutch Group business in the current fiscal year 2007.

In the **United Kingdom**, sales in local currency increased significantly by 32% and in Euro by 32% to € 40.1 million in fiscal year 2006 (previous year: € 30.3 million). This pleasing sales development was due in part to the acquisition of a number of branded products from SANKYO in December 2005. Thus, these products contributed an additional € 10.4 million to the existing sales in the UK.

In the United Kingdom, STADA has for years been pursuing a selected generics portfolio concept which targets market niches and is specifically adapted to local market structures – also partly positioned in-between generics and branded products. Thus, the local sales company has so far successfully been able to set itself apart in terms of sales from the especially intense local price competition of classic generics, however bearing at the same time the risk that the specific market structures on which the concept is based could be changed through regulatory measures and also have a detrimental effect one day.

In **Denmark**, an increase in sales in local currency by 23% and in Euro by 22% to € 23.6 million was achieved in 2006 (previous year: € 19.3 million). However, with an increase by 26% to € 19.4 million, the sales expansion here was focused on the low-margin parallel import business, which is part of the non-core segment Commercial Business; the STADA Group's local generics sales were with € 4.1 million in 2006 (previous year: € 3.9 million) at a level close to that of the previous year.

In **Ireland**, sales rose in the reporting period by 8% to € 16.9 million (previous year: € 15.6 million). With a market share of 18.1%, STADA remains the market leader in the Irish generics market.[2] Comprehensive changes in the reimbursement system came into effect on March 1, 2007, for off-patent brands, which could lead to changed market conditions also for generics suppliers, and to a stronger pressure on margins.

In **Austria**, sales increased by 8% in 2006 to € 11.3 million (previous year: € 10.4 million) and thus take position 6[2] in the Austrian generics market with a market share of approx. 5.4%. The future regulatory conditions for the local Group business will be strongly dependent on the health care policy of the Austrian, in the first quarter of 2007 newly formed, government and cannot be conclusively assessed from today's perspective.

1) STADA estimate at pharmacy purchase prices based on market data provided by various international market research institutes.
2) STADA estimate at ex-factory prices based on market data provided by various international market research institutes.

In **Portugal**, where STADA acquired the sales company Ciclum Farma in the second quarter of 2005, sales rose by 95% to € 10.3 million in its first fully consolidated fiscal year 2006 in the STADA Group (sales of the previous year for the consolidation period from May 1, 2005 until December 31, 2005: € 5.3 million). With a market share of approx. 3.4%, Ciclum Farma currently occupies position 7 in the Portuguese generics market.[1)] STADA expects – among other things due to the structural trend of generics and in spite of additional regulatory measures including price reductions for the entire portfolio by approx. 4.5% as of January 1, 2007 – a further growing Group business there for the current fiscal year 2007.

In the **Czech Republic**, STADA reported a clear rise in 2006 in sales in local currency by 29% and in Euro by 36% to € 8.3 million (previous year: € 6.1 million). The operating amalgamation of the two local sales lines STADA and ALIUD, which was implemented in 2005, contributed to a substantial increase of sales efficiency of the STADA Group activities in the Czech Republic in 2006.

In **Bosnia-Herzegovina**, after the Hemofarm acquisition, STADA Group sales of BAM 18.1 million in local currency and of € 9.3 million in Euro were realized since the initial consolidation on August 1, 2006 (see "Management Report of the Executive Board – Acquisitions and Disposals").

In **Finland**, in the context of the acquisition of the SANKYO branded products package (see "Management Report of the Executive Board – Acquisitions and Disposals") STADA also took over the local sales structures and thus, since the beginning of 2006, for the first time has been active on the market in Finland with its own sales company. Overall, Group sales of € 5.1 million were generated there in 2006, primarily through the acquired branded products. With the introduction of generics from the Group portfolio in the Finnish market, which began with the first products in the fourth quarter of 2006, a growing Group business in Finland can be expected in 2007.

In **Switzerland**, STADA held a 50% stake in the Swiss generics supplier Helvepharm AG. For sales strategic reasons, STADA sold this stake in the third quarter of 2006, retroactively taking effect as of June 30, 2006 (see "Management Report of the Executive Board – Acquisitions and Disposals").

Overall, STADA consolidated Group sales of € 6.6 million in Switzerland in 2006 (previous year: € 6.3 million). It should be considered here that after the sale of the 50% stake only license and export sales have been generated since June 30, 2006. In the medium-term, an own STADA sales company however continues to remain a business policy option in this national market.

In **Ukraine**, STADA clearly increased sales in local currency by 46% and in Euro by 46% to € 9.4 million in the reporting period (previous year: € 6.5 million). In view of the strong structural growth potential for the Ukrainian pharmaceutical market, STADA expects a further substantial increase in Group sales in Ukraine for 2007.

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

In the **USA**, STADA – against the backdrop of limited operative opportunities in the existing business structures and concurrently high price and margin pressures in the US generics market – sold the Group's local not profitable business in the third quarter of 2006 (see "Management Report of the Executive Board – Acquisitions and Disposals").

Overall, STADA still recorded sales of € 18.5 million in the USA in fiscal year 2006 (previous year: € 34.0 million). It must be considered here that after completion of the sale and the corresponding deconsolidation of the US activities, i.e. since August 21, 2006, the Group has only realized license and export sales. The Group however does not rule out the possibility to pursue new opportunities for a successful US business of its own in the future.

In the Asian markets, sales grew particularly strongly in **Vietnam**, where STADA is active in sales in the scope of a 50:50 joint venture with a local partner. In 2006, STADA's sales in Vietnam, which were consolidated according to the amount of equity interest, in local currency grew by 209% and in Euro by 201% to € 18.4 million (previous year € 6.1 million); as a special factor a one-time tender business, focused on the first quarter of 2006, with a sales volume of € 12.1 million substantially contributed to this.

Sales, in contrast, declined in **Thailand** by 21% in local currency and in Euro by 17% to € 2.0 million (previous year: € 2.4 million) and in **China** by 20% in local currency and in Euro by 22% to € 5.5 million (previous year: € 7.0 million).

In the **Philippines** – where STADA increased its stake in the local sales company from previously 60% to 80%[1)] in the fourth quarter of 2006 (see "Management Report of the Executive Board – Acquisitions and Disposals") sales in local currency grew by 9% and in Euro by 15% to € 7.4 million (previous year: € 6.5 million).

In **Kazakhstan** STADA achieved sales growth by 27% in local currency and in Euro by 33% to € 4.5 million.

In addition to sales from the local sales companies in the respective national markets STADA also generates **export sales**. In fiscal year 2006, the Group increased these worldwide export sales to 38 countries by 108% to € 23.2 million (previous year: € 11.2 million). In **Africa**, for the first time, the STADA Group, due to the acquisition of Hemofarm, achieved mentionable export sales in the amount of € 2.6 million in 2006. The breakdown of additional export sales is as follows: Exports to European countries € 15.0 million (previous year: € 8.2 million), exports to Asian countries € 5.1 million (previous year: € 2.7 million), exports to American countries € 0.5 million (previous year: € 0.1 million) and exports to the rest of the world € 0.002 million (previous year: € 0.03 million).

1) Due to the irrevocable contractual agreements to take over the remaining 20% stake in several parts at a pre-determined price by the year 2009, in accordance with IFRS, the 100% consolidation without minority interests is already carried out.

FINANCIAL SITUATION

Overview

The financial condition of the STADA Group continues to be healthy. This assessment of the Executive Board still applies, also when STADA's balance-sheet structure in 2006 was significantly changed through the credit-financed takeover of Hemofarm in the third quarter of 2006 (see "Management Report of the Executive Board – Acquisitions and Disposals"). This assessment is also supported, among other things, by the positive acceptance of several long-term promissory notes from the Group on the capital markets with a total volume of € 420.0 million which were placed in the second half of 2006 with an attractively low weighted average interest rate of 4.5%.

In the course of the credit-financed takeover of Hemofarm, the net debt of the STADA Group rose significantly and on December 31, 2006 reached € 773.0 million (December 31, 2005: € 234.2 million). STADA's equity-to-assets ratio on the balance-sheet date, however, was still 40.1% (December 31, 2005: 50.7%) and thus continues to be clearly above what the Executive Board considers to be the relevant threshold value of 30%. Therefore, no capital measures were necessary for the financing of the Hemofarm takeover due to the available equity; there also continues to be sufficient financial means available for the further organic growth of the Group.

STADA wants to further accelerate the many years of growth by making appropriate acquisitions in the future as well. In this connection, the Group continues to examine suitable objects. For the financing of future acquisitions, appropriate capital measures are, in the view of the Executive Board, imaginable.

A comprehensive representation of the financial condition of the STADA Group follows in the Appendix (Notes IFRS) in the form of tables and detailed explanations. With this in mind, only significant aspects of the financial condition will be dealt with in this Group Management Report.

Cash flow

Cash flow	2006	previous year
Gross cash flow	153,232	109,896
Cash flow from operating activities	-13,005	163,302
• thereof influences from payments made and still outstanding from acquisitions and disposals as of the balance sheet date	74,786	-67,000
Adjusted cash flow from operating activities	*61,781*	*96,302*
Cash flow from investing activities	-502,901	-263,985
Cash flow from financing activities	575,299	105,789

Cash flow was also characterized by acquisition-related effects in 2006 – especially the takeover of the Hemofarm Group (see "Management Report of the Executive Board – Acquisitions and Disposals").

Gross cash flow increased in the reporting period to € 153.2 million (previous year: € 109.9 million).

Cash flow from operating activities, i.e. cash flow from current business activities, amounted to € -13.0 million in fiscal year 2006 (previous year: € 163.3 million).

Hereby, significant effects from payments made and still outstanding from acquisitions and disposals are to be considered:

- Due to the staggered payment of existing liabilities from the purchase of the SANKYO branded products package in the fourth quarter of 2005 (see "Management Report of the Executive Board – Acquisitions and Disposals"), cash flow from operating activities is enhanced by € 67.0 million in 2005 and is diminished by € 38.9 million in 2006. Outstanding liabilities as of December 31, 2006 from this acquisition in the amount of € 28.1 million will be settled in 2007 and will then, also in this amount, subsequently burden cash flow from operating activities once again.
- Due to the contractually agreed staggered payments from the sale of the STADA sales company in the USA (see "Management Report of the Executive Board – Business and General Conditions – Acquisitions and Disposals"), receivables, totaling € 23.9 million, are still outstanding as of the balance sheet date, thus burdening the cash flow from operating activities in fiscal year 2006.
- Due to the contractually agreed staggered payments from the sale of the Defibrotide products in Italy (see "Management Report of the Executive Board – Business and General Conditions – Acquisitions and Disposals"), receivables, totaling € 12.0 million, are still outstanding as of the balance sheet date, thus burdening the cash flow from operating activities in fiscal year 2006.

Without these one-time special effects, the **adjusted cash flow from operating activities** in 2006 amounted to € 61.8 million (previous year: € 96.3 million).

As regards **cash flow from investment activities**, STADA recorded net cash outflows of € 502.9 million in the reporting period.

Of this, approx. € 484.8 million was spent for the acquisition of consolidated companies (previous year: approx. € 101.9 million); investments in intangible assets in connection with the short-term expansion of the product portfolio, in contrast to the previous year (€ 90.2 million), were not made in 2006.

In 2006, however, in cash flow from investment activities a significant inflow of cash and cash equivalents in the total amount of € 75.4 million was achieved. The sale of consolidated companies contributed € 30.3 million to this (previous year: € 0 million) and the essential sales of individual products, i.e. of trademarks and approvals included in intangible non-current assets, contributed € 9.5 million (previous year: € 0.0 million) (see "Management Report of the Executive Board – Acquisitions and Disposals").

Cash flow from financing activities, which was characterized for the most part also in 2006 by the third-party financing of the Group's acquisitions, amounted to € 575.3 million in the reporting period (previous year: € 105.8 million).

From the conversion of warrants into STADA shares, the Group received inflows from capital increase in 2006 in the amount of € 78.2 million (previous year: € 1.8 million) (see Appendix [Notes IFRS] – 3.13.). The Executive Board believes that appropriate capital measures are imaginable for the financing of future acquisitions.

In total, **cash flow for the fiscal year 2006**, net of all inflows and outflows of cash and cash equivalents amounted to € 56.7 million (previous year: € -3.0 million).

Free cash flow, i.e. cash flow from current business activities plus cash flow from investment activities, amounted to € -515.9 million in 2006 (previous year: € -100.7 million). Free cash flow for the STADA Group, adjusted for expenses from acquisitions and proceeds from disposals, thus rose in 2006 to € -70.8 million (previous year: € 91.5 million).

Development of the balance sheet

Consolidated Balance Sheet in € 000s

Assets	Dec. 31, 2006	Dec. 31, 2005
A. Non-current assets	1,294,672	783,806
B. Current assets	855,551	565,967
Total assets	2,150,223	1,349,773
Equity and Liabilities		
A. Equity	863,086	684,811
B. Non-current liabilities and provisions	795,038	316,856
C. Current liabilities and provisions	492,099	348,106
Total assets	2,150,223	1,349,773

The strong rise in **total assets** to € 2,150.2 million as of the reporting date December 31, 2006 (December 31, 2005: € 1,349.8 million) mirrors the unchanged expansion of the operating business of the STADA Group and is also influenced by the acquisitions and disposals of the current fiscal year (see "Management Report of the Executive Board – Acquisitions and Disposals") and thereby in particular by the Hemofarm acquisition (see Appendix [Notes IFRS] – 1.2.).

On the assets side of the balance sheet, **non-current assets** – very strongly influenced by the takeover of Hemofarm – clearly increased to € 1,294.7 million as of December 31, 2006 (December 31, 2005: € 783.8 million). The value of the non-current assets brought into the consolidated balance sheet by the Hemofarm Group thereby amounted to € 390.4 million; a sum of € 224.0 million originated from the allocation of the paid value added to the individual assets in accordance with IFRS 3. The non-allocated goodwill that remains for the consolidated balance sheet amounts to € 138.0 million after the conducted purchase price allocation.

Parallel to this development – although to a significantly lesser extent – were the effects of the deconsolidation of the American STADA Inc. and the Swiss Helvepharm AG as well as product sales carried out in 2006 (see "Management Report of the Executive Board – Acquisitions and Disposals"); this results in – all outflows taken together – a reduction in the non-current assets of € 28.3 million.

Within non-current assets, **intangible assets** rose as of the balance sheet date to € 944.7 million (previous year: € 612.2 million). This figure remains influenced by the active expansion policy that has been pursued for years with corresponding investments in new products, brands, licenses, product developments and companies which has often led to the creation of corresponding intangible assets. The intrinsic value of these intangible assets is regularly checked once a year in the fourth quarter as well as when necessary event-related through impairment tests in accordance with IFRS; thereby, this resulted in unscheduled depreciation in the amount of € 13.8 million (previous year: € 13.5 milion) (see "Management Report of the Executive Board – Financial Situation").

In 2006, especially in this balance sheet position the takeover of the Hemofarm Group was strongly felt with € 219.5 million in newly introduced intangible assets. In addition to this, in fiscal year 2006, development costs in the amount of € 7.2 million (previous year € 3.8 million) were capitalized as internally-created intangible assets (see Appendix [Notes IFRS] – 3.1.).

Property, plant and equipment as per December 31, 2006 showed an increase – also significantly driven by the € 156.3 million in property, plant and equipment introduced through the Hemofarm acquisition – to € 260.4 million (previous year: € 94.5 million). In addition to the acquisition-related growth, this increase can be traced in particular to maintenance and rationalization investments in buildings and carried out to the usual extent.

Financial investments, under which STADA's equity interest in BIOCEUTICALS Arzneimittel AG is listed (see "Management Report of the Executive Board – Business and General Conditions – Biosimilar Projects"), recorded – also due to the BIOCEUTICALS capital increase for which € 11.3 million were put up by STADA in 2006 – as of the balance sheet date an increase to € 39.0 million (previous year: € 32.7 million). Also newly included in this position are the financial investments of the Hemofarm Group of € 12.1 million in total.

Non-current trade accounts receivable, which include, among other things, receivables from long-term loans to companies consolidated on a pro rata basis, fell slightly with an unchanged low overall level as per December 31, 2006 to € 1.0 million (December 31, 2005: € 1.1 million).

Other non-current assets rose as per December 31, 2006 to € 36.2 million (December 31, 2005: € 31.9 million). The main reason for this is the contractually agreed, staggered receipt of payments until 2008 from the sale of the US business (see "Management Report of the Executive Board – Acquisitions and Disposals"), which is included under this balance sheet position and which, taken alone, led here to an increase of € 23.9 million as per the balance sheet day.

Current assets rose as per December 31, 2006 to € 855.6 million (December 31, 2005: € 566.0 million). Of these current assets, in 2006 a total of € 198.8 million were introduced through the Hemofarm Group; here, however, no added value was allocated in the course of the purchase price allocation. The disposals carried out in the year 2006 also had a countering effect on current assets; this resulted in a reduction in this balance sheet position of € 27.2 million.

Within current assets, **inventories** as per December 31, 2006 rose to € 295.6 million (December 31, 2005: € 224.0 million). Adjusted for the initial consolidation of Hemofarm, inventories in 2006 rose by only 6.2% and thus at a rate lower than sales.

The **current trade accounts receivable** increased due primarily to the organic and especially to the acquisition based expansion of the operating business to € 355.1 million (previous year: € 230.3 million). Adjusted for the initial consolidation effects from the Hemofarm acquisition, current trade accounts receivable in 2006 rose by only 6.7%.

Other current assets – which, as per balance sheet date on December 31, 2006 amounted to € 75.4 million (previous year: € 38.9 million) – include, among other things, prepaid expenses/deferred charges and receivables from the tax authorities and are thus subject to reporting date effects from the operating business.

The STADA Group, with only € 0.03 million (previous year: € 0.01 million), continues to have no noteworthy holdings in the area of **current securities**.

Also the balance sheet position **cash and cash equivalents** – which amounted to € 129.4 million as per the balance sheet date December 31, 2006 (previous year: € 72.8 million) – was decisively characterized by reference date effects from the operating business.

On the equity and liabilities side of the balance sheet, **shareholders' equity** rose as per the balance sheet date to € 863.1 million (previous year: € 684.8 million). Thereby, proceeds from capital increases from the conversion of warrants into STADA shares (see "Appendix [Notes IFRS] – 3.13.") improved the equity of the STADA Group by € 78.2 million in fiscal year 2006.

The **equity-to-assets ratio** as per December 31, 2006 was thus 40.1% (December 31, 2005: 50.7%) and continues to be above what the Executive Board considers to be the relevant threshold value of 30%. However, for the financing of future acquisitions, appropriate capital measures are, in the view of the Executive Board, imaginable.

The clear increase in **minority interests** as per December 31, 2006 to € 19.7 million (December 31, 2005: € 2.3 million) is based for the most part once again on the Hemofarm initial consolidation and the minority interests introduced from subsidiaries within the Hemofarm Group.

STADA's **non-current liabilities and provisions**, viewed as a total, rose – especially due to the internal and external growth of the Group – as per December 31, 2006 to € 795.0 million (December 31, 2005: € 316.9 million).

On the balance sheet date of December 31, 2006, the **non-current provisions** position amounted to € 28.2 million (December 31, 2005: € 17.4 million). The increase resulted, among other things, from new Executive Board contracts in 2006 as well as a changed actuarial discount rate for such provisions.

Thereby, **non-current financial liabilities** recorded an increase to the balance sheet date to € 701.3 million (previous year: € 258.7 million) – primarily due to acquisitions as well as the conversion of current liabilities to non-current credit terms within the framework of the issue of promissory notes[1)] particularly in the fourth quarter of 2006. The weighted average interest rate for the STADA Group's non-current financial liabilities thus amounted to approx. 4.5% per annum as per the balance sheet date December 31, 2006.

As per the balance sheet date on December 31, 2006 both the **non-current trade accounts payable** as per December 31, 2006 in the amount of € 1.1 million (December 31, 2005: € 0.8 million) as well as the balance sheet position **other non-current liabilities** in the amount of € 3.1 million (December 31, 2005: € 2.8 million) were at a low level for the size of the STADA Group.

STADA's **current liabilities and provisions** rose significantly – also as a result of the internal and external growth of the Group – to € 492.1 million as per December 31, 2006 (December 31, 2005: € 348.1 million).

Thereby, **current financial liabilities** increased as per December 31, 2006 – despite the offsetting effects from significant debt rescheduling to the longer terms and due to disposals – at € 201.2 million (December 31, 2005: € 48.2 million) because the Hemofarm acquisition was initially fully financed through current liabilities. The average weighted interest rate for the current financial liabilities of the STADA Group thus amounted to 4.3% per annum as per the balance sheet date on December 31, 2006.

Current trade accounts payable reached a volume of € 156.9 million on December 31, 2006 (December 31, 2005: € 124.6 million). The increase in these positions is due once again to the organic and acquisition-based growth achieved in 2006, whereby the concrete amount for both positions is subordinate to reporting date effects for the operating business.

In contrast, **other current liabilities** reduced to € 127.3 million (December 31, 2005: € 171.3 million), in particular due to the partial payment of outstanding purchase price obligations from the acquisition of the SANKYO branded product package.

1) Individual parts and maturity periods for the STADA promissory notes placed in the fourth quarter 2006: € 195.5 million until December 2011, € 35.0 million until November 2012, € 189.5 million until December 2013.

SUPPLEMENTARY REPORT

For better understanding, significant events that occurred between the end of fiscal year 2006 and the preparation of the relevant Management Report and the financial statements are stated within the respective context of the Management Report.

Against this backdrop, these supplementary events are only listed in this supplementary report. For detailed information as well as the effects on the business, financial condition and results of operations, please refer to the relevant explanations in the Management Report.

Significant events for this supplementary report are:

- On March 5, 2007, the Executive Board of STADA Arzneimittel AG resolved and published a proposal on the increase in the dividend by 59% to € 0.62 per common share (see "Management Report of the Executive Board Earnings Situation – Dividend").
- In the course of the first quarter of 2007, in various national markets (e.g. Germany, Ireland, Portugal and Spain) individual regulatory measures have been discussed, adopted or introduced which in part have already had significant effects on the structure and the competitive situation in the respective national markets or such effects are expected (see, for each, "Management Report of the Executive Board – Development of Segments – Regional Development").
- The sales growth of the Group continued in the first two months of 2007 with 17% (see "Management Report of the Executive Board – Prognosis Report").

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 activity. Business opportunities can usually only be utilized if business risks are taken, too.

In order to identify and limit these risks, STADA has implemented an established and ongoing risk management system, that aims to reduce both general and specific risk to an appropriate amount considering the expected benefit of the business activity involved. In assessing risks, STADA also relies on the experience with the respective business activities that exists within the Group. In fiscal year 2006, STADA met the growing risk management requirements due to the continuous Group expansion by means of the Group-wide introduction of the risk management IT software R2C.

STADA's risk management system is centrally operated by the risk management department and is regularly reviewed for effectiveness and suitability. Thereby, a Group-wide standardized 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 relevant risks for STADA and assess their effects on STADA so that suitable measures can be initiated in due time, 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.

Risk fields

From the STADA Executive Board's current perspective, anticipated risks to the Group's business activities particularly include the following risks.

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 a risk for STADA, which is inherently linked to STADA's business model, in that changes to existing or new regulations on a national or supranational level, particularly on the EU level, may negatively influence relevant market structures and thus adversely affect business activities of the Group or individual subsidiaries.

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 and

which, in addition, can partly be subject to supranational influences. As a result, investments that rely on the continuation of existing market structures may prove worthless and existing market positions may be jeopardized if the government regulations which determine these market structures change.

Often, national regulations also directly (e.g. by statutory price reductions) or indirectly (e.g. with reference prices, mandatory discounts or terms and/or requirements concerning discounts) regulate drug prices or supranational regulations influence them. Should STADA therefore be compelled to reduce prices, grant discounts 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 behavior (such as through the co-payment regulations for patients, the regulation of discounts in individual distribution channels such as in pharmacies or the prescription volume related bonus-malus provisions for doctors) could also have adverse effects on STADA.

Accurate predictions concerning the introduction and scope of potential changes in national or supranational regulations as well as their effects on the market structures which are of relevance for STADA are not possible, since the introduction or scope of such regulations depends on the politics of the country in question and even after the final introduction of such regulations the effects are influenced to a large degree by the reactions of the market participants affected.

Additionally, in other areas of its own business processes STADA's business activities are also subject to risks from national or supranational regulations. This is particularly applicable to regulations in the areas of pharmaceutical laws (see "Current product portfolio risks and Product portfolio expansion risks"), commercial property rights (see "Product portfolio expansion risks"), and legal principles – particularly in terms of fiscal laws – of national and international business (see "Legal risks and Risks associated with internationalization of business"). Here too, unfavorable regulatory changes can arise which have adverse effects on business activities of the Group or individual subsidiaries.

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 as well as regulatory and/or state requirements in products from the current product portfolio may also lead to a restriction or cessation and/ or prohibition of further sales.

Moreover, the Group's existing product portfolio is subject to the risk that framework conditions in pharmaceutical legislation or other provisions relevant for the existence of the product portfolio can be changed through national or supranational regulations in a way that adversely affects STADA. As a result, investments that rely on the continuation of existing provisions may prove partially or entirely worthless. In addition, changes to national or supranational regulations can render the sale of individual products of the Group legally impossible or uneconomical.

Product portfolio expansion risks

As a rule, drugs may only be brought to market with product-specific approval. Product market entry can be delayed considerably 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 delayed considerably 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 (patents, SPCs and "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.

Development and approval risks, and risks associated with the compliance with commercial property rights particularly exist for STADA's biosimilar products (see "Management Report of the Executive Board – Business and General Conditions – Biosimilar Projects"). Since biosimilar products are 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 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. At last, the future production of these products may become more expensive and the future sales and marketing, and in particular the thereby realizable prices, may prove less profitable than expected. All this may lead to the fact that a future market entry of biosimilar products which are of relevance for the Group fails, is significantly impaired or is rendered financially less attractive than expected. As a result, investments by STADA that rely on the market entry and later market success of these products may prove entirely or partially worthless, bank guarantees to third parties may become payable, and loans to third parties may have to be entirely or partially written off.

Moreover, when expanding the product portfolio, the Group also is subject to the risk that framework conditions in pharmaceutical legislation or provisions concerning commercial property rights or other provisions that are relevant for the expansion of the product portfolio can be changed through national or supranational regulations in a way that adversely affects STADA. As a result, investments for the product portfolio expansion that rely on the continuation of existing provisions may prove partially or entirely worthless.

Competitive risks

The health care and pharmaceutical markets in which STADA operates are highly competitive.

Some of STADA's competitors possess considerably more 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 segment which is STADA's larger 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 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, or not achieved in the planned amount. 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 or in maintaining their existing market positions. All this could necessitate unscheduled depreciation 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 core segment Generics, 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 occur 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 € 2.5 million for the Group as of December 31, 2006 (December 31, 2005: € 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 liability claims. Should specific products prove to be defective and/or to cause undesirable side effects or should individual services or activities of the Group be carried out in a faulty way, this could result in substantial damage claim liabilities – especially in the USA – and in the restriction or withdrawal of the product approvals concerned or in the withdrawal of the service 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.[1)] 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.

Moreover the Group is also subject to the risk that relevant legal conditions may be changed by national or supranational regulations in a way that adversely affects STADA. As a result, investments that rely on the continuation of existing provisions may prove partially or entirely worthless.

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 assumes that justified own claims – whether claims towards third parties arising from business transactions or from concluded contracts, or whether claims towards state institutions or administrations from existing laws or regulations – can principally, in a foreseeable period, be enforced within the laws of a country where STADA undertakes business with affordable costs and without any adverse effects on business in this

1) With regard to the resolution made at the Annual General Meeting on June 14, 2006 on the limitation of the question and speaking rights of shareholders to an appropriate amount of time depends on the appeal in a shareholder's lawsuit. The lower court decision was made in STADA's favour.

country. If, contrary to expectations, it turns out that in a country where STADA undertakes business this is not the case, investments that rely on the enforceability of own claims may prove worthless and existing market positions may be jeopardized.

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.

Moreover, there is the risk that conditions which are relevant for the Group's international operating activities – especially also the conditions of fiscal laws – may be changed by national or supranational regulations in a way that adversely affects STADA. As a result, investments that rely on the continuation of existing provisions may prove partially or entirely worthless.

STADA also conducts business outside of the euro zone. In 2006, approx. 25% of Group sales were achieved in currencies other than the Euro (previous year: approx. 18%). Due to the ongoing international expansion also in countries outside of the euro zone, this share is expected to further grow in 2007. Moreover, a portion of both procurement and the Group's invoicing is undertaken in currencies other than the Euro. Exchange rate fluctuations between Euro and non-Euro currencies may therefore significantly 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.

Parts of STADA's business activities, especially in the areas of product development, sales, procurement and production are related to the USA and are there, in the company's view, subject to elevated legal risks as compared to other countries, particularly also in the areas of liability and patent litigation. These US activities may be associated with substantial additional costs, in particular for legal counseling. The same applies to disputes resulting from agreements with third parties as well as 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 a major 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. In the scope of the STADA product portfolio this is true in particular for drugs used for self-medication, for products without a pharmaceutical character and for services offered.

Additional risks associated with overall business processes

External suppliers, contract manufacturers, sales licensees 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 as well as sales, though also to an increasing degree in other areas. Furthermore, the Group is taking increasing advantage of the opportunity of having essential Group services performed by third parties, with whom cooperations are entered into. In addition, as of December 31, 2006, STADA had specifically licensed 15,656 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. However, it cannot be ruled out that these measures are insufficient and non-payments of individual debtors arise to a significant extent. In fiscal year 2006, provision for bad debts in the Group in this regard amounted to 1.0% (previous year: 0.2%) of 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 and/ or supply shortages in the case of individual products will not have adverse effects on the Group's sales and/or profit margins.

Numerous contracts in the STADA Group include – especially in the areas of product development and production as well as for distribution rights – so-called "Change of Control" clauses, which usually provide both contracting parties, as is usual in the industry, with reciprocal extraordinary termination rights for agreements concluded by the parties in the case that one of the contracting partners becomes subject to a so-called change of control (change of majority shareholder) e.g. after a successful takeover offer. In the case of a change of control in the STADA Group this could result in material adverse effects for STADA if contracting parties make use of such extraordinary termination rights, in particular if the extent of these terminations is beyond individual cases.

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.

Currently in the Group, preparations for the gradual conversion[1] of various IT systems to an integrated SAP system are being carried out. Generally, when introducing new or converting existing IT systems there exists an elevated risk that unanticipated events occur, which, during the initial phase and also during the integration and expansion phase can have adverse effects on the course of business processes and thus can adversely influence business activities of the Group and/or individual subsidiaries.

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. However, 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, in procurement, logistics and production as well as 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 condition and results of operations.

1) The conversion at the Group's headquarters in Bad Vilbel is expected to take place in the course of the year 2007.

REFERRAL TO LEGALLY REQUIRED DISCLOSURES IN MANAGEMENT REPORT

In order to avoid repetition in the text, the reader is referred to the relevant information in the Appendix (Notes IFRS) regarding the following legally required disclosures in the Management Report:

- All necessary disclosures in accordance with § 315 (2) No. 4 of the German Commerciale Code (HGB): Appendix (Notes IFRS) – 6.4.3 and 6.5.3
- All necessary disclosures in accordance with § 315 (4) No. 1-7 and No. 9 of the German Commerciale Code (HGB): Appendix (Notes IFRS).

PROGNOSIS REPORT

Strategic orientation to growth markets

STADA's strategic focus on multisource products in selected segments of the pharmaceutical market with an emphasis on generics continues, in the Executive Board's point of view, to target long-term growth markets. The prognosis of independent market research institutes confirm this positive assessment. While the annual growth rate for the worldwide pharmaceutical market between 2006 and 2011 is estimated at approx. 6%, the annual increase rate of the worldwide generics market is estimated at approx. 13% in the same period.[1)]

Challenges and risks of the STADA business model

However, STADA's specific business model continues to hold challenges and risks, which are a result of the structures and mechanisms of the market segments in which STADA is active (see "Management Report of the Executive Board – Risk Report"). In the future, the Group will continue to be active in markets and market segments which are characterized by high price sensitivity, intense competition and a frequently changing, complex regulatory environment. In Germany for example, which continues to be the largest national market within the STADA Group, as of April 1 of the current fiscal year a new health care reform will take effect, which will once again bring serious structural changes with it, and whose final consequences will only be assessable in the further course of the fiscal year based on the competitive reactions.

Such challenges and risks in the individual national markets are unavoidable in the scope of STADA's business model since they are at the same time connected to the opportunities and structural growth potential of STADA's business model. STADA will thereby continue to react flexibly and quickly to the respective challenges and will principally not rule out any measures to further secure margins – such as sales restructurings or a temporary market exit.

Operative success factors of the STADA Group

However, it is the view of the Executive Board that it should be possible to successfully meet these challenges and risks also in the future and transform the markets' existing structural growth potential into own growth.

The basis for this, from the Executive Board's perspective, continues to be the STADA Group's own operative success factors such as the international sales infrastructure, the strong product development, the continuous cost optimization, the successful acquisition policy, the employees' high degree of market-specific expertise and not lastly the Group's independence.

1) STADA estimate based on data from IMS Health at ex-factory prices for the largest generics markets.

The international sales network continues to provide STADA with the opportunity to react flexibly to structural and regulatory market changes and thus to take advantage of opportunities offered in the individual national markets. The increasing internationalization thereby also leads to an improved risk diversification.

Due to the strong product development with a well-filled product pipeline, the Executive Board assumes that the Group will be able to continuously expand the product portfolio – especially in the high-growth area of generics – also in the years to come. An increasing share of in-house product development should continue to contribute to this. The cost-attractive capacities of the Hemofarm Group which was acquired in 2006 will also contribute to this.

The measures for a continuous cost optimization should additionally lead to a further improvement of the Group's operative costs. An emphasis here continues to lie in the area of procurement and production with the goal of further reducing cost of sales. In particular, in the global procurement of active ingredients and auxiliary materials, the Group will increasingly draw on suppliers in low-cost countries. Moreover, an increased in-house production with cost attractive production capacities should make a significant contribution to cost optimization. Finally, cost-reducing economy of scales effect in the sales sector can also be expected from the further portfolio expansion in individual national markets with sufficiently developed sales capacities.

From the Executive Board's perspective, the employees continue to play a significant role in STADA's successful development. Through their comprehensive understanding of markets, the respective mechanisms and regulations, together with their profound knowledge in the areas of product development, procurement and production, they make an essential contribution to the Group's sustained growth. STADA will continue to rely on the methods of a modern, decentralized personnel management in order to guarantee this loyalty and commitment in the future, too.

Active acquisition policy to accelerate Group growth

An active acquisition policy should contribute to accelerating Group growth in the future, too. Significant goals will thereby be the further expansion of the international sales as well as acquisitions, which are targeted on economy of scale effects, such as the acquisition of appropriate products for existing sales units. Therefore, in the Executive Board's view, appropriate capital measures continue to be imaginable to create a sufficient financial framework.

Continuation of the sustainable growth course in the Group

In the view of the Executive Board, STADA, due to its strategic positioning and the Group's operative alignment, will continue to have the opportunities to benefit from structural growth potentials of the markets in which the Group operates – regardless of recurrent significant regulatory interventions as well as intensive competition in individual national markets.

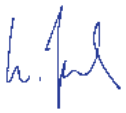
This is also underscored in view of the development of the current fiscal year so far. As of February 28, 2007, the Group showed an increase in the amount of approx. 17% in sales as compared to the corresponding period in the previous year.

Against this backdrop, the Executive Board assumes that the sustainable growth course within the Group will proceed in the future. Thereby, the continued goal of an ongoing improvement in the operative profit margin is being pursued.

From the Executive Board's perspective, growth and value enhancement continue to be goals for STADA which, also in the years to come, the Group can achieve on its own.

Bad Vilbel, March 09, 2007

H. Retzlaff



W. Jeblonski

Dr. A. Oehmichen

C. Schumann

Dr. H.-M. Schwarm

STADA 2006 CONSOLIDATED FINANCIAL STATEMENTS: FURTHER DETAILS

CONSOLIDATED INCOME STATEMENT

Consolidated Income Statement for the period from Jan. 1 to Dec. 31 in € 000s	2006	Previous year	Notes IFRS
01. Sales	1,245,050	1,022,059	2.1.
02. Cost of sales	618,841	509,521	2.2.
03. Gross profit	**626,209**	**512,538**	2.3.
04. Other operating income	53,601	18,338	2.4.
05. Selling expenses	323,208	271,400	2.5.
06. General and administrative expenses	90,995	69,657	2.6.
07. Research and development expenses	32,156	30,716	2.7.
08. Other operating expenses	52,987	31,983	2.8.
09. Operating profit	**180,464**	**127,120**	2.9.
10. Closing of US activities	-12,045		2.10.
11. Closing of LipoNova/Reniale® project		-20,311	2.11.
12. Investment income	250	251	2.12.
13. Interest result	-23,511	-9,544	2.13.
14. Financial result	**-23,261**	**-9,293**	2.14.
15. Earnings before taxes	**145,158**	**97,516**	2.15.
16. Taxes on income	52,695	45,501	2.16.
17. Net income	**92,463**	**52,015**	2.17.
thereof			
• net income distributable to shareholders of STADA Arzneimittel AG	91,833	51,583	2.18.
• net income relating to minority interests	630	432	2.19.
18. Earnings per share in € (in accordance with IAS 33.10)	1.70	0.97	2.20.
19. Earnings per share in € (diluted) (in accordance with IAS 33.31)	1.62	0.91	2.21.

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.

CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet as of Dec. 31 in € 000s Assets	2006	Previous year	Notes IFRS
A. Non-current assets	**1,294,672**	**783,806**	
1. Intangible assets	944,675	612,205	3.1.
2. Property, plant and equipment	260,351	94,540	3.2.
3. Financial assets	39,027	32,702	3.3.
4. Non-current trade accounts receivable	1,002	1,065	3.4.
5. Other non-current assets	36,214	31,912	3.5.
6. Deferred tax assets	13,403	11,382	3.6.
B. Current assets	**855,551**	**565,967**	
1. Inventories	295,610	224,042	3.7.
2. Current trade accounts receivable	355,063	230,254	3.8.
3. Other current assets	75,416	38,902	3.9.
4. Current securities	33	13	3.10.
5. Cash and cash equivalents	129,429	72,756	3.11.
Total assets	**2,150,223**	**1,349,773**	

Equity and Liabilities	2006	Previous year	Notes IFRS
A. Shareholders' equity	**863,086**	**684,811**	**3.12.**
1. Share capital	151,467	139,101	3.13.
2. Reserves and unappropriated retained earnings	691,960	543,438	3.14.
3. Minority interests	19,659	2,272	3.15.
B. Non-current liabilities and provisions	**795,038**	**316,856**	
1. Non-current provisions	28,230	17,362	3.16.
2. Non-current financial liabilities	701,345	258,723	3.17.
3. Non-current trade accounts payable	1,088	827	3.18.
4. Other non-current liabilities	3,133	2,797	3.19.
5. Deferred tax liabilities	61,242	37,147	3.20.
C. Current liabilities and provisions	**492,099**	**348,106**	
1. Current provisions	6,787	3,985	3.21.
2. Current financial liabilities	201,157	48,214	3.22.
3. Current trade accounts payable	156,850	124,614	3.23.
4. Other current liabilities	127,305	171,293	3.24.
Total equity and liabilities	**2,150,223**	**1,349,773**	

CONSOLIDATED CASH FLOW STATEMENT

Cash flow provided by operating activities in € 000s	2006	Previous year	Notes IFRS
1.1. Cash flow (gross)	153,232	109,896	4.1.
thereof			
• 1.1.1. Net income (including net income relating to minority interest)	92,463	52,015	
• 1.1.2. due to depreciation and amortization (+) / write-ups (-) of non-current assets	63,903	53,730	
• 1.1.3. due to increase (+) / decrease (-) in non-current provisions	6,343	3,984	
• 1.1.4. due to gains (-) / losses (+) on disposals of non-current assets	-9,477	167	
1.2. Cash flow due to changes in assets[1)]	-98,394	-73,056	
thereof			
• 1.2.1. due to changes in inventories	-20,956	-5,924	
• 1.2.2. due to changes in trade accounts receivable	-43,199	-38,452	
• 1.2.3. due to changes in other receivables / prepaid expenses	-34,107	-30,947	
• 1.2.4. due to changes in current securities	-21	2,776	
• 1.2.5. due to changes in deferred tax assets	-111	-509	
1.3. Cash flow due to changes in equity and liabilities[1)]	-67,843	126,462	
thereof			
• 1.3.1. due to changes in current provisions	2,802	803	
• 1.3.2. due to changes in trade accounts payable	-19,561	37,833	
• 1.3.3. due to changes in other liabilities / deferred income	-51,688	86,441	
• 1.3.4. due to changes in deferred tax liabilities	604	1,385	
1. Cash flow from operating activities	-13,005	163,302	4.2.

1) Adjusted for initially consolidated and deconsolidated companies.

Cash flow from investing activities in € 000s	2006	Previous year	Notes IFRS
2.1. Payments	-578,282	-274,188	
thereof			
• 2.1.1. for the acquisition of consolidated companies (after deducting acquired cash and cash equivalents)	-484,807	-101,909	
• 2.1.2. for significant material purchases of intangible assets for current expansion of the product portfolio (as a rule in the reporting year)	0	-90,234	
• 2.1.3. for purchases of other intangible assets	-54,078	-43,890	
• 2.1.4. for purchases of property, plant and equipment	-26,431	-14,848	
• 2.1.5. for purchases of financial assets	-12,966	-23,307	
2.2. Proceeds	75,381	10,203	
thereof			
• 2.2.1. from the disposals of consolidated companies (after deducting possible disposed cash and cash equivalents)	30,289	0	
• 2.2.2. from significant sales of intangible assets from the disposal of launched products	9,451	0	
• 2.2.3. from the disposals of intangible assets	6,220	6,092	
• 2.2.4. from the disposals of items of property, plant and equipment	10,829	4,105	
• 2.2.5. from the disposals of financial assets	18,592	6	
2. Cash flow from investing activities	-502,901	-263,985	4.3.

Cash flow from financing activities in € 000s	2006	Previous year	Notes IFRS
3.1. Payments in the context of financing activities	-148,818	-95,923	
thereof			
• 3.1.1. to shareholders (dividend distribution)	-20,818	-20,775	
• 3.1.2. for the redemption of bonds and finance facilities	-128,000	-75,148	
3.2. Proceeds in the context of financing activities	724,117	201,712	
thereof			
• 3.2.1. from additions to shareholders' equity / share capital of STADA Arzneimittel AG	12,366	285	
• 3.2.2. from additions to shareholders' equity / capital reserve of STADA Arzneimittel AG	65,872	1,516	
• 3.2.3. from the issue of bonds and finance facilities	645,879	199,911	
3. Cash flow from financing activities in € 000s	575,299	105,789	4.4.

Net cash flow for the period in € 000s		2006	Previous year	Notes IFRS
1.	Cash flow from operating activities	-13,005	163,302	
2.	Cash flow from investing activities	-502,901	-263,985	
3.	Cash flow from financing activities	575,299	105,789	
4.	**Changes in cash and cash equivalents (sub-total)**	59,393	**5,106**	
5.	Other changes in shareholders' equity/currency translation	13,248	5,967	
6.	Influence on changes in the balance sheet by companies consolidated for the first time	-15,968	-14,092	
7.	**Net cash flow for the period**	56,673	**-3,019**	4.5.

Development of cash and cash equivalents in € 000s		2006	Previous year
0.	**Cash and cash equivalents at beginning of period**	72,756	**75,775**
7.	Net cash flow for the period	56,673	-3,019
8.	**Cash and cash equivalents at end of period**	129,429	**72,756**

STATEMENT OF RECOGNIZED INCOME AND EXPENSES

Statement of recognized income and expenses in € 000s	2006	Previous year
Currency translation differences	14,653	8,973
Cash flow hedges	735	1,676
Actuarial gains (+) and losses (-) from provisions for pensions	-5,879	0
Actuarial gains (+) and losses (-) from provisions for obligations similar to pensions	351	0
Deferred taxes	2,058	0
Income and expenses recognized directly in shareholders' equity	**11,918**	**10,649**
Net income	92,463	52,015
thereof		
• net income distributable to shareholders of STADA Arzneimittel AG	91,833	51.583
• net income relating to minority interests	630	432
Total of all recognized income and expenses	104,381	**62,664**

APPENDIX (NOTES IFRS)

1. General

1.1. Basis of Presentation

STADA Arzneimittel Aktiengesellschaft, Bad Vilbel, Germany is a joint-stock company registered under German law. The company is active worldwide in the health care and pharmaceuticals market, especially in the core segments of Generics and Branded Products.

STADA Arzneimittel AG's consolidated financial statements are prepared in accordance with the accounting standards promulgated by the International Accounting Standards Board (IASB) – the International Financial Reporting Standards (IFRS), as applicable in the EU, and the supplementary provisions pursuant to § 315 a (1) of the German Commercial Code (HGB). The IFRS to be applied as of January 1, 2006 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 business, financial condition and results of operations and cash flows during the fiscal year.

The consolidated financial statements of STADA Arzneimittel AG conform with the EU regulation No. 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, Eurovax GmbH, LIFE TRANS Pharma Vertriebs GmbH, STADA GmbH, STADA Medical GmbH, STADA R&D GmbH, STADApharm GmbH, STADA Pharma International GmbH, TAXON Arzneimittel GmbH and Uzara-Werk GmbH - Pharmazeutika.

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 equity stakes 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, 2006 include the following subsidiaries (wholly-owned unless otherwise specified):

- AAXL Pharma S.A.[1)], Brussels, Belgium
- ALIUD PHARMA CZ, s.r.o., Prague, Czech Republic
- ALIUD PHARMA GmbH & Co. KG, Laichingen, Germany
- ALIUD PHARMA Verwaltungs-GmbH, Laichingen, Germany
- Bepha Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel, Germany
- Boniscontro & Gazzone Srl, Milan, Italy
- cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Bad Vilbel, Germany
- Centrafarm B.V., Etten-Leur, The Netherlands
- Centrafarm Nederland B.V., Etten-Leur, The Netherlands
- Centrafarm Pharmaceuticals B.V., Etten-Leur, The Netherlands
- Centrafarm Services B.V., Etten-Leur, The Netherlands
- Ciclum Farma, Unipessoal, LDA, Amadora, Portugal
- Clonmel Healthcare Ltd., Clonmel, Ireland
- Crinos S.p.A., Mailan, Italy
- Croma Medic Inc., Manila, The Philippines[2)]
- Crosspharma Ltd., Belfast, United Kingdom
- EG Labo SAS - Laboratoires Eurogenerics, Paris, France
- EG S.p.A., Milan, Italy
- Eurogenerics S.A., Brussels, Belgium
- Genus Pharmaceuticals Ltd., Newbury, United Kingdom
- Genus Pharmaceuticals Holdings Ltd., Newbury, United Kingdom
- Health Vision Enterprise Ltd., Hong Kong, China (51% stake)[3)]
- Healthypharm B.V., Etten-Leur, The Netherlands
- JSC Nizhpharm, Nizhny Novgorod, Russia (99.58% stake)[4)]
- Laboratorio STADA SL, Barcelona, Spain
- LIFE TRANS Pharma Vertriebs GmbH, Bad Vilbel, Germany
- Nizhpharm-Ukraine Ltd., Kiev, Ukraine
- Nizhpharm-Kazakhstan Ltd.[5)], Almaty, Kazakhstan

1) As of January 1, 2007, the company was renamed Neocare S.A.
2) The stake was increased from 60% to 80% in 2006. Due to the irrevocable contractual agreements to take over the remaining 20% stake in several parts at a pre-determined price by the year 2009, in accordance with IFRS, the 100% consolidation without minority interests is already carried out.
3) Only 50% of Health Vision Enterprise 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 Enterprise.
4) In fiscal year 2006, ZAO Trand, Nizhny Novgorod, Russia was merged into JSC Nizpharm and the stake was raised from 97.5% to 99.58%.
5) Name of the company has been translated from Cyrillic into English.

- PharmaCoDane ApS, Copenhagen, Denmark
- Quatropharma Holding B.V., Etten-Leur, The Netherlands
- SFS International Ltd., Clonmel, Ireland
- STADA GmbH, Bad Vilbel, Germany
- STADA Arzneimittel Ges.m.b.H., Vienna, Austria
- STADA Asiatic Co., 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, Germany
- STADA R&D GmbH, Bad Vilbel, Germany
- STADApharm GmbH, Bad Vilbel, Germany
- STADA Pharmaceuticals (Asia) Ltd., Hong Kong, China
- STADA Pharma International GmbH, Bad Vilbel, Germany
- STADA Service Holding B.V., Etten-Leur, The Netherlands
- STADA-VN JOINT VENTURE CO., LTD., Ho Chi Minh City, Vietnam (50% stake)
- TAXON Arzneimittel GmbH, Hanover, Germany
- UAB STADA-Nizhpharm-Baltija, Vilnius, Lithuania
- Uzara-Werk GmbH - Pharmazeutika, Bad Vilbel, Germany

Included for the first time:

- Čajavec - Sistemi Upravljanja A.D., Banja Luka, Bosnia-Herzegovina
- Hemofarm A.D., Vrsac, Serbia
- Hemofarm Banja Luka d.o.o., Banja Luka, Bosnia-Herzegovina (79.81%)
- Hemofarm Inženjering d.o.o., Belgrade, Serbia
- Hemofarm Komerc d.o.o., Skoplje, Macedonia (99.18%)
- Hemofarm Koncern - Zorka Pharma A.D., Sabac, Serbia (77.98%)
- Hemofarm Russia d.o.o., Obninsk, Russia
- Hemofarm S.R.L., Temisvar, Rumania
- Hemomont d.o.o., Podgorica, Montenegro (71.02%)
- Hemopharm Engineering GmbH, Bad Homburg, Germany
- Hemopharm GmbH, Bad Homburg, Germany
- Hemovet - Symbiofarm d.o.o., Belgrade, Serbia
- Multivita d.o.o., Vrsac, Serbia
- Panfarma d.o.o., Belgrade, Serbia
- Pharmasuisse A.G., Chur, Switzerland
- Oy STADA Pharma Ab, Helsinki, Finland
- STADA Production Ireland Ltd., Clonmel, Ireland

In accordance with § 313 (2) 1-4 and (3) of the German Commercial Code (HGB) the following disclosures concerning the share ownership of STADA Arzneimittel AG are made[1]:

Direct investments of STADA Arzneimittel AG

Name of the company, registered office	Share in capital
BIOCEUTICALS Arzneimittel AG, Bad Vilbel, Germany	14.99%
STADA R&D GmbH, Bad Vilbel, Germany	100%
Bepha Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel, Germany	100%
STADA Pharma International GmbH, Bad Vilbel, Germany	100%
LIFE TRANS Pharma Vertriebs GmbH, Bad Vilbel, Germany	100%
STADA GmbH, Bad Vilbel, Germany	100%
STADApharm GmbH, Bad Vilbel, Germany	100%
Uzara-Werk GmbH - Pharmazeutika, Bad Vilbel, Germany	100%
STADA Verwaltungs GmbH, Bad Vilbel, Germany	100%

Name of the company, registered office	Share in capital
STADA Service Holding B.V., Etten-Leur, The Netherlands	100%
Eurogenerics S.A., Brussels, Belgium	100%
AAXL Pharma S.A., Brussels, Belgium	80%
EG Labo SAS - Laboratoires Eurogenerics, Paris, France	100%
STADA Pharmaceuticals (Asia) Ltd., Hong Kong, China	100%
Clonmel Healthcare Ltd., Clonmel, Ireland	100%
STADA Arzneimittel Ges.m.b.H., Vienna, Austria	100%
Oy STADA Pharma Ab, Helsinki, Finland	100%
STADApharm AS, Oslo, Norway	100%
EG S.p.A., Milan, Italy	98.5%
Crinos S.p.A., Milan, Italy	96.77%
Laboratorio STADA SL, Barcelona, Spain	100%
Ciclum Farma, Unipessoal, LDA, Amadora, Portugal	100%
JSC Nizhpharm, Nizhny Novgorod, Russia	99.58%
Hemofarm A.D., Vrsac, Serbia	100%

1) The results of the single financial statements under local law are influenced by intercompany trade accounts. Equity is always shown at 100%, even if the share in capital is lower.

Indirect investments of STADA Arzneimittel AG through BEPHA Beteiligungsgesellschaft für Pharmawerte mbH of at least 20%:

Name of the company, registered office	Share in capital
ALIUD PHARMA GmbH & Co. KG, Laichingen, Germany	100%
ALIUD PHARMA Verwaltungs-Ges.mbH, Laichingen, Germany	100%
cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Bad Vilbel, Germany	100%
Eurovax GmbH, Bad Vilbel, Germany	100%
TAXON Arzneimittel GmbH, Hanover, Germany	100%
IIP Institut für industrielle Pharmazie Forschungs- und Entwicklungsgesellschaft mbH[1], Aschaffenburg, Germany	25%

Name of the company, registered office	Share in capital
Health Vision Enterprise Ltd., Hong Kong, China	51%
Croma Medic Inc., Manila, Philippines	100%
STADA Asiatic Co., Ltd., Bangkok, Thailand	60%
BIOLINE Naturmedizin Ges.mbH[2], Vienna, Austria	100%
PharmaCoDane ApS, Copenhagen, Denmark	100%
EG S.p.A., Milan, Italy	1.5%
Crinos S.p.A., Milan, Italy	3.23%

Indirect investments of STADA Arzneimittel AG through ALIUD PHARMA GmbH & Co. KG of at least 20%:

Name of the company, registered office	Share in capital
ALIUD PHARMA GmbH & Co. KEG, Vienna, Austria	100%
ALIUD PHARMA Verwaltungs-Ges.m.b.H., Vienna, Austria	100%
ALIUD PHARMA CZ, s.r.o., Prague, Czech Republic	100%
LETTER SHOP AKURAT, s.r.o.[3], Prague, Czech Republic	20%
Zimmer AL Data GmbH, Neu-Ulm, Germany	30%

Indirect investments of STADA Arzneimittel AG through ALIUD PHARMA CZ s.r.o. of at least 20%:

Name of the company, registered office	Share in capital
LETTER SHOP AKURAT, s.r.o.[4], Prague, Czech Republic	80%

Indirect investments of STADA Arzneimittel AG through Health Vision Enterprise Ltd. of at least 20%:

Name of the company, registered office	Share in capital
Jetwin International Investment Ltd.[5], Hong Kong, China	100%

1) (Share capital) equity: € 1,912 thousand, result 2006: € 1,175 thousand (under local law).
2) Currently under liquidation.
3) (Share capital) equity: CZK -2,024 thousand, result 2006: CZK -1,030 thousand (under local law).
4) (Share capital) equity: CZK -2,024 thousand, result 2006: CZK -1,030 thousand (under local law).
5) (Share capital) equity: HKD 11 thousand, result 2006: HKD -4 thousand (under local law).

Indirect investments of STADA Arzneimittel AG through Bepha Beteiligungsgesellschaft für Pharmawerte mbH and Crinos S.p.A. of at least 20%:

Name of the company, registered office	Share in capital
Boniscontro & Gazzone Srl, Milan, Italy	100%

Indirect investments of STADA Arzneimittel AG through STADA GmbH of at least 20%:

Name of the company, registered office	Share in capital
STADA Medical GmbH, Bad Vilbel	100%

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. of at least 20%:

Name of the company, registered office	Share in capital
Centrafarm Nederland B.V., Etten-Leur, The Netherlands	100%
Quatropharma Holding B.V., Breda, The Netherlands	100%
Healthypharm B.V., Breda, The Netherlands	100%
Centrafarm Pharmaceuticals B.V., Etten-Leur, The Netherlands	100%
Centrafarm Services B.V., Etten-Leur, The Netherlands	100%
Alphacen N.V., Etten-Leur, The Netherlands	100%
Bethacen N.V., Etten-Leur, The Netherlands	100%
Cellpharm B.V., Etten-Leur, The Netherlands	100%
Centad B.V., Etten-Leur, The Netherlands	100%
Centrachemie B.V., Etten-Leur, The Netherlands	100%
Directie Maatschappij Centrafarmacie B.V., Etten-Leur, The Netherlands	100%
Intercen Holding N.V., Etten-Leur, The Netherlands	100%
Gammacen N.V., Etten-Leur, The Netherlands	100%
Reerink B.V., Etten-Leur, The Netherlands	100%

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. and Quatropharma Holding B.V. of at least 20%:

Name of the company, registered office	Share in capital
Centrafram B.V., Etten-Leur, The Netherlands	100%
Quatrosyst B.V., Etten-Leur, The Netherlands	100%

Indirect investments of STADA Arzneimittel AG through Eurogenerics S.A. of at least 20%:

Name of the company, registered office	Share in capital
AAXL Pharma S.A., Brussels, Belgium	20%

Indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd. of at least 20%:

Name of the company, registered office	Share in capital
STADA Import/Export Ltd., Tortola, British Virgin Islands	50%
STADA-VN JOINT VENTURE CO., LTD., Ho Chi Minh City, Vietnam	50%
Datapharm Company Ltd.[1], Tortola, British Virgin Islands	50%
STADA Pharmaceuticals (Beijing) Ltd., Beijing, China	75%
CIG (Hong Kong) Ltd.[2], Hong Kong, China	70%

Indirect investments of STADA Arzneimittel AG through Clonmel Healthcare Ltd. of at least 20%:

Name of the company, registered office	Share in capital
Genus Pharmaceuticals Holdings Ltd., Newbury, United Kingdom	100%
Crosspharma Ltd., Belfast, United Kingdom	100%
STADA Production Ireland Ltd., Clonmel, Ireland	100%
SFS International Ltd., Clonmel, Ireland	100%
STADA Financial Investments Ltd., Clonmel, Ireland	100%
STADApharm AB, Malmö, Sweden	100%
STADA Finland Oy[3], Helsinki, Finland	100%

Indirect investments of STADA Arzneimittel AG through Clonmel Healthcare Ltd. and Genus Pharmaceuticals Holdings Ltd. of at least 20%:

Name of the company, registered office	Share in capital
Genus Pharmaceuticals Ltd., Newbury, United Kingdom	100%

Indirect investments of STADA Arzneimittel AG through Crinos S.p.A. of at least 20%:

Name of the company, registered office	Share in capital
Boniscontro & Gazzone Srl, Milan, Italy	100%

1) (Share capital) equity: USD 2,721 thousand, result 2006: USD 2,515 thousand (under local law).
2) (Share capital) equity: HKD -186 thousand, result 2006: HKD -129 thousand (under local law).
3) Currently under liquidation.

Indirect investments of STADA Arzneimittel AG through OJSC Nizhpharm of at least 20%:

Name of the company, registered office	Share in capital
Nizhpharm-Ukraine Ltd.[1], Kiev, Ukraine	100%
UAB STADA-Nizhpharm-Baltija, Wilna, Lithuania	100%
Nizhpharm-Kazakhstan Ltd., Almaty, Kazakhstan	100%
OJSC Promis[2], Nizhny Novgorod, Russia	100%
FPI-Tashkent[3], Tashkent, Uzbekistan	100%

Indirect investments of STADA Arzneimittel AG through Laboratorio STADA SL of at least 20%:

Name of the company, registered office	Share in capital
STADA Genericos S.L.[4], Barcelona, Spain	100 %
Ciclum S.L.[5], Barcelona, Spain	100 %

Indirect investments of STADA Arzneimittel AG through Hemofarm A.D. of at least 20%:

Name of the company, registered office	Share in capital
Hemopharm GmbH, Bad Homburg, Germany	100%
Hemopharm Engineering GmbH, Bad Homburg, Germany	100%
Hemomont d.o.o., Podgorica, Montenegro	71.02%
Hemofarm Russia d.o.o., Obninsk, Russia	100%
Hemofarm S.R.L., Temisvar, Rumania	65.97%
Pharmasuisse A.G., Chur, Switzerland	100%
Hemofarm Komerc d.o.o., Skoplje, Macedonia	99.18%
Hemofarm Banja Luka d.o.o., Banja Luka, Bosnia-Herzegovina	79.81%
Intertref d.o.o., Vrsac, Serbia	100%
Hemofarm Inzenjering d.o.o., Belgrade, Serbia	100%
Agrovojvodina Vrsac A.D., Vrsac, Serbia	62.81%
Hemofarm Koncern – Zorka Pharma A.D., Sabac, Serbia	77.98%
Multivita d.o.o., Vrsac, Serbia	100%
Panfarma d.o.o., Belgrade, Serbia	100%
Čajavec - Sistemi Upravljanja, Banja Luka, Bosnia-Herzegovina	67.27%
Hemofarm Arabia Ltd.[6][7], Damaskus, Syria	50%
Hemofarm USA Corporation[6][8], Washington, USA	100%
Velefarm A.D.[9], Belgrade, Serbia	29.57%
Vetfarm A.D., Belgrade, Serbia	15%

1) Name of the company has been translated from Cyrillic into English.
2) (Share capital) equity: RUB 47,637 thousand, result 2006: RUB 10,147 thousand (under local law).
3) (Share capital) equity: UZS -15,488 thousand, result 2006: UZS -155,708 thousand (under local law).
4) (Share capital) equity: € 3 thousand, result 2006: € 2 thousand (under local law).
5) (Share capital) equity: € 2 thousand, result 2006: € 0.4 thousand (under local law).
6) Currently under liquidation.
7) (Share capital) equity: USD 100 thousand, result 2006: RSD 0 thousand (under local law).
8) (Share capital) equity: USD 10 thousand, result 2006: RSD 0 thousand (under local law).
9) (Share capital) equity: RSD 43,332 thousand, result 2006: RSD 27,224 thousand (under local law).

Indirect investments of STADA Arzneimittel AG through Hemofarm A.D. and Hemofarm Inzenjering d.o.o. of at least 20%:

Name of the company, registered office	Share in capital
Dehidrator A.D., Vrsac, Serbia	69.33%
OOO Hemofarm Inzenjering Obninsk, Obninsk, Russia	100%

Indirect investments of STADA Arzneimittel AG through Hemofarm A.D. and Hemofarm Inzenjering d.o.o. and Dehidrator A.D. of at least 20%:

Name of the company, registered office	Share in capital
Izgradnja d.o.o., Vrsac, Serbia	60%

Indirect investments of STADA Arzneimittel AG through Hemofarm A.D. and Hemofarm Koncern – Zorka Pharma A.D. of at least 20%:

Name of the company, registered office	Share in capital
Hemovet - Symbiofarm d.o.o., Belgrade, Serbia	100%
Zorka Pharma - Hemija Sabac d.o.o., Sabac, Serbia	100%

In the third quarter of 2006, STADA acquired 100% of the shares in Hemofarm A.D. within the framework of a public takeover offer as well as the so-called squeeze out procedure which followed. Over the course of the fiscal year 2006, STADA paid a total of € 496.4 million for the acquisition of the shares including capitalized incidental expenses. At the time of initial consolidation, the Hemofarm Group's substantial assets and liabilities are as follows:

in € million	Carrying amount before purchase price allocation	Purchase price allocation	Carrying amounts after purchase price allocation
Non-current assets	161.6	–	389.4
thereof goodwill	0.6	–	0.6
thereof intangible assets	17.9	198.3	216.2
thereof property, plant and equipment	128.3	29.5	157.8
Current assets	169.4	–	169.4
thereof inventories	60.5	–	60.5
thereof trade accounts receivable	84.2	–	84.2
Non-current liabilities and provisions	65.1	–	65.1
thereof financial liabilities	58.8	–	58.8
Current liabilities and provisions	79.7	–	79.7
thereof financial liabilities	18.9	–	18.9

Remaining goodwill after purchase price allocation thus is € 138.0 million.

On August 21, 2006, STADA sold the wholly-owned subsidiaries STADA Inc. and STADA Pharmaceuticals Inc., both Cranbury, New Jersey, USA to DAVA. Both companies were no longer included in the scope of consolidation of the STADA Group as of the date of the sale. A selling loss of € 12.0 million thus arose, which is stated in a separate line of the consolidated income statement below the operating profit. Thereby, after the originally provided payment modalities were adjusted, DAVA has paid STADA US-$ 0.8 million on the closing date.

Furthermore, as of June 30, 2006, STADA retroactively sold its 50% stake in the Suisse generics supplier Helvepharm AG, Frauenfeld, Switzerland, and at the same time no longer included it in the scope of consolidation of the STADA Group. The book profit which results from this sale thereby amounts to approx. € 1.0 million before taxes.

In the period between the initial consolidation on August 1, 2006 and its sale on October 27, 2006 Hemovet d.o.o., Novi Sad, Serbia was consolidated in the STADA Group.

Due to insignificance the companies ALIUD PHARMA GmbH & Co. KEG and ALIUD PHARMA Verwaltungs-Ges.m.b.H., both Vienna, Austria were no longer included in the scope of consolidation in fiscal year 2006.

The consolidated balance sheet as of December 31, 2006 was impacted in the reporting year 2006 by changes in the scope of consolidation as follows:

in € million	Effected by initial consolidation
Non-current assets	533.4
thereof intangible assets	362.4
thereof property, plant and equipment	156.5
Current assets	200.0
thereof inventories	57.7
thereof trade accounts receivable	109.6
Non-current liabilities and provisions	82.2
thereof financial liabilities	54.2
Current liabilities and provisions	81.4
thereof financial liabilities	45.4

in € million	Influenced by deconsolidation
Non-current assets	18.8
thereof intangible assets	18.2
thereof property, plant and equipment	0.6
Current assets	27.2
thereof inventories	14.8
thereof trade accounts receivable	8.7
Non-current liabilities and provisions	0.5
thereof financial liabilities	0.5
Current liabilities and provisions	13.3
thereof financial liabilities	–

1.3. Principles of consolidation

STADA Arzneimittel AG's consolidated financial statements have been prepared in accordance with the accounting standards of 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 financial reporting and evaluation policies.

Equity is consolidated in accordance with IFRS 3 using the purchase method, under which 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.

Joint venture companies are proportionately consolidated in accordance with IAS 31 (Financial Reporting of Interests in Joint Ventures). These include Health Vision Enterprise Ltd. of Hong Kong, STADA Import/Export Ltd., British Virgin Islands and STADA-VN JOINT VENTURE CO., LTD., Vietnam as well as until June 30, 2006 Helvepharm AG of Switzerland.

Subsidiaries and joint venture companies, whose influence on business, financial condition and results of operations is insignificant, are not consolidated. These are recognized at fair value, which usually corresponds to amortized cost. This is also applicable to equity interests. Non-consolidated companies jointly account for less than 1% of Group sales.

1.4. Changed accounting policies

STADA decided to follow the IASB's recommendation for the accounting of IAS 19 and to use of the option which permits to immediately recognize actuarial gains and losses from performance oriented pension benefits with no effect on profit and loss. An overview on all income and expenses recognized in equity is included in the statement of recognized income and expenses. Due to the changed financial reporting in accordance with IAS 19, STADA now shows the statement of changes in equity, which up to now had been an independent section of the Group financial statements, within the Notes in the presentation of equity.

In the fourth quarter of 2006, STADA changed its segment reporting so that the former core segment Specialty Pharmaceuticals is no longer disclosed separately and therefore was allocated to the core segments Generics and Branded Products with their respectively updated definitions. The figures for the previous year were adjusted accordingly (see 5). The secondary segment reporting is not affected by this change.

1.5. 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".

Essential currency relations

	Middle rate on Dec. 31 in €		Average rate for the calendar year in €	
Exchange rate to €	2006	Previous year	2006	Previous year
Pound sterling	1.48943	1.45560	1.46679	1.46297
Russian ruble	0.02921	0.02944	0.02943	0.02857
Serbian dinar	0.01264	–	0.01188	–
US dollar	0.75867	0.84502	0.79251	0.80891

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 6.3.

Annual financial statements of subsidiaries prepared in foreign currencies are translated in accordance with IAS 21, Effects of Changes in Foreign Exchange Rates, using the functional currency concept. 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.

1.6. Use of estimates

In preparing the consolidated financial statements, there is a strictly limited need to estimate certain items. The main areas of application for estimates are the determination of the useful life of assets from non-current assets, the measuring of discounted cash flows in the scope of impairment tests and the creation of provisions for ongoing legal procedures, retirement benefits and corresponding disclosures, taxes, inventory valuations, discounts, returns, product liability and warranties. STADA's estimates are respectively based on experience and other assumptions which are considered to be applicable in the particular circumstances. The actual values can – although the estimates are constantly reviewed – differ from the estimates.

Due to changed estimates, a change of the initially carried out price allocation of now € 3.9 million resulted in 2006 for Ciclum Farma, Unipessoal, LDA consolidated since May 2005. Goodwill remaining after purchase price allocation thus is € 24.3 million (previous year: € 17.8 million).

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	2006	Previous year
Sales	1,245,050	1,022,059

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 assess 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	2006	Previous year
Cost of sales	618,841	509,521

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	2006	Previous year
Gross profit	626,209	512,538

2.4. Other operating income

in € 000s	2006	Previous year
Income from reductions of valuation allowances and similar income	701	57
Income from disposal of non-current assets	10,225	387
Income from the market valuation and sale of current and non-current securities	–	247
Currency translation gains	16,740	1,367
Revenues from reinsurance	922	1,073
Income from the reversal of provisions	95	794
Compensation for lost product margins	5,392	1,550
Earnings from sales tax for corrections in the previous years	–	3,068
Remaining other operating income	19,526	9,795
Total	53,601	**18,338**

The currency translation gains include an amount of € 14,671 thousand from the balance sheet valuation of the Euro credit liabilities of the Hemofarm Group.

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. Moreover, income from disposal of non-current assets contains book profit from sales of companies no longer included in the scope of consolidation (see 1.2.) in the total amount of € 3.2 million as well as book profit from the sale of two brand products with the active ingredient defibrotide in Italy in the amount of € 6.5 million.

2.5. Selling expenses

in € 000s	2006	Previous year
Selling expenses	323,208	271,400

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 cost of sales.

2.6. General and administrative expenses

in € 000s	2006	Previous year
General and administrative expenses	90,995	69,657

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	2006	Previous year
Research and development expenses	32,156	30,716

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 2006 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.

2.8. Other operating expenses

in € 000s	2006	Previous year
Value adjustment of accounts receivable and similar expenses	6,181	4,829
Losses on the disposal of non-current assets	748	554
Currency translation expenses	16,117	840
Unscheduled depreciation on non-current assets	11,099	13,478
Unscheduled depreciation on goodwill	2,670	–
Compensation payments	1,900	–
Remaining other operating expenses	14,272	12,282
Total	52,987	31,983

The currency translation expenses include an amount of € 13,660 thousand, which results from valuation effects from export receivables of the Hemofarm Group in Euro and US dollar.

The remaining other operating expenses contain non-recurring personnel expenses of € 2,613 thousand (previous year: € 5,832 thousand).

2.9. Operating profit

in € 000s	2006	Previous year
Operating profit	180,464	127,120

2.10. Closing of the US activities

in € 000s	2006	Previous year
Closing of the US activities	-12,045	0

On August 21, 2006, STADA Arzneimittel AG and DAVA Pharmaceuticals Inc., New Jersey, USA, executed a contract which was concluded on July 13, 2006 for the sale of all shares of the wholly-owned subsidiary STADA Inc., Cranbury, New Jersey, USA to DAVA.

Thereby, after the originally provided payment modalities were adjusted when the contract was exercised, DAVA has now paid STADA US-$ 0.8 million on the closing date. Due to the complex mechanisms with regard to the purchase price adjustments and the dependence of the first payment on the final balance sheet at the date of the sale, there is, at the moment, no final determination of the first purchase price installment. An additional claim of the buyer was met in the third quarter of 2006 by means of a balance sheet adjustment of the purchase price receivable via a provision.

The agreement also calls for additional, staggered payments of the purchase price until 2009 which are covered by bank guarantees and which amount to US-$ 15 million after 18 months and, finally, US-$ 20 million after 36 months.

Against this backdrop, in fiscal 2006, STADA thus shows a selling loss from the deconsolidation of the US business of € 12.0 million before taxes or € 6.3 million after taxes.

2.11. Closing of the LipoNova/Reniale® project

in € 000s	2006	Previous year
Closing of the LipoNova/Reniale® project	–	-20,311

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 equity interest in the former 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.

2.12. Investment income

in € 000s	2006	Previous year
Investment income	250	251

This relates to profit distributions from unconsolidated equity holdings.

2.13. Interest result

in € 000s	2006	Previous year
Other interest and similar income	5,544	2,603
Interest and similar expenses	29,055	12,147
Interest result	**-23,511**	**-9,544**

Up to their repayment in June 2005 interest and similar expenses include interest on the convertible bond in the amount of € 2,750 thousand.

2.14. Financial result

in € 000s	2006	Previous year
Investment income	250	251
Interest result	-23,511	-9,544
Financial result	**-23,261**	**-9,293**

In fiscal year 2006, the Group refinanced itself at interest rates between 3.2% and 6.2%. On the balance sheet date of December 31, 2006, the weighted average interest rate for nun-current liabilities was approx. 4.5% and for current liabilities approx. 4.3%.

2.15. Earnings before taxes

in € 000s	2006	Previous year
Earnings before taxes	145,158	97,516

Earnings before taxes includes depreciation and amortization of € 63,903 thousand (previous year: € 54,130 thousand) and € 187,720 thousand in personal expenses (previous year: € 160,392 thousand).

2.16. Taxes on income

in € 000s	2006	Previous year
Taxes within the accounting period	52,564	43,222
Taxes outside of the accounting period, net	131	2,279
Taxes on income	52,695	**45,501**
Taxation ratio	36.3%	**46.7%**

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".

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, 2006 reporting date amount to € 8,814 thousand. Deferred taxes in the amount of approx. € 1.2 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.

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."

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

in € 000s	Dec. 31, 2006 Deferred tax assets	Dec. 31, 2006 Deferred tax liabilities	Dec. 31, 2005 Deferred tax assets	Dec. 31, 2005 Passive tax liabilities
Intangible assets	478	52,383	1,352	31,134
Property, plant and equipment	1,335	7,828	5	4,635
Financial assets	177	19	177	22
Inventories	7,542	1,998	5,597	1,370
Receivables	261	1,827	180	888
Other assets	146	355	152	1
Pension provisions	3,129	0	1,238	0
Other provisions	1,836	207	1,085	0
Liabilities	802	0	679	3
Tax loss carryforwards	1,072	0	1,823	0
Offsetting	-3,375	-3,375	-906	-906
Total deferred taxes	13,403	61,242	**11,382**	**37,147**

As the following reconciliation shows, the actual Group tax charge for fiscal year 2006 was greater than the tax charge calculated solely by applying the appropriate tax rates to domestic and foreign Group companies:

in € million	2006	Previous year
Earnings before taxes	145.2	97.5
Tax rate for all domestic and international companies based on the respective tax rates	32.2%	37.4%
Theoretical tax expense	46.8	36.5
Tax effects due to application of IAS 12.34 (use of tax losses carried forward)	0.7	2.8
Taxes outside of the accounting period	0.2	2.3
Tax effects due to non-deductible expenses and other items	5.0	3.9
Actual tax expense shown on the income statement	52.7	45.5
Actual taxation ratio	36.3%	46.7%

In 2006, a rotational tax audit of STADA Arzneimittel AG for the fiscal years 1999 until 2002 was completed. The results thereof were included in the balance sheet as of December 31, 2006.

2.17. Net income

in € 000s	2006	Previous year
Net income	92,463	52,015

2.18. Net income distributable to shareholders of STADA Arzneimittel AG

in € 000s	2006	Previous year
Net income distributable to shareholders of STADA Arzneimittel AG	91,833	51,583

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.

2.19. Net income relating to minority interests

in € 000s	2006	Previous year
Net income relating to minority interests	630	432

Minority interests for the fiscal year 2006 reflect the shares of other partners in the companies of the Hemofarm Group, STADA Asiatic and Nizhpharm as well as minority interest profit within the Hemofarm Group.

2.20. Earnings per share

Earnings per share	2006	Previous year
Net income distributable to shareholders of STADA Arzneimittel AG in € 000s	91,833	51,583
Average number of shares	53,983,327	53,317,303
Earnings per share in €	1.70	0.97

Non-diluted 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 own shares. The number of shares increased in 2006 due to the exercise of warrants.

2.21. Diluted earnings per share

Diluted earnings per share	2006	Previous year
Net income distributable to shareholders of STADA Arzneimittel AG in € 000s	91,833	51,583
Average number of shares	53,983,327	53,317,303
Potentially diluting shares from warrant 00/15 (ISIN DE0007251845)	2,568,772	3,600,980
Average number of shares (incl. potentially diluting shares from warrant 00/15)	56,552,099	56,918,283
Diluted earnings per share in €	1.62	0.91

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 own shares and adjusted for the effect of still outstanding warrants, taking into account the share price at the reporting date. It is assumed that all warrants potentially affecting dilution would be exercised.

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

3.1. Intangible assets

Intangible assets in € 000s	Concessions, patents, licences and similar rights	Goodwill	Advance payments	Total
Accumulated cost as of Jan. 1, 2006	**526,564**	**158,879**	**82,111**	**767,554**
Currency translation difference	-204	-82	-352	-638
Changes in the scope of consolidation	192,616		-4,736	187,880
Additions	22,841	145,038	29,069	196,948
Disposals	18,208		804	19,012
Reclassifications	7,191	6,454	-13,645	0
Accumulated cost as of Dec. 31, 2006	**730,800**	**310,289**	**91,643**	1,132,732
Accumulated amortization as of Jan. 1, 2006	**127,905**	**18,364**	**9,080**	**155,349**
Currency translation difference	157	-4	-4	149
Changes in the scope of consolidation	-11,653			-11,653
Straight-line amortization in the reporting year	33,785			33,785
Impairment losses in the reporting year	5,397	2,670	5,702	13,769
Disposals	3,120		222	3,342
Accumulated amortization as of Dec. 31, 2006	**152,471**	**21,030**	**14,556**	188,057
Net book value as of Dec. 31, 2006	**578,329**	**289,259**	**77,087**	944,675

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 € 11,099 thousand occurred.

Goodwill reported under "intangible assets" in the consolidated financial statements amounting to € 289,259 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 year 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 10.3% (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 2006, goodwill write-downs due to the impairment tests which were carried out amounted to € 2,670 thousand.

Development costs of € 7,219 thousand were capitalized in fiscal year 2006 (previous year: € 3,763 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.

In addition, costs in the amount of € 8.9 million were capitalized in fiscal year 2006 for the introduction of SAP software at the Group's headquarters in Bad Vilbel.

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 equipment	Advance payments and construction in progress	Total
Accumulated cost as of Jan. 1, 2006	**61,519**	**58,061**	**41,057**	**4,867**	165,504
Currency translation difference	-140	-199	-111	-31	-481
Changes in the consolidated Group	98,215	86,435	-706	26,581	210,525
Additions	4,344	8,492	6,110	7,485	26,431
Disposals	369	244	1,975	55	2,643
Reclassifications	15,617	774	2,016	-18,407	0
Accumulated cost as of Dec. 31, 2006	**179,186**	**153,319**	**46,391**	**20,440**	399,336
Accumulated depreciation as of Jan. 1, 2006	**16,525**	**31,644**	**22,795**	**0**	70,964
Currency translation difference	87	177	-45		219
Changes in the consolidated Group	19,876	33,196	-331		52,741
Straight-line depreciation	3,669	8,083	4,597		16,349
Disposals	2	122	1,164		1,288
Accumulated depreciation as of Dec. 31, 2006	**40,155**	**72,978**	**25,852**	**0**	138,985
Net book value as of Dec. 31, 2006	**139,031**	**80,341**	**20,539**	**20,440**	260,351

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, impairment losses 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 interests available-for-sale	Loans against remaining equity interests	Other loans	Total
Accumulated cost as of Jan. 1, 2006	**32,685**	**0**	**60**	32,745
Currency translation differences	-1			-1
Changes in the scope of consolidation	11,953			11,953
Additions	12,965			12,965
Disposals	17,668		20	17,688
Accumulated cost as of Dec. 31, 2006	**39,934**	**0**	**40**	39,974
Accumulated amortization as of Jan. 1, 2006	**43**	**0**	**0**	43
Disposals	-904			-904
Accumulated amortization as of Dec. 31, 2006	**947**	**0**	**0**	947
Net book value as of Dec. 31, 2006	**38,987**	**0**	**40**	39,027

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, financial assets (equity interests) were assigned a carrying amount of € 38,987 thousand as of December 31, 2006. All remaining financial assets (total carrying amount: € 40 thousand; previous year: € 60 thousand) are also recorded at acquisition costs.

3.4. Non-current trade accounts receivable

in € 000s	Dec. 31, 2006	Previous year
Trade accounts receivable from third parties	1,002	1,065

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 interests consolidated pro rata.

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

in € 000s	Dec. 31, 2006	Previous year
Receivables due from the authorities	19	37
Other	36,195	31,875
Total	**36,214**	**31,912**

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

3.6. Deferred tax assets

in € 000s	Dec. 31, 2006	Previous year
Deferred tax assets	12,331	9,559
Deferred tax assets in accordance with IAS 12.34	1,072	1,823
Total	**13,403**	**11,382**

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 accounted 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, 2006	Previous year
Raw and auxiliary materials and manufacturing supplies	52,374	24,607
Work in progress	10,336	10,640
Finished goods	229,881	186,829
Advance payments to suppliers	3,019	1,966
Total	**295,610**	**224,042**

Inventories are measured at costs. As required by IAS 2, the costs 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 € 8,379 thousand (previous year: € 18,670 thousand). Inventory costs are calculated based on weighted average costs. Write-downs on inventories at the balance sheet date amount to € 10,098 thousand (previous year: € 10,153 thousand) and are already reflected in the carrying amount of € 295,610 thousand.

3.8. Current trade accounts receivable

in € 000s	Dec. 31, 2006	Previous year
Trade accounts receivable from third parties	364,891	224,185
Trade accounts receivable from non-consolidated Group companies	2,128	8,375
Value adjustments vis-à-vis third parties	-11,956	-2,306
Total	**355,063**	**230,254**

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, 2006	Previous year
Receivables due from the tax authorities	17,270	11,908
Prepaid expenses/deferred charges	9,797	10,161
Other	48,349	16,833
Total	**75,416**	**38,902**

3.10. Current securities

in € 000s	Dec. 31, 2006	Previous year
Current securities	33	13

Current securities exclusively comprise those classified as “held-to-maturity“.

3.11. Cash and cash equivalents

in € 000s	Dec. 31, 2006	Previous year
Checks, cash and bank balances	129,429	72,756

“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. Consolidated Statement of Changes in Shareholders' equity

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

2006	Number of common shares	Share capital	Capital reserve
Balance as of Dec, 31, 2006	**58,256,400**	**151,467**	**457,608**
Dividend payment of STADA Arzneimittel AG			
Capital increase from warrant 2000/2015 of STADA Arzneimittel AG	4,756,100	12,366	65,872
Changes in retained earnings (own shares)			
Appropriations of retained earnings			
Changes in the minority interests in profit carried forward from Nizhpharm OJSC and Croma Medic			
Disolution of reserves for fair value assessment and cash flow hedges			
Changes in provisions for payments to employees in accordance with IAS 19			
Currency translation differences			
Changes from consolidation procedures			133
Net income 2006[2)]			
Reclassification of minority interests in net income 2006			
Balance as of Jan, 1, 2006	**53,500,300**	**139,101**	**391,603**
Previous year			
Balance as of Dec, 31, 2005	**53,500,300**	**139,101**	**391,603**
Dividend payments of STADA Arzneimittel AG			
Capital increase from warrant 2000/2015 of STADA Arzneimittel AG	109,480	285	1,516
Changes in retained earnings (own shares)			
STADA Arzneimittel AG reinvestment			
Disolution of reserves for fair value assessment and cash flow hedges			
Changes in provisions for payments to employees in accordance with IAS 19			
Currency translation differences			
Changes due to consolidation			
Net income 2005[2)]			
Reclassification of minority interests in net income 2005			
Balance as of Jan, 1, 2005	**53,390,820**	**138,816**	**390,087**

1) As of fiscal year 2006, currency translation differences included in unappropriated retained earnings are reported in the separate column "currency translation differences". The figures for the previous year were adjusted accordingly. As of fiscal year 2006, actuarial gains and losses for employee benefits according to IAS 19 are recognized in shareholders' equity with no effect on income and reported in a separate column. The actuarial results included in the figure for the previous year as well as in the balance carried forward as of January 1, 2005 were also reclassified.

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

Retained earnings	Unappropriated retained earnings[1)]	Currency translation difference[1)]	Provisions for Fair value assessment and cash flow hedges	Provisions for payments to employees in accordance with IAS 19[1)]	Minority interest	Total shareholders' equity
35,044	186,235	19,966	441	-7,334	19,659	863,086
	-20,818					-20,818
						78,238
	-1,446					-1,446
-15,000	15,000					0
	828				-828	0
			441			441
				-3,176		-3,176
		14,653				14,653
	202				17,585	17,920
	92,463					92,463
	-630				630	0
50,044	100,636	5,313	0	-4,158	2,272	684,811
50,044	100,636	5,313	0	-4,158	2,272	684,811
	-20,775					-20,775
						1,801
	383					383
8,000	-8,000					0
			1,676			1,676
	1,237			-1,237		0
		8,865				8,865
	108				1,743	1,851
	52,015					52,015
	-432				432	0
42,044	76,100	-3,552	-1,676	-2,921	97	638,995

3.13. Share capital

As of the balance sheet date, share capital consisted of 58,256,400 common shares, each with an arithmetical par value of € 2.60 (prior year: 53,500,300). These are, without exception, registered shares which, pursuant to the articles of incorporation, can only be transferred to the share registry with the approval of the company and which, in accordance with the articles of incorporation, grant one vote each in the Annual Shareholders' Meeting. Shareholders are only those who are registered as such in the share registry and only such persons are authorized to participate in the Annual General Meeting and to exercise voting rights.

The repeated increase in the number of shares over the course of 2006 was entirely due to the continuing exercise of options from STADA warrants 2000/2015. The number of shares as of December 31, 2006 thereby increased by 4,756,100 to 58,256,400 and the company's share capital of STADA Arzneimittel AG increased by € 12,365,860.00 to € 151,466,640.00. Therefore, as of December 31, 2006, 206,691 warrants 2000/2015 for the subscription of 4,133,820 STADA common shares were still outstanding. Thus, in the reporting year 2006, 237,805 warrants were exercised in total. In the first quarter of the current fiscal year 2007, another 4,106 warrants were exercised by March 1, 2007. The number of shares has thereby risen by 82,120 to 58,338,520 and share capital increased by € 213,512 to € 151,680,152. Therefore, as of March 1, 2007, 202,585 warrants 2000/2015 for the subscription of 4,051,700 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 can thus be excluded in the following cases: (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, 186 (3) 4 of the German Stock Corporation Act (AktG) and (c) in the case of capital in-creases 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 equity interests in companies. The Executive Board has not made use of this authorization to date.

The Annual Shareholders Meeting of June 14, 2006, authorized STADA to purchase and use own shares until December 14, 2007. So far, STADA has not made use of the purchase authorization and only used the authorization to sell to employees within the scope of employee stock option program. As of the reporting date, the Company held 117,346 own shares, each with an arithmetical par value of € 2.60, which is equivalent to 0.20% of the share capital. As of December 31, 2005, STADA held 119,915 of its own shares. In 2006, STADA did not purchase any of its own shares, and sold 2,569 of its own shares at an average price of € 33.38.

Thus, as of the balance sheet date on December 31, 2006, after deducting non-voting own shares, a total of 58,139,054 restricted registered STADA common shares issued are entitled to vote (previous year: 53,380,385 voting common shares).

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

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.

3.14. 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 40.1% existed at the balance sheet date, December 31, 2006 (previous year: 50.7%).

3.15. Minority interests

Minority interests refer to the companies within the Hemofarm Group as well as the companies JSC Nizhpharm and STADA Asiatic Co., Ltd.

3.16. Non-current provisions

Provisions for pensions and similar obligations in € 000s	Dec. 31, 2006	Previous year
Pension provisions[1)]	22,203	15,489
Provisions for pensions and similar obligations	6,027	1,873
Total	**28,230**	**17,362**

The revision of IAS 19 by the IASB in December 2004 created an additional option for the accounting party to treat actuarial gains or losses. In accordance with IAS 19.93, since January 1, 2005, actuarial gains and losses can also be reported under shareholders' equity with no effect on income. In 2006, STADA made use of this recommendation for the first time. This change significantly increases the transparency of reporting overall and the comparability with other annual financial statements of comparable companies. The amounts recognized with no effect on income are thereby disclosed in a separate statement of all income and expenses recognized in equity.

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 € 378 thousand (previous year: € 392 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, 2006	Previous year
Change in projected benefit obligations		
Balance as of Jan. 1	15,881	13,009
Service cost	621	465
Interest cost	800	730
Actuarial gain (-) / loss (+)	5,879	2,061
Benefits paid	-600	-384
Balance as of Dec. 31	22,581	**15,881**
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	22,581	15,881
Unrealized gains / losses	0	0
Net amount recognized at Dec. 31	22,581[1]	15,881[2]

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

in € 000s	Dec. 31, 2006	Previous year
Weighted-average assumptions for pension plans		
Discount rate	4.5%	5.00%
Expected return on plan assets	0	0
Rate of compensation increase	3.0%	2.00%
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, 2006	Previous year
Service cost	621	465
Interest cost	800	730
Expected return on plan assets	0	0
Actuarial gain (-) / loss (+)[3]	0	2,061
Net pension cost	1,421	**3,256**

1) Thereof € 22,203 thousand long-term and € 378 thousand short-term.
2) Thereof € 15,489 thousand long-term and € 392 thousand short-term.
3) According to IAS 19.93 from 2006 is recorded in shareholders' equity with no effect on profit or loss.

3.17. Non-current financial liabilities

in € 000s	Dec. 31, 2006	Previous year
Amounts due to banks	701,345	258,723

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 certificated debt in the amount of € 74.1 million.

3.18. Non-current trade accounts payable

in € 000s	Dec. 31, 2006	Previous year
Trade accounts payable to third parties	1,088	827

3.19. Other non-current liabilities

in € 000s	Dec. 31, 2006	Previous year
Tax liabilities	19	19
Personnel related liabilities	2,174	2,348
Other liabilities	940	430
Total	3,133	**2,797**

3.20. Deferred tax liabilities

in € 000s	Dec. 31, 2006	Previous year
Deferred tax liabilities	61,242	37,147

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 2.16. "Taxes on income".

3.21. Current provisions

in € 000s	Dec. 31, 2006	Previous year
Pension provisions	378	392
Other provisions	6,409	3,593
Total	6,787	**3,985**

Other provisions

in € 000s	Dec. 31, 2006	Previous year
Provisions set aside for damages		
Opening balance	967	**953**
Utilized	0	0
Released	95	794
Added	1,603	808
Currency translation differences	0	0
Closing balance	2,475	**967**
Warranty		
Opening balance	2,626	**1,846**
Utilized	2,626	1,846
Released	0	0
Added	3,934	2,626
Closing balance	3,934	**2,626**

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.

3.22. Current financial liabilities

in € 000s	Dec. 31, 2006	Previous year
Amounts due to banks	201,157	48,214

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.

3.23. Current trade accounts payable

in € 000s	Dec. 31, 2006	Previous year
Trade accounts payable to third parties	131,723	104,465
Trade accounts payable to non-consolidated Group companies	1,430	414
Advances received on orders from third parties	2,297	1,708
Liabilities from outstanding charges	21,400	18,027
Total	156,850	**124,614**

3.24. Other current liabilities

in € 000s	Dec. 31, 2006	Previous year
Tax liabilities	30,972	33,072
Personnel related liabilities	23,349	17,601
Other liabilities	72,984	120,620
Total	127,305	**171,293**

3.25. Other financial obligations

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

in € 000s	Dec. 31, 2006	Previous year
Rental agreements and leases	49,495	39,249
Other obligations	167,413	214,643
Currency forward hedges	735	3,042
Total	217,643	**256,934**

Other obligations as of the balance sheet date include a capital guarantee provided by STADA Arzneimittel AG obligating STADA Arzneimittel AG vis-à-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

The cash flow statement indicates in a separate line 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.

4.1. Cash flow (gross)

Cash flow (gross) increased by 39% 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, financing, changes in exchange rates from the conversion of foreign financial statements or through the scope of consolidation and measurement-related changes in positions covered. In 2006, it amounted to € -13.0 million (previous year: € 163.3 million).

By adjusting the cash flow from operating activities for special effects from payments made and still outstanding from acquisitions and disposals, the result is an adjusted cash flow from operating activities in the amount of € 61.8 million (previous year: € 96.3 million).

4.3. Cash flow from investing activities

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

In fiscal year 2006 payments for the purchase of consolidated companies relate to the acquisition prices of the companies purchased in the context of the Hemofarm acquisition (€ 480.2 million including capitalized incidental expenses) and of Oy STADA Pharma Ab (€ 4.7 million[1]) – less funds adopted (€ 16.3 million; € 0.3 million) if applicable. Disclosure of the previous year results from the takeover of the Nizhpharm Group and of Ciclum Farma, Unipessoal, LDA.

In 2006, no significant investments in intangible assets were incurred for the short-term expansion of the product portfolio (previous year: approx. € 90.2 million).

Proceeds from the sale of consolidated companies relate to the selling prices from the sale of STADA Inc., STADA Pharmaceuticals Inc. (€ 20.7 million), Helvepharm AG (€ 2.1 million) as well as Hemovet d.o.o. (€ 7.5 million).

In 2006 free cash flow (1. cash flow from operating activity plus 2. cash flow from investing activity) amounted to € -515,906 thousand (previous year: € -100,683 thousand).

€ 484,807 thousand were used for acquisitions in 2006 (previous year: € 192,143 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 2006 free cash flow of the STADA Group adjusted for expenses for acquisitions and proceeds from disposals amounted to € -70,839 thousand (previous year: € 91,460 thousand).

1) Finnish sales company which was acquired in the scope of the purchase of the SANKYO branded products package in the fourth quarter of 2005 and for which the pro rata purchase price payment was due in 2006.

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 through warrant conversions in fiscal year 2006 lead to cash inflows of € 78,238 thousand (previous year: € 1,801 thousand) (see 3.12.). Total cash flow from financing activities amounted to € 575,299 thousand (previous year: € 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 € 56,673 thousand and resulted in cash and cash equivalents of € 129,429 thousand at December 31, 2006.

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 2006 reporting period totaled € 40,106 thousand and € 18,748 thousand, respectively. Receipts from interest-bearing transactions amounted to € 1,555 thousand.

5. Segment Reporting

Segment Reporting (primary) in € 000s	Core segment Generics		Core segment Branded Products	
	2006	Previous year	2006	Previous year
Income and expenses				
External sales[1)]	911,245	759,251	259,056	216,403
Segment earnings/operating profit	149,727	97,657	49,992	37,707
Closing of US activities	12,045	0	0	0
Closing of LipoNova/Reniale® project	0	0	0	0
Investment income	0	0	0	0
Interest payments	14,735	5,105	4,566	2,326
Interest income	7,788	2,385	741	668
Earnings before taxes	130,735	94,937	46,167	36,049
Taxes on income	54,040	40,916	14,478	13,006
Net income	76,695	54,021	31,689	23,043
Net income distributable to shareholders of STADA Arzneimittel AG	76,307	53,933	31,574	22,741
Other information				
Segment assets	564,788	442,771	215,806	151,729
Liabilities	227,577	160,766	105,445	107,979
Capital expenditure	32,905	27,752	10,393	86,727
Depreciation/amortization	16,447	12,573	16,134	12,975
Other non-cash expenses	21,409	6,280	5,282	223

1) Sales were generated from transactions with other segments for the segments of Generics (€ 25,682 thousand), Branded Products (€ 3,644 thousand), Commercial Business (€ 143 thousand), and Group holding company / other (€ 203,334 thousand).

Commercial business		Group holdings/other		Eliminations within segments		Consolidated	
2006	Previous year	2006	Previous year	2006	Previous year	2006	Previous year
63,719	39,651	11,030	6,754	0	0	1,245,050	1,022,059
6,352	1,817	-25,618	-10,068	11	7	180,464	127,120
0	0	0	0	0	0	12,045	0
0	0	0	20,311	0	0	0	20,311
0	0	250	251	0	0	250	251
856	285	42,153	19,823	-33,255	-15,392	29,055	12,147
387	76	29,894	14,873	-33,266	-15,399	5,544	2,603
5,883	1,608	-37,627	-35,078	0	0	145,158	97,516
1,000	574	-16,823	-8,995	0	0	52,695	45,501
4,883	1,034	-20,804	-26,083	0	0	92,463	52,015
4,762	992	-20,810	-26,083	0	0	91,833	51,583
9,308	4,337	59,781	74,592	0	0	849,683	673,429
9,701	11,600	848,155	326,123	0	0	1,190,878	606,468
135	68	192,911	92,550	0	0	236,344	207,097
603	196	30,719	28,386	0	0	63,903	54,130
771	86	17,026	16,569	0	0	44,488	23,158

Segment Reporting (secondary) in € 000s

	Sales		Segment assets		Capital expenditure	
Segment information	2006	Previous year	2006	Previous year	2006	Previous year
Europe	1,180,553	**959,764**	805,667	**632,384**	233,735	**201,281**
Belgium	109,648	93,558	74,829	61,645	1,102	1,149
Bosnia-Herzegovina[1]	9,251	338	6,313	223	0	0
Denmark	23,618	19,302	16,118	12,718	0	0
Germany	481,866	440,949	328,850	290,539	195,491	95,120
Finland	5,105	437	3,484	288	120	0
France	79,594	70,670	54,319	46,564	2,798	2,351
United Kingdom	40,069	30,284	27,345	19,954	158	77,144
Ireland	16,860	15,609	11,506	10,285	5,285	3,037
Italy	108,959	94,648	74,359	62,363	11,348	12,851
Lithuania	918	1,132	626	746	7	15
Macedonia[1]	1,550	0	1,058	0	0	0
Montenegro[1]	2,880	0	1,965	0	0	0
The Netherlands	38,883	38,591	26,536	25,427	656	812
Austria	11,262	10,409	7,686	6,858	476	86
Portugal	10,288	5,275	7,021	3,476	263	1,902
Rumania[1]	5,819	1,868	3,971	1,231	0	0
Russia	87,505	56,623	59,718	37,309	5,426	5,370
Switzerland[2]	6,558	6,257	4,475	4,123	77	94
Serbia[1]	46,124	24	31,477	0	9,529	0
Spain	61,075	53,002	41,681	34,923	639	1,235
Czech Republic	8,305	6,123	5,668	4,034	355	99
Ukraine	9,396	6,452	6,412	4,251	5	16
Rest of Europe	15,020	8,213	10,250	5,427	0	0
Africa	2,607	**23**	1,779	**15**	0	**0**
Americas	18,986	**34,166**	12,957	**22,512**	0	**113**
USA[3]	18,511	34,021	12,633	22,416	0	113
Rest of Americas	475	145	324	96	0	0
Asia	42,902	**28,077**	29,278	**18,500**	2,609	**5,703**
China	5,511	7,027	3,761	4,630	886	4,659
Kazakhstan	4,466	3,364	3,048	2,217	21	9
The Philippines	7,400	6,454	5,050	4,253	63	27
Thailand	2,000	2,394	1,365	1,577	36	80
Vietnam	18,396	6,103	12,554	4,021	1,603	928
Rest of Asia	5,129	2,735	3,500	1,802	0	0
Rest of World	2	**29**	2	**19**	0	**0**

1) Hemofarm Group consolidated since August 1, 2006.
2) Sale of the 50% stake in the Helvepharm AG as of June 30, 2006.
3) Deconsolidation of STADA Inc. as of August 21, 2006.

In accordance with the "risks and rewards approach" and the "management approach" of IAS 14, segment reporting is based on the internal organizational and reporting structure of the STADA Group.

The primary segmentation within the STADA Group is based on sales differentiation. Thus, the allocation to the individual segments is determined to a large extent by the sales positioning. If this positioning changes for parts of the product portfolio, associated sales are reallocated.

In the fourth quarter of 2006, STADA updated the primary segment reporting as follows:

According to the updated STADA segment definition, **Generics** are products for the health care market – usually with a drug character – which contain one or several active ingredients whose commercial property rights have expired or will expire shortly and whose sales positioning complies with one of the two following criteria:

- The product is offered by emphasizing its low price, usually in contrast to the product of another supplier which contains the identical active ingredient.

or

- The product is an integral part of a marketing concept targeting more than one product and indication for primarily prescription products with active ingredients whose commercial property rights have usually expired.

According to the updated STADA segment definition, **Branded Products** are products for the health care market which contain one or several active ingredients whose commercial property rights have usually expired and whose sales positioning complies with one of the two following criteria:

- The product is sold under a product-specific brand name and with emphasis on specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products.

or

- The product is part of a marketing concept for primarily non-prescription products which are mainly sold under a product-specific brand name and with emphasis on specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products.

The updating of the STADA segment definitions for Generics and Branded Products serves the adjustment to general market understanding.

Due to the transfer of the worldwide distribution rights for the biosimilar project Epo-zeta to Hospira Inc. the previous segment Specialty Pharmaceuticals will not reach a size which, pursuant to IAS 14.35, is significant for the Group in the foreseeable future. In the fourth quarter of 2006, STADA therefore allocated the former core segment Specialty Pharmaceuticals to the two core segments Generics and Branded Products. For reasons of comparability with the previous period, the prior-year figures have been adjusted accordingly.

For the fiscal year 2006, the former core segment Specialty Pharmaceuticals can be allocated to the two core segments Generics and Branded Products as follows:

in € 000s	previously Specialty Pharmaceuticals 2006	thereof to core segment Generics 2006	thereof to core segment Branded Products 2006
Income and expenses			
External sales	25,056	20,272	4,784
Segment earnings/operating profit	4,049	3,336	713
Closing of US activities	0	0	0
Closing of LipoNova/Reniale® project	0	0	0
Investment income	0	0	0
Interest payments	655	548	107
Interest income	893	882	11
Earnings before taxes	4,287	3,670	617
Taxes on income	2,162	2,008	154
Net income	2,125	1,662	463
Net income distributable to shareholders of STADA Arzneimittel AG	2,125	1,662	463
Other information			
Segment assets	81,306	51,621	29,685
Liabilities	2,266	2,266	0
Capital expenditure	949	949	0
Depreciation/amortization	694	166	528
Other non-cash expenses	0	0	0

For the fiscal year 2005, the prior-year figures of the former core segment Specialty Pharmaceuticals can be allocated to the two core segments Generics and Branded Products as follows:

in € 000s	previously Specialty Pharmaceuticals 2005	thereof to core segment Generics 2005	thereof to core segment Branded Products 2005
Income and expenses			
External sales	25,189	20,223	4,966
Segment earnings/operating profit	4,980	4,376	604
Closing of US activities	0	0	0
Closing of LipoNova/Reniale® project	0	0	0
Investment income	0	0	0
Interest payments	210	107	103
Interest income	198	191	7
Earnings before taxes	4,968	4,460	508
Taxes on income	2,085	1,950	135
Net income	2,883	2,510	373
Net income distributable to shareholders of STADA Arzneimittel AG	2,883	2,510	373
Other information			
Segment assets	67,697	44,217	23,480
Liabilities	1,767	1,767	0
Capital expenditure	653	653	0
Depreciation/amortization	626	459	167
Other non-cash expenses	0	0	0

The secondary segment reporting is not affected by this change.

STADA also conducts business and has equity interests in fields outside the core segments. The objective of these activities is to supplement and support the Group's activities in the 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 equity interests, are reported under Group holding company/other.

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.

However, in the scope of this reporting of the secondary segments, STADA does not disclose financial results of the consolidated companies in this Group Annual Report. As STADA is mainly active in markets which are subject to distinct government regulation on a national level, the stressing of its local Group profit allocation could stimulate detrimental regulatory measures in individual national markets.

6. Other Disclosures (including Remuneration Report)

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/ Procurement	Product Development	Administration	Total
2005	1,683	1,443	237	529	3,892
2006	2,127	2,222	280	813	5,442

In production, the number of employees in 2006, due primarily to the acquisition of the Hemofarm Group, 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.

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 2006 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. Based on the respective foreign currency planning, a hedge strategy is thereby developed in the context of a risk analysis, making use of the variance-covariance method.

The following currency hedges were held on the balance sheet date of December 31, 2006: currency futures contract for hedging possible Group demand in US dollars in the amount of USD 40.0 million.

The hedge transaction conducted in the framework of the sale of the US activities is recognized as of December 31, 2006 in shareholders' equity in the provision for cash flow hedges in the amount of € 0.4 million.

Moreover, for existing promissory notes, STADA exchanged variable interest rates against fixed interest rates. The valuation of these agreements is also recognized in shareholders' equity in the provision for cash flow hedges in the amount of € 0.1 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. The valuation of these interest rate swaps at market value is based on generally accepted valuation models (Black-Scholes or Heath-Jarrow Morton).

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. Information on the company's Executive Board

6.4.1 Composition of the Executive Board

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

- Hartmut Retzlaff, Chairman of the Executive Board (under contract until August 31, 2011)
- Wolfgang Jeblonski, Chief Financial Officer (under contract until August 31, 2011)
- Dr. Alexander Oehmichen, Chief Legal, Human Resources & Corporate Development Officer (under contract until December 31, 2010)
- Christof Schumann, Chief Research & Development Officer (under contract until December 31, 2010)
- Dr. Hans-Martin Schwarm, Chief Procurement, Production and Logistics Officer (since August 04, 2006 – under contract until August 03, 2009)

In the reporting year 2006, Hans Stols also belonged to the Executive Board from January 1, 2006 to August 4, 2006 as Chief Procurement, Production and Logistics Officer.

As the articles of incorporation does not provide provisions on the appointment or dismissal of members of the Executive Board, the relevant legal requirements are applicable.

6.4.2. Mandates of Executive Board members

Hartmut Retzlaff is or was also member of the Administrative Board of HSBC Trinkaus & Burkhardt KGaA, member of the Supervisory Board of BIOCEUTICALS Arzneimittel AG as well as Hemofarm A.D. (since November 10, 2006), member of the Supervisory Board of AAXL Pharma S.A., Eurogenerics S.A. and EG Labo SAS - Laboratoires Eurogenerics (until September 25, 2006) as well as member of the Board of Directors/Managing Directors of Boniscontro & Gazzone Srl (until July 25, 2006), Clonmel Healthcare Ltd., Crinos S.p.A. (until July 25, 2006), EG S.p.A. (until July 25, 2006), Laboratorio STADA SL (Chairman), New Pharmajani S.p.A.[1], SFS International Ltd., STADA Arzneimittel Ges.m.b.H, STADA Inc.[2], STADA Financial Investments Ltd., STADA Pharmaceuticals (Asia) Ltd., STADA Service Holding B.V., STADApharm AB and Centrafarm Nederland B.V. (until June 22, 2006).

Wolfgang Jeblonski is or was 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 Eurogenerics S.A., AAXL Pharma S.A.[3] and EG Labo SAS - Laboratoires Eurogenerics (until September 25, 2006) as well as member of the Board of Directors/Managing Directors of Boniscontro & Gazzone Srl (until July 25, 2006), Clonmel Healthcare Ltd., Crinos S.p.A. (until July 25, 2006), Croma Medic, Inc., DATApharm Company Ltd., EG S.p.A. (until July 25, 2006), Health Vision Enterprise Ltd. (Director), JSC Nizhpharm, Laboratorio STADA SL, New Pharmajani S.p.A.[1], PharmaCoDane ApS, SFS International Ltd., STADA Arzneimittel Ges.m.b.H., STADA Asiatic Co., Ltd., STADA Import Export Ltd., STADA Inc.[2] (Chairman), STADA Financial Investments Ltd., STADA Pharmaceuticals (Asia) Ltd., STADA Service Holding B.V. and STADApharm AB as well as member of the Supervisory Board of Hemofarm A.D. (since November 10, 2006).

Dr. Alexander Oehmichen is also member of the Board of Directors/Managing Directors of Croma Medic, Inc., JSC Nizhpharm, Laboratorio STADA SL, STADA Asiatic Co., Ltd, STADA Service Holding B.V., UAB STADA-Nizhpharm-Baltija as well as member of the Supervisory Board of Hemofarm A.D. (since November 10, 2006).

1) Merger of the company with EG S.p.A. as of January 13, 2006.
2) Disposal of the company in the third quarter of 2006.
3) As of January 1, 2007, the company was renamed Neocare S.A.

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.

Dr. Hans-Martin Schwarm is also member of the Board of Directors of STADA Production Ireland Ltd.

When he was a member of the Executive Board, Hans Stols was also member of the Board of EGA (European Generics Medicines Association) as well as member of the Board of Directors/Managing Directors at STADApharm Ab, STADA Production Ireland Ltd. (March 24, 2006 until August 4, 2006), STADA Finland Oy Ab as well as PharmaCoDane ApS.

6.4.3 Report on the remuneration of the Executive Board

Principles of the Executive Board's remuneration system

Each Executive Board member receives remuneration, which, in view of the tasks, the personal performance, the Executive Board's overall performance, the economic situation, the success and the company's future prospects, also in consideration of the comparative environment, is individually deemed appropriate by the Supervisory Board.

Overall remuneration includes monetary remuneration parts as well as non-monetary remuneration parts, which comprehend pension agreements, in particular.

The respective monetary remuneration includes fixed components and variable components, which are dependent on the company's success in the reporting year. The amount as well as 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 was no stock option plan or other instruments with a long-term incentive effect in place for Executive Board members as of the balance sheet date.

Monetary remuneration of the Executive Board

In 2006, total monetary remuneration for appointed members of the Executive Board was € 6,633,296.67 within STADA Arzneimittel AG and € 6,793,795.37 within the Group.

This total monetary remuneration paid to appointed members of the Executive Board in 2006 can be broken down as follows:

- Hartmut Retzlaff: € 2,378,237.90 (thereof € 789,672.82 fixed and € 1,588,565.08 variable)
- Wolfgang Jeblonski: € 1,525,810.04 (thereof € 443,628.04 fixed and € 1,082,182.00 variable)
- Dr. Alexander Oehmichen: € 972,442.98 (thereof € 313,277.98 fixed and € 659,165.00 variable)
- Christof Schumann: € 929,490.24 (thereof € 270,325.24 fixed and € 659,165.00 variable)

- Hans Stols for the period from January 01, 2006 until August 04, 2006: € 573,989.21 (thereof € 175,146.62 fixed and € 398,842.59 variable)
- Dr. Hans-Martin Schwarm for the period from August 4, 2006 until December 31, 2006: € 413,825.00 (thereof € 146,337.75 fixed and € 267,487.25 variable).

In 2006, monetary remuneration for former members of the Executive Board was € 247,136.41.

Non-monetary remuneration of the Executive Board

In addition to monetary remuneration, the company grants pension agreements to a part of the Executive Board. The pension agreements for the Executive Board members Hartmut Retzlaff and Wolfgang Jeblonski contain commitments to an annual pension, which, depending on the duration of the Executive Board position, is calculated as a percentage of the basic remuneration. In the case of the Chairman of the Executive Board, a percentage of the variable remuneration, which was granted during the last five years before the beginning of pension payments, is additionally taken into consideration.

Payments from the pension commitments begin on request as pension payments if employment ends at or after the end of the 60th year (in the case of the Chairman of the Executive Board in principle after completion of the current Executive Board contract) or as disability pension if employment ends before this due to an inability to work.

Expenses for the pension commitments of the Executive Board earned in fiscal year 2006 are composed as follows:

- Hartmut Retzlaff € 406,457
- Wolfgang Jeblonski € 94,928

Current pension provisions for former Executive Board members in the fiscal year 2006 amounted to € 1,026,564.00.

Commitments to Executive Board members in the case of termination of their activity

For Hartmut Retzlaff and Wolfgang Jeblonski supplementary agreements to the employment contract each contain identical severance pay regulations for the case that the Executive Board contract, as a result of a closely defined change of control within the context of a takeover, is terminated. The severance payment would thereby consist of a one-time payment of an amount equal to five times the gross annual income of the Executive Board member in the last full year prior to the takeover, including bonus paid-out. In addition, both Executive Board members receive remuneration including the bonus as agreed in the individual employment contract for the entire term of the contracts. The bonus is calculated based on the average of the previous two bonuses paid prior to the termination of the contract.

If Wolfgang Jeblonski's activity in the Executive Board ends before his reaching the age of 65 years because his appointment is not renewed, and if this is not due to a reason, which would have entitled the company to a termination without notice, thus Wolfgang Jeblonski will receive a one-time severance payment in the amount of € 250,000.00.

The contracts of Dr. Alexander Oehmichen/Christof Schumann/Dr. Hans-Martin Schwarm contain identical provisions for the full payment of all remuneration intended for the contract term as well as for the payment of a transitional allowance.

If Dr. Alexander Oehmichen/Christof Schumann/Dr. Hans-Martin Schwarm are removed as members of the Executive Board before the end of the period of appointment, all entitlements to remuneration, which were agreed on under the Executive Board contract for the period of appointment, remain unaffected.

If the the Executive Board mandate of Dr. Alexander Oehmichen/Christof Schumann/Dr. Hans-Martin Schwarm ends before his reaching the age of 65 years, either because he is removed early or because he is not reappointed, Dr. Alexander Oehmichen/Christof Schumann/Dr. Hans-Martin Schwarm will receive a one-time transitional allowance in the amount of a fixed annual remuneration plus half of previous year's bonus.

Benefits from third parties outside the Group, which were promised or granted to members of the Executive Board in the reporting year with regard to their position in the Executive Board

To the company's knowledge, no benefits from third parties outside the Group were promised or granted to appointed Executive Board members in fiscal year 2006.

6.4.4. Loans to members of the Executive Board

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

6.5. Information on the company's Supervisory Board

6.5.1 Composition of the Supervisory Board and its committees

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

- Dr. med. Eckhard Brüggemann, Doctor, Herne (Chairman)
- Karl Hertle, Scientific Staff, Bad Vilbel (Deputy Chairman)
- Dr. jur. Martin Abend, Attornay, Dresden
- Heike Ebert, Head of Packaging, Niddatal
- Uwe E. Flach, Consultant, Frankfurt am Main
- Dr. K. F. Arnold Hertzsch, Pharmacist, Dresden
- Dieter Koch, Pharmacist, Dänischenhagen
- Constantin Meyer, Pharmacist, Seelze
- Adolf Zissel, Product Manager, Bad Nauheim

Karl Hertle, Heike Ebert and Adolf Zissel are Supervisory Board members who were elected by the employees as their representatives.

The Supervisory Board had created the following committees with the following members on the balance sheet date:

Human Resources and Strategy Committee

- Dr. Eckhard Brüggemann (Chairman)
- Uwe E. Flach
- Karl Hertle

Audit Committee
- Uwe E. Flach (Chairman)
- Dr. Eckhard Brüggemann
- Karl Hertle

6.5.2. Mandates of Supervisory Board members

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, of Nordenia International AG, of the Eisenbahn-Siedlungs-Gesellschaft Berlin GmbH as well as the Haus- und Heim-Wohnungsbau AG.

6.5.3. Report on the remuneration of the Supervisory Board

Remuneration system of the Supervisory Board according to the company's statutes

Remuneration of the Supervisory Board is as follows pursuant to § 18 of STADA Arzneimittel AG's 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 as well as
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.

Remuneration of the Supervisory Board

In fiscal year 2006, remuneration of appointed Supervisory Board members totaled € 938,629.30.

Remuneration of the appointed Supervisory Board members can be broken down as follows:
- Dr. Eckhard Brüggemann € 244,657.33 (thereof € 105,000.00 fixed and € 139,657.33 variable)
- Karl Hertle € 163,104.88 (thereof € 70,000.00 fixed and € 93,104.88 variable)
- Dr. Martin Abend € 71,552.44 (thereof € 25,000.00 fixed and € 46,552.44 variable)
- Heike Ebert € 71,552.44 (thereof € 25,000.00 fixed and € 46,552.44 variable)
- Uwe E. Flach € 101,552.44 (thereof € 55,000.00 fixed and € 46,552.44 variable)
- Dr. K. F. Arnold Hertzsch € 71,552.44 (thereof € 25,000.00 fixed and € 46,552.44 variable)
- Dieter Koch € 71,552.44 (thereof € 25,000.00 fixed and € 46,552.44 variable)
- Constantin Meyer € 71,552.44 (thereof € 25,000.00 fixed and € 46,552.44 variable)
- Adolf Zissel € 71,552.44 (thereof € 25,000.00 fixed and € 46,552.44 variable)

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 € 22,683.48.

6.5.4. Loans to members of the Supervisory Board

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

6.6. Related party transactions

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.

In fiscal year 2006, the following professional fees were recognized as expenses for services rendered by the auditor of the consolidated financial statements:

in € 000s	2006	Previous year
Fees paid to the auditor of the consolidated financial statements	**200**	**193**
for audits	180	149
for other validation and evaluation services	0	0
for tax consultancy services	8	9
for other services	12	35

6.7. Corporate Governance Code

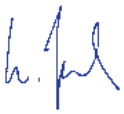
In accordance with § 161 of the German Stock Corporation Act, the Executive and Supervisory Boards have issued their annual joint declaration of compliance with the German Corporate Governance Code on December 8, 2006. During a 5 year period, shareholders are provided with permanent access to this declaration 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.

6.8. 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, 2006, amounted to € 38,029,293.36. The Executive Board recommends that a dividend of € 0.62 per common share (previous year: € 0.39 per common share) be appropriated from distributable profit.

Bad Vilbel, March 9, 2007

H. Retzlaff



W. Jeblonski

Dr. A. Oehmichen

C. Schumann

Dr. H.-M. Schwarm

ADDITIONAL INFORMATION

CORPORATE GOVERNANCE DECLARATION

Joint Declaration of the Executive and Supervisory Board of STADA Arzneimittel AG concerning 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 12, 2006 (published in the electronic Federal Gazette on July 24, 2006) 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 4.2.5: Remuneration Report as part of the Corporate Governance Report

The Company publishes annually in the Notes of the Annual Report both the legally required information as well as the information required by the Corporate Governance Code regarding the remuneration of the Executive Board and Supervisory Board . The Company forgoes a repetition of this information within the framework of a Remuneration Report in the Corporate Governance Report in order to avoid being redundant.

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 in 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 profit allocation 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 the 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 from 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 2005, STADA Arzneimittel AG 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, did 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

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Bad Vilbel, December 8, 2006

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 prepared by STADA Arzneimittel Aktiengesellschaft, Bad Vilbel, comprising the balance sheet, the income statement, statement of recognized income and expense, the cash flow statement and the notes to the consolidated financial statements, together with the Group management report, for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the E.U., and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the 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). 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 the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and the significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Frankfurt am Main, March 12, 2007

TREUROG GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

TREUROG GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT * WIRTSCHAFTS-PRÜFUNGS-GESELLSCHAFT SIEGEL * FRANKFURT / M. *

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 eight sessions during fiscal year 2006 (on January 27, March 29, April 26, June 13, August 4, September 29, November 3, and December 8, 2006), 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 and its operative implementation,
- the economic situation of the company and, in particular, the sales, costs and earnings development as well as the assets situation 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 which effect the Group and its individual subsidiaries,
- the investment plans of the Group, including all acquisition projects and in particular the acquisition of the Serbian Hemofarm Group, their financing and integration into the existing Group structures,
- the Group's divestments and in particular the sale of the US sales company STADA Inc.,
- the Group's product development and product portfolio,
- the activities, equity interests and contractual arrangements in the area Biosimilars/BIOCEUTICALS Arzneimittel AG,
- STADA's position in the capital markets,
- Corporate-Governance,
- Executive Board issues and in particular the reappointment of the Chairman of the Executive Board and of the Chief Financial Officer of the company for further five years, the departure of a Member of the Executive Board as well as the appointment of a new Executive Board Member,
- the management of risks and opportunities.

The committees established by the Supervisory Board, namely the Audit Committee (three sessions in fiscal year 2006 on March 24, August 3, and November 2, 2006) as well as the Human Resources and Strategy Committee (one session in fiscal year 2006 on August 3, 2006), have dealt intensively with those themes of relevance for the respective committee.

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.

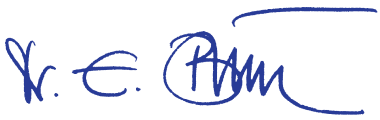
The Supervisory Board has satisfied itself that the Company is being properly managed. The financial statements of STADA Arzneimittel AG and the consolidated financial statements as well as the company's management report for fiscal year 2006 have been audited by TREUROG GmbH, Wirtschaftsprüfungsgesellschaft, Frankfurt, and issued with an unqualified audit opinion.

The auditor attended the financial statements review meeting of the Supervisory Board on March 23, 2007 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 assents to the individual assessments of the business situation and to the outlook as given in the management report of the Executive Board as well as to the proposal of the Executive Board for the appropriation of profits.

In 2006, the STADA Group had once again an extraordinary business year. Sales and earnings were again clearly increased and operating profitability continued to improve. In addition, STADA's share price went up by approx. 57% in 2006 and finished at a new all-time high at the end of the year. At year-end 2006, market-capitalization was € 2.5 billion. The Supervisory Board wishes to express its gratitude for and recognition of this new record year, the eleventh in a row in terms of sales and net income, to all employees as well as the Executive Board and the Management.

Bad Vilbel, March 23, 2007



Dr. Eckhard Brüggemann
Chairman of the Supervisory Board

BOARD MEMBERS

The STADA Executive Board (as of December 31, 2006)

Dr. Hans-Martin Schwarm | Dr. Alexander Oehmichen | Hartmut Retzlaff | Wolfgang Jeblonski | Christof Schumann

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 August 31, 2011
Wolfgang Jeblonski Chief Financial Officer	At STADA since 1991 Executive Board member since 1999 Contract until August 31, 2011
Dr. Alexander Oehmichen Chief Legal, Human Resources & Corporate Development Officer	At STADA since 2003 Executive Board member since 2006 Contract until December 31, 2010
Christof Schumann Chief Research & Development Officer	At STADA since 1997 Executive Board member since 2006 Contract until December 31, 2010
Dr. Hans-Martin Schwarm Chief Procurement, Production and Logistics Officer	At STADA since 1992 Executive Board member since 2006 Contract until August 3, 2009

The Executive Board members can be contacted via STADA Arzneimittel AG's business address.

Effective August 4, 2006, Hans Stols, Chief Procurement, Production and Logistics Officer since January 1, 2006, departed from the Executive Board at STADA and the STADA Group.

The STADA 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

The Supervisory Board members can be contacted via STADA Arzneimittel AG's business address.

1) Employee representative.

The STADA Advisory Board

Members of the STADA 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

The Advisory Board members can be contacted via STADA Arzneimittel AG's business address.

"ALL THE BEST" FROM STADA – THE VISUAL CONCEPT OF THIS ANNUAL REPORT

In cooperation with the artist Mike Kuhlmann from Frankfurt, STADA developed a new design concept for the customer-oriented presentation of the Group under the title "ALL THE BEST from STADA", which will initially be used in Germany and will be used step by step on an international level in the future.

A central motif of this design concept – the motif "Health" – has been chosen in different international forms for the visual concept of this annual report. With this, STADA wants to show that for the Group's customers worldwide, the Group identifies with the contents and messages associated with this design concept.

These contents and messages are defined as follows and as such also published on the German STADA website:

"ALL THE BEST" from STADA

For over a hundred years, STADA has taken care of a valuable possession: Health. Care for people's health and well-being is in the center of STADA's activities. From this, the Group's philosophy and overall concept are derived. This is expressed through the wish "ALL THE BEST", which not only is the visual concept of this annual report, but has also been frequently part of advertisements placed by STADA.

"ALL THE BEST" is more than just a wish. "ALL THE BEST" formulates a requirement for STADA itself – and thereby becomes a daily guideline for over 7,000 employees in the STADA Group worldwide.

"ALL THE BEST" means quality. The quality of the STADA products. The quality of the raw materials which STADA processes, of the services which STADA provides and of the working conditions under which STADA's services are created. Because STADA is convinced that better work is done in a quality environment and as a consequence high-quality products are created.

"ALL THE BEST" therefore is also the basis for success. Doctors, pharmacists and patients appreciate STADA's products – over 80 million times each year in Germany alone. And the solid growth puts STADA in the position to market its high-quality products at low prices.

"ALL THE BEST" is international because people all over the world wish each other "ALL THE BEST". STADA wants to contribute so that this wish also can come true for the individual: health that is affordable for everyone.

On this note: "ALL THE BEST" from STADA!


ALLES GUTE
ALL THE BEST
ВСЕГО ХОРОШЕГО
BONNE SANTÉ
TANTI AUGURI
TODO LO MEJOR
TALLER BESTE
SVE NAJBOLJE
TUDO DE BOM
万事如意
ALT GODT
VŠECKO DOBRÉ
HYVÄÄ VOINTIA

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 equipment and documentation of manufacturers or their suppliers.

AVWG: Economic Optimization of Pharmaceutical Care Act; took effect in Germany on May 1, 2006.

Biopharmaceuticals: Drugs in protein form produced biopharmaceutically, i.e. by means of genetically modified cell lines. In the EU, biopharmaceuticals are always subject to a central approval procedure.

Biosimilars: Biopharmaceutical product, i.e. drugs with a protein as an active ingredient which is produced by genetically modified cell lines which, despite different producing cell lines, compared to an initial supplier product which is already on the market, is so similar that the biosimilar has proven therapeutic equivalence.

Centralized approval procedure: European approval procedure, carried out by the EMEA 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.

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.

Co-payment: The patients own share of payment for services to public health care system.

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.

Dialysis: Extracorporeal blood cleansing for patients with kidney failure.

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

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.

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

Erythropoietin (abbreviation Epo): Biopharmaceutical active ingredient in protein form, which is produced by living cell lines. Depending on the individual cell lines used and the production process associated with it, so-called glyco structures (oligosaccharide-chains) can differ minimally. Epo-alpha and Epo-beta have been launched on the market; the Erythropoietin biosimilar being developed by BIOCEUTICALS is Epo-zeta. Erythropoietin is used, among other things, for dialysis patients to stimulate hematopoieses as well as in cancer therapy.

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

Filgrastim: Biopharmaceutical active ingredient in protein form, which is produced by living cell lines. Filgrastim is used, among other things, in the treatment of a neutropenia, for example following cytotoxic chemotherapy or bone marrow transplants.

GKV: Public health insurance system in Germany.

GKV-WSG: Act for strengthening competition in public health insurance taking effect in Germany as of April 1, 2007.

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.

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.

Protein: Albumen structure in an organism.

Reference pricing: Active ingredient specific and/or active ingredient combination specific reimbursement limit for drugs in the public health care system. If the price of a drug is above the reference price and it is not exchanged for a cheaper drug with the same active ingredient, then the patients must bear themselves as an additional contribution the difference to the reference price.

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.

PUBLISHING INFORMATION

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This annual report is published in German (original version) and English (non-binding translation) and is subject to German law.

Publication The complete annual report as well as current information on the STADA Group can be found on the Internet at www.stada.de and /or www.stada.com.

Design and Realisation wagneralliance Werbung GmbH, Frankfurt am Main

Visual concept "ALL THE BEST" Hab & Gut Unternehmer-Beratung GmbH, Frankfurt am Main

Printing Konkordia GmbH, Bühl

Translation Bruce MacPherson, Wiesbaden

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 CALENDER

2007

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

2008

March 27, 2008	Publication of 2007 results with analysts' and press conference
May 14, 2008	Publication of Q1/2008 results
June 10, 2008	Annual Shareholders' Meeting
August 13, 2008	Publication of 2008 interim results with analysts' and press conference
November 13, 2008	Publication of Q3/2008 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.de and 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.de), usually before trading begins on the Frankfurt Stock Exchange. Shareholders may receive printed copies of the reports on request.

FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

Group sales in € million	2006	2005	2004	2003	2002
Total Group sales	1,245.1	1,022.1	813.5	745.2	633.5
• Core segment Generics	911.2	739.0	608.3	549.1	444.5
• Core segment Branded Products	259.1	211.4	139.6	135.3	107.6
• Core segment Specialty Pharmaceuticals[1]	–[1]	25.2	24.7	21.5	19.9
• Commercial Sales	63.7	39.7	32.0	34.0	54.9
• Other	11.0	6.8	8.9	5.3	6.6

Sales by region[2] in € million	2006	2005	2004	2003	2002
Europe	1,180.6	959.8	743.6	675.1	569.0
• Belgium	109.6	93.6	65.2	49.9	39.2
• Bosnia-Herzegovina[3]	9.3	0.3	0.3	0.1	0.1
• Denmark	23.6	19.3	9.1	9.9	7.3
• Germany	481.9	440.9	383.1	378.0	330.8
• Finland	5.1	0.4	0.0	0.1	
• France	79.6	70.7	53.9	37.8	23.1
• UK	40.1	30.3	31.1	21.9	11.8
• Ireland	16.9	15.6	13.7	12.5	10.5
• Italy	109.0	94.6	74.3	60.7	37.5
• Lithuania	0.9	1.1	1.1	0.9	0.3
• Macedonia[3]	1.6				
• Montenegro[3]	2.9				
• The Netherlands	38.9	38.6	39.7	42.8	70.6
• Austria	11.3	10.4	8.2	7.9	5.5
• Portugal	10.3	5.3	0.0	0.1	0.0
• Rumania[3]	5.8	1.9	1.6	0.8	0.4
• Russia	87.5	56.6	0.7	0.5	0.6
• Switzerland[4]	6.6	6.3	5.4	3.8	3.0
• Serbia[3]	46.1	0.0	0.0	0.0	
• Spain	61.1	53.0	44.4	38.3	21.6
• Czech Republic	8.3	6.1	5.4	4.4	4.0
• Ukraine	9.4	6.5	1.3	0.8	0.3
• Rest of Europe	15.0	8.2	5.1	3.9	2.4
Americas	19.0	34.1	46.1	52.6	48.8
• USA[5]	18.5	34.0	46.0	52.5	48.4
• Rest of Americas	0.5	0.1	0.1	0.1	0.4
Asia	42.9	28.1	22.5	17.3	15.6
• China	5.5	7.0	6.6	5.1	5.8
• Kazakhstan	4.5	3.4	1.2	0.9	0.2
• The Philippines	7.4	6.5	4.9	3.8	3.6
• Thailand	2.0	2.4	2.7	3.0	2.9
• Vietnam	18.4	6.1	5.2	2.9	1.8
• Rest of Asia	5.1	2.7	1.9	1.6	1.3
Rest of world	2.6	0.1	1.3	0.2	0.1

1) Closed in the scope of updating the segment definitions and integrated in the core segments Generics and Branded Products in 2006.
2) Broken down according to the national market in which the sales were achieved.
3) Hemofarm consolidated since August 1, 2006.
4) Sale of the 50% stake in the Helvepharm AG as of June 30, 2006.
5) Deconsolidation of STADA Inc. as of August 21, 2006.

Financial results in € million	2006	2005	2004	2003	2002
Operating profit	180.5	127.1	87.8	85.6	77.4
EBITDA	232.6	161.2	122.7	116.8	96.5
EBIT	168.7	107.1	88.2	85.7	73.2
Earnings before taxes (EBT)	145.2	97.5	77.6	72.1	61.0
Net income	91.8	51.6	48.5	43.9	35.1
Cash flow (gross)	153.2	109.9	81.3	78.8	62.5

Asset & capital structure in € million	2006	2005	2004	2003	2002
Total assets	2,150.2	1,349.8	1,020.4	955.1	741
Non-current assets	1,294.7	783.8	551.9	490.0	–
Current assets	855.6	566.0	468.6	465.2	–
Equity capital	863.1	684.8	639.0	614.5	324.1
Equity-to-assets ratio in percent	40.1%	50.7%	62.6%	64.3%	43.7%
Non-current liabilities and provisions	795.0	316.9	141.1	194.6	–
Current liabilities and provisions	492.1	348.1	240.4	146.0	–
Net debt	773.0	234.2	103.6	38.2	226.5

Capital expenditure / depreciation & amortization in € million	2006	2005	2004	2003	2002
Total capital expenditure	236.3	207.1	82.1	76.5	185.9
• on intangible assets	196.9	168.9	67.6	64.9	163.7
• on property, plant and equipment	26.4	14.8	7.0	11.2	20.5
• on financial assets	13.0	23.3	7.5	0.4	1.7
Total depreciation and amortization	63.9	54.1	34.5	31.1	23.3
• on intangible assets	47.5	37.1	26.6	23.4	16.2
• on property, plant and equipment	16.3	10.1	7.9	7.7	7.1
• on financial assets	0	6.9	0	0	0

Employees	2006	2005	2004	2003	2002
Average number of employees[1] per year	5,442	3,892	2,586	2,465	2,083

Key figures per STADA share	2006	2005	2004	2003	2002
Market capitalization (year-end) in € million	2,531.2	1,479.3	1,061.9	1,312.9	766.5
Year-end closing price of common shares in €	43.45	27.65	19.89	24.59[2]	19.15[2]
Number of shares (average)	53,983,327	53,317,303	53,348,910	43,327,286	38,443,136
Basic earnings per share in €[4]	1.70	0.97	0.91[2]	1.01[2]	0.92[2][3]
Diluted earnings per share in €[5]	1.62	0.91	0.88[2]	0.95[2]	0.90[2][3]
Dividend per common share in €	0.62[6]	0.39	0.39	0.35[2]	0.325[2]
Total dividend payments in € million	36.0[6]	20.8	20,8	18.7	13.0

1) 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.
2) Adjusted for the de facto 1:1 stock split on July 30, 2004.
3) Common shares plus preferred shares.
4) According to IAS 33.10.
5) According to IAS 33.31.
6) Proposed.

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