



The Health Company

Q3/2006

Report on the First Nine Months of 2006

# STADA DEVELOPMENT AT A GLANCE

- Clear growth of the Group in the course of the year to date: Group sales +18% and net income +80% (adjusted for one-time special effects +27%)
- Largest acquisition in company history: STADA acquires 100% of shares in the Serbian Hemofarm Group
- Sale of sales companies in the USA and Switzerland in the third quarter
- Sustainable growth course with stronger increase in operating profit than in sales to be continued

Key figures for the Group from Jan. 1 – Sept. 30 in € million	2006	2005	± %
Group sales	870.3	739.2	+18%
Group sales in core segments, total	816.0	705.0	+16%
• Generics	609.7	533.7	+14%
• Branded Products	187.9	152.8	+23%
• Specialty Pharmaceuticals	18.4	18.5	-0%
Operating profit	114.3	88.8	+29%
<i>Operating profit adjusted<sup>1)</sup></i>	<i>122.3</i>	<i>97.8</i>	<i>+25%</i>
EBITDA (Earnings before interest, taxes, depreciation and amortization)	144.7	105.9	+37%
<i>EBITDA (Earnings before interest, taxes, depreciation and amortization) adjusted<sup>1)</sup></i>	<i>153.8</i>	<i>121.9</i>	<i>+26%</i>
EBIT (Earnings before interest and taxes)	102.5	68.8	+49%
<i>EBIT (Earnings before interest and taxes) adjusted<sup>1)</sup></i>	<i>122.6</i>	<i>97.8</i>	<i>+25%</i>
EBT (Earnings before taxes)	89.2	61.8	+44%
<i>EBT (Earnings before taxes) adjusted<sup>1)</sup></i>	<i>109.2</i>	<i>90.7</i>	<i>+20%</i>
Net income <sup>2)</sup>	60.1	33.4	+80%
<i>Net income<sup>2)</sup> adjusted<sup>1)</sup></i>	<i>71.5</i>	<i>56.4</i>	<i>+27%</i>
Cash flow (gross)	104.8	71.7	+46%
Equity capital (Sept. 30)	749.2	664.8	+13%
Capital expenditure	532.6	166.6	+220%
Depreciation/amortization	42.2	37.1	+14%
Average number of employees (Jan. 1 – Sept. 30) <sup>3)</sup>	4,814	3,885	+24%

Key share figures Jan. 1 – Sept. 30	2006	2005	± %
Market capitalization in € million (as of Sept. 30)	2,169.6	1,593.9	+36%
Closing price (XETRA®) in € (as of Sept. 30)	40.29	29.80	+35%
Average number of shares not including own shares (Jan. 1 – Sept. 30)	53,477,538	53,296,492	0%
Basic earnings per share in € <sup>4)</sup>	1.12	0.63	+78%
<i>Basic earnings per share in €<sup>4)</sup> adjusted<sup>1)</sup></i>	<i>1.34</i>	<i>1.06</i>	<i>+26%</i>
Diluted earnings per share in € <sup>5)</sup>	1.03	0.58	+78%
<i>Diluted earnings per share in €<sup>5)</sup> adjusted<sup>1)</sup></i>	<i>1.22</i>	<i>0.99</i>	<i>+23%</i>

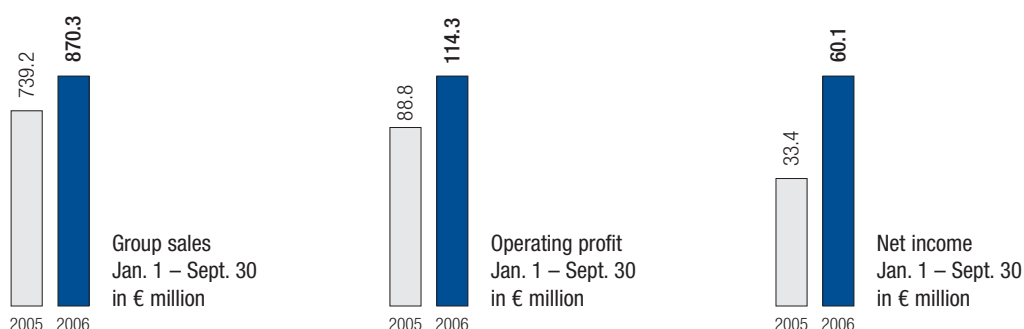
1) Adjusted for one-time special effects in 2005 or 2006 (see "High one-time special effects" – page 2).

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

3) Due to the initial consolidation of Hemofarm per August 1, 2006 with a total number of employees of 3,522, a pro-rated share of 784 employees has been added to this average. Thus, for the STADA Group without Hemofarm, there was an average number of employees of 4,030 for the first 9 months 2006.

4) In accordance with IAS 33.10.

5) In accordance with IAS 33.31.



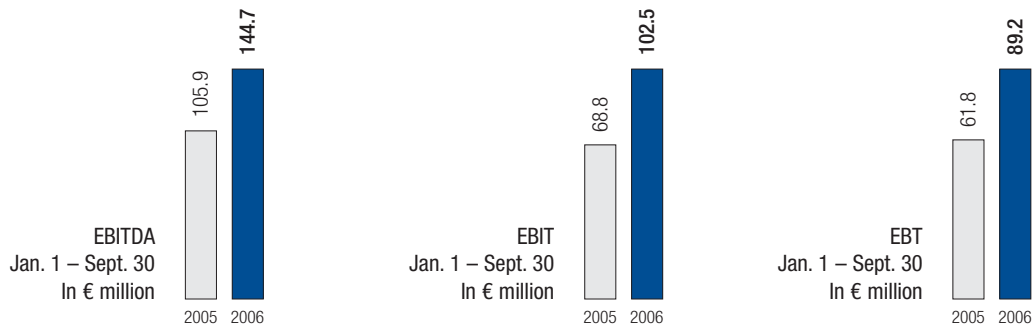
### Positive business development in the first nine months of 2006

In the first nine months of 2006, STADA achieved clear rates of increase both in sales and in net income, although organic sales growth – partly due to specific national market situations such as the weak German generics business in the third quarter of 2006 – slowed in the third quarter of 2006. However, the complete takeover of the Serbian Hemofarm Group, successfully executed in the third quarter of 2006, – with a purchase price of € approx. 493.9 million the largest acquisition in STADA's company history – has strengthened sales and operating earnings since the consolidation as of August 1, 2006.

### Clear increase in Group sales

In the reporting period for the first nine months of 2006, STADA recorded a plus of 18% to € 870.3 million (1–9/2005: € 739.2 million) in **Group sales**. This included acquisition-related effects – through the staggered inclusion of product sales from the acquisition of the SANKYO product package in the fourth quarter of 2005 as well as the retroactively as of August 1, 2006 executed initial consolidation of Hemofarm acquired in the third quarter of 2006 – in the amount of € 50.5 million or 7 percentage points. The previous year's sales from Group companies no longer included in the scope of consolidation due to their sale amounted to € 21.0 million. Considering both these initial consolidations as well as deconsolidations, the **organic growth** of the Group in the first nine months of the current fiscal year amounted to 12%.

In the reporting period, the largest core segment **Generics** (share of Group sales 70.1%), reported sales growth of 14% to € 609.7 million (1–9/2005: € 533.7 million). Of this, retroactively as of August 1, 2006, an increase of 4 percentage points is accounted for by the inclusion of the sales made by Hemofarm. The second largest core segment **Branded Products** (share of Group sales 21.6%) grew by 23% to € 187.9 million in the first nine months of 2006 (1–9/2005: € 152.8 million). In this connection, an increase of 13 percentage points can be attributed to the inclusion of the SANKYO product package and an increase of 2 percentage points to Hemofarm's sales of branded products. In the smallest core segment **Specialty Pharmaceuticals** (share of Group sales 2.1%), sales of € 18.4 million in the reporting period were at the level of the previous year (1–9/2005: € 18.5 million).



In the first nine months of 2006, STADA's **international sales**, with an increase of 25%, grew at a stronger rate as compared to the overall sales of the Group so that sales outside of Germany had a share of 59.6% in the reporting period (1–9/2005: 56.3%). The retroactive consolidation of Hemofarm as of August 1, 2006 also contributed to this.

#### High one-time special effects

Due to high one-time special effects – in particular in the third quarter of 2006 as well as in the third quarter of 2005 – the most important key earnings figures are presented in both non-adjusted and adjusted forms in this report.

In the first nine months of 2006, one-time special effects amounted to a net total burden of € 20.0 million before taxes; of this, a € 12.0 million burden can be attributed to the closing of the US activities in the third quarter of 2006 (see Regional Development in the STADA Group). A positive one-time special effect in the amount of € 1.0 million before taxes comes from book profits from the sale of the 50% stake in the Swiss sales company Helvepharm AG (see Regional Development in the STADA Group).

The one-time special effects of the basis for the year-on-year comparison, i.e. the first nine months of 2005 resulted in a net burden of € 28.9 million before taxes; of this, in particular € 20.0 million related to the third quarter of 2005 from the closing of the LipoNova/Reniale® project at the 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 in the consolidated income statement below operating profit in the lines "Closing of the US activities" and "Closing of the LipoNova/Reniale® project". Unscheduled depreciation on intangible assets in connection with the US business, which burdened operating profit in the first half of 2006, is thereby now combined with the considered book losses from the deconsolidation of the US business below operating profit; in the third quarter of 2006 this resulted in an arithmetical improvement in operating profit in the amount of € 3.8 million. The Group's operating profit development is thereby not affected by the two one-time special effects "Closing of the US activities" and "Closing of the LipoNova/Reniale® project".

### Strong increase in net income

The earnings situation of the STADA Group developed positively in the reporting period. This applies both to the non-adjusted and adjusted key earnings figures.

in € million	1–9/2006	1–9/2005	growth rate	<i>Adjusted for one-time special effects</i>		
				1–9/2006	1–9/2005	growth rate
Operating profit	114.3	88.8	29%	122.3	97.8	25%
EBITDA	144.7	105.9	37%	153.8	121.9	26%
EBIT	102.5	68.8	49%	122.6	97.8	25%
EBT	89.2	61.8	44%	109.2	90.7	20%
Net income	60.1	33.4	80%	71.5	56.4	27%
Basic earnings per share in € <sup>1)</sup>	1.12	0.63	78%	1.34	1.06	26%
Diluted earnings per share in € <sup>2)</sup>	1.03	0.58	78%	1.22	0.99	23%

In the first nine months of 2006, **net income** rose by 80% to € 60.1 million (1–9/2005: € 33.4 million) and thereby again 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 € 71.5 million (1–9/2005: € 56.4 million).

Earnings per share<sup>1)</sup> thus totalled € 1.12 (1–9/2005: € 0.63), adjusted earnings per share totalled € 1.34 (1–9/2005: € 1.06). Diluted earnings per share<sup>2)</sup> amounted to € 1.03 (1–9/2005: € 0.58), adjusted diluted earnings per share amounted to € 1.22 (1–9/2005: € 0.99).

The other **key earnings figures** also achieved clear growth in the first nine months of 2006. Operating profit showed an increase by 29% to € 114.3 million in the first nine months of the current fiscal year (1–9/2005: € 88.8 million), adjusted operating profit increased by 25% to € 122.3 million (1–9/2005: € 97.8 million).

Earnings before taxes (EBT) recorded growth by 44% to € 89.2 million (1–9/2005: € 61.8 million), adjusted earnings before taxes grew by 20% to € 109.2 million (1–9/2005: € 90.7 million). Earnings before interest and taxes (EBIT) rose by 49% to € 102.5 million (1–9/2005: € 68.8 million), adjusted earnings before interest and taxes rose by 25% to € 122.6 million (1–9/2005: € 97.8 million). Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 37% to € 144.7 million (1–9/2005: € 105.9 million), adjusted earnings before interest, taxes, depreciation and amortization increased by 26% to € 153.8 million (1–9/2005: € 121.9 million).

1) In accordance with IAS 33.10, treasury shares held are not considered in the earnings per share (EPS) calculation. Calculation of earnings per share is thereby based on an average of 53,477,538 outstanding shares as of September 30, 2006 (corresponding number of outstanding shares as of September 30, 2005: 53,296,492).

2) In accordance with IAS 33.31.

Thus, the sales-related margins in the reporting period resulted as follows: operating margin 13.1% (1–9/2005: 12.0%) – adjusted operating margin 14.1% (1–9/2005: 13.2%), EBIT margin 11.8% (1–9/2005: 9.3%) – adjusted EBIT margin 14.1% (1–9/2005: 13.2%), EBT margin 10.2% (1–9/2005: 8.4%) – adjusted EBT margin 12.6% (1–9/2005: 12.3%) and net margin 6.9% (1–9/2005: 4.5%) – adjusted net margin 8.2% (1–9/2005: 7.6%). Overall, STADA was thus able to show higher profitability in the first nine months of the current reporting year than in the corresponding period in the previous year.

The following values resulted for the operating profits in the core segments in the first nine months of 2006: Generics grew by 35% to € 92.8 million (1–9/2005: € 68.7 million) – the retroactive consolidation of Hemofarm as of August 1, 2006 also contributed to this. Branded Products were up by 19% to € 32.3 million (1–9/2005: € 27.1 million) due, among other things, to the inclusion of the SANKYO product package. Specialty Pharmaceuticals achieved growth of 19% to € 3.1 million (1–9/2005: € 2.6 million).

The operating profit margins for the core segments were thereby as follows: Generics 15.2% (1–9/2005: 12.9%), Branded Products 17.2% (1–9/2005: 17.7%) and Specialty Pharmaceuticals 17.0% (1–9/2005: 14.3%).

#### STADA acquires the Serbian Hemofarm Group

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

Within the framework of this 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 announcement of the acquisition intent on July 14, 2006 approx. € 146.97) for each Hemofarm share, thereby maintaining 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 approx. € 493.9 million for the acquisition of 100% of all Hemofarm shares.

Hemofarm is an important East-European generics supplier. In 2005, Hemofarm increased its sales in the local currency by approx. 30% to RSD 17,261.2 million (at the date of the announcement of the acquisition intent on July 14, 2006 approx. € 205.5 million). In 2005, net income of Hemofarm including minority interest in the local currency rose by approx. 89% to RSD 2,289.9 million (at the date of the announcement of the acquisition intent on July 14, 2006 approx. € 27.3 million).<sup>1)</sup>

1) Sales of the Hemofarm Group worldwide under consideration of disposals which have been made in the meantime (until 7/2006 under the previous owners): 1–9/2006: RSD 11,643.4 million (1–9/2005: RSD 10,317.4 million)

The sales focus of Hemofarm is in Eastern Europe. In the home market of Serbia, as well as in Montenegro, Hemofarm is the clear market leader in the individual national pharmaceutical market; in 2005, in these two markets, a total of 62% of Hemofarm's sales were achieved. Further important local East-European markets for Hemofarm are the CIS countries, in particular Russia, as well as Bosnia and Herzegovina and Romania. In 2005, Hemofarm 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 company had 5 production locations in various East-European countries.

From STADA's perspective, the acquisition of Hemofarm is an important strategic step in the expansion of sales activities to Eastern Europe. At the same time, STADA thereby gains access to low-cost production units and development centers in this region. With the takeover, STADA consistently moves the internalization of the Group forward.

A comprehensive integration program was already started with the majority takeover of Hemofarm in the middle of August of 2006. In addition to the quick integration of Hemofarm in the strategic and operative planning as well as in the Group's controlling, reporting and finance structures, the focus here lies on the sectors of procurement, production and development. STADA expects significant synergy effects with medium term additional earnings potential in the amount of clear double-digit millions from this integration.

#### Regional Development in the STADA Group

In **Germany**, which continues to be STADA's largest national market, Group sales in the first nine months of 2006 grew by a total of 9% to € 351.3 million (1–9/2005: € 323.3 million).

As a reaction to the massive structural market changes – as a result of the AVWG<sup>1)</sup> which took effect on May 1, 2006 – the two German generic lines in the STADA Group, STADApHarm and ALIUD Pharma, carried out significant price reductions as of July 1, 2006. This affects primarily price reductions that were already part of STADA's corporate plans and are aimed at detailed regulations of the AVWG. Their earnings effects are anticipated to be partly compensated by the AVWG discount ban.

In addition, as is generally known, comprehensive stockpiling activities on the part of the pharmacy distribution channels and wholesalers were carried out prior to the AVWG. In the German market, the elimination of this stockpiling could still be observed in the third quarter of 2006; in addition, there are indications that the distribution channels are reducing their average inventories compared to the period before the AVWG took effect. In the short term, these effects had a curbing influence on the German generics market in the third quarter of 2006. In the medium term, however, the prospect that the AVWG can lead to a further increase in generics penetration in Germany and thus to positive volume effects for generics suppliers remains unchanged.

1) AVWG: Economic Optimization of Pharmaceutical Care Act.

As a consequence of these specific market effects in connection with the AVWG, in Germany, the generics market as a whole declined by 13%<sup>1)</sup> in the third quarter of 2006. In the Generics segment, in the third quarter of 2006, the STADA Group's sales in Germany are also 9% below the previous year<sup>2)</sup> and thus, grew by only 8% in the first nine months of 2006.

From today's perspective, STADA continues to assume – also supported by once again increasing generic sales in Germany in the current fourth quarter of 2006 – that these are temporary effects. However, in Germany, as of November 1, 2006, drugs in additional 130 reference price groups have been exempt from patient co-payment through regulatory measures to the extent that their ex-factory prices are at least 30% below the reference price. So far, the STADA sales companies have reacted to this regulation only with few price reductions; however, they carefully analyze the reactions of competitors and will react by means of additional price reductions, if necessary. For the next fiscal year 2007, STADA will react to a possible permanent burden of earnings due to the structural market changes of the year 2006 as well as to additional expected reductions in reference prices as of January 1, 2007 by means of appropriate measures to secure earnings, if required, which can particularly also include reductions in personnel in the German sales companies.

On October 25, 2006, the federal cabinet adopted draft legislation for another health care reform in which the focus, in particular, is on the financing of the system. Currently, this draft is being intensively discussed in parliamentary debates. According to the draft, among other things, the financial strength of the German health care system should be improved through an increase in contributions and also through tax subsidies. Additionally, it is planned to reorganize the distribution of resources to health insurance organizations within the framework of a fund model with a fixed per capita rate. Furthermore, competitive structures should be strengthened in all organizational and health care forms of the health care system. In the drugs area, for example, measures are planned against pseudo-innovations as well as additional savings clauses for direct contractual price agreements between health insurance organizations, individual service providers and suppliers.

This new health care reform should take effect as of April 1, 2007. The complex effects of this planned reform will depend, for the most part, on the final detailed formulation of the law and 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.

**International sales** grew by 25% in the business development to date in the year 2006 and thus significantly stronger than sales in Germany. International sales now account for 59.6% (1–9/2005: 56.3%) of total Group sales. STADA's increasing internationalization, which was further strengthened by the acquisition of the Serbian Hemofarm in the third quarter of 2006, is mirrored here.

1) Source: IMS DPM.

2) Due to inventory building on the part of the distribution channels in the second quarter of 2006 unusually high inventory levels, in the third quarter of 2006 market norm payments to

wholesalers and pharmacists for inventory value adjustments for price reductions took place to such a large extent that notwithstanding the provisions made for that purpose in the second quarter of 2006 an expense of approx. € 7.5 million arose in the third quarter.

Outside of Germany, the following markets in particular recorded pleasing developments: In **Italy**, sales went up by 15% to € 75.0 million (1–9/2005: € 65.2 million). In **Russia** sales increased in local currency by 43% to RUB 1,961.9 million (1–9/2005: RUB 1,375.2 million) and in Euro by 48% to € 57.8 million (1–9/2005: € 38.9 million). The ongoing very positive business development of Nizhpharm<sup>1)</sup> continued to contribute the major part of this increase; additionally, since initial consolidation on August 1, 2006, sales in the amount of € 5.5 million have been achieved by Hemofarm in Russia. In **Belgium**, sales went up by 13% to € 75.9 million (1–9/2005: € 67.2 million). In **Spain**, STADA achieved sales growth of 16% to € 46.1 million (1–9/2005: € 39.9 million).

In **France**, STADA showed – in spite of regulatory-related price reductions as of February 1, 2006 – due to pleasingly strong sales growth in the third quarter of 2006 (+12%) – again a slight sales increase of 1% to € 52.2 million in the first nine months of the current fiscal year (1–9/2005: € 51.9 million). The margin situation in the French business, however, continues to be burdened by the price reductions.

In **Serbia**, STADA achieved – after the successful takeover of Hemofarm and its retroactive initial consolidation as of August 1, 2006 – in the current fiscal year sales in the amount of € 17.1 million to date and was thus able – also due to the current strength of the dinar – to make a mentionable positive contribution to the STADA Group's operating profit.

Within the framework of the planned concentration on its core business, the newly acquired Serbian Hemofarm has, in the current fourth quarter of 2006, sold its phytosanitary business Hemovet (Hemovet sales consolidated in the STADA Group since consolidation begin on August 1, 2006 up to date of sale on October 27, 2006 amounted to € 0.3 million) to local Serbian investors at a price of approx. € 7.5 million and achieved a limited book profit.

In **Switzerland**, as is known, STADA held a 50% stake in the Swiss generics supplier Helvepharm AG. As this has been sold for sales strategy reasons in the third quarter of 2006, retroactively taking effect as of June 30, 2006, STADA has been realizing only license and export sales in Switzerland since the beginning of the third quarter of 2006. Against this backdrop, sales generated by STADA there amounted to € 5.4 million in the first nine months of 2006 (1–9/2005: € 4.3 million). In the medium term, an own STADA sales company continues to remain a business policy option in this national market.

In the **USA**, STADA, against the backdrop of limited operative possibilities in the existing business structures and concurrently high price and margin pressures in the US generics market, sold the Group's unprofitable local business in the third quarter of 2006.

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.

1) Growth rate of the Russian Nizhpharm business in local currency of 30% and in Euro of 35%.

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 instalment. An additional claim from the buyer accommodated in the third quarter of 2006 through a balance sheet adjustment of the purchase price claim 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.

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

In the first nine months of 2006, STADA achieved sales of € 16.6 million in the USA, thereof € 1.2 million from exports after the deconsolidation of STADA's US business on August 21, 2006. In the first three quarters of 2005, sales of the US activities still amounted to € 23.5 million.

In the USA, after the sale of the US business, STADA will at first only realize sales from export businesses. The Group will, however, continue to check whether, in the mid term, other profitable opportunities for a successful US business of its own will arise.

In **Asia**, sales rose by 73% to € 34.0 million in the reporting period (1–9/2005: € 19.6 million). Sales development in the Philippines, with a rise of 13% to € 5.5 million (1–9/2005: € 4.8 million) as well as in Vietnam with a sales growth of 288% to € 17.1 million (1–9/2005: € 4.4 million) contributed significantly to this. In Vietnam, the special factor of a one-time tender business, focused on the first quarter of 2006, with a sales volume of € 12.2 million contributed to the positive development.

In **Africa**, for the first time, the STADA Group, due to the acquisition of Hemofarm, achieved sales in the amount of € 1.8 million.

STADA generated **export sales** to 33 further countries in the first nine months of 2006, thereby reporting, with an increase of 79%, sales in the amount of a total of € 13.8 million (1–9/2005: € 7.7 million).

#### [Ensuring a continuous flow of new products through a well-filled product pipeline](#)

The comprehensive development and approval activities of the Group ensure that the STADA sales companies continue to have access to a constant flow of new products. Thus, in the first nine months of 2006, 250 new products were launched in the market (1–9/2005: 263 new product launches). Due to the well-filled product pipeline, STADA also expects numerous new product launches in the years to come.

### Biosimilar projects

The development of biosimilar products continues to be carried out by BIOCEUTICALS Arzneimittel AG, a company initiated by STADA and predominantly financed via venture capital. Through a wholly-owned subsidiary, STADA holds worldwide distribution rights as well as an option according to which STADA, from 2011, can acquire the outstanding shares in BIOCEUTICALS Arzneimittel AG at a price which has already been defined via a formula.

After a capital increase, which was carried out in October 2006, STADA now holds 14.99% of the shares in BIOCEUTICALS Arzneimittel AG for which total payments of € 16.3 million have now been made. STADA continues to provide BIOCEUTICALS Arzneimittel AG with a credit line facility with an interest rate that is usual for risk capital and of which a total of € 27.3 million had been used as of September 30, 2006. In addition, a capital guarantee from STADA for the benefit of BIOCEUTICALS Arzneimittel AG exists, of which approx. € 24.9 million had been used as of September 30, 2006.

The European Medical Evaluation Agency (EMA) is currently processing the approval application submitted by STADA on June 30, 2006, on behalf of BIOCEUTICALS Arzneimittel AG, for a biosimilar from Erythropoietin<sup>1)</sup> with the INN label Erythropoietin-zeta (epo-zeta)<sup>2)</sup>. From today's perspective, STADA and BIOCEUTICALS assume – in acknowledgement of an "Assessment Report" from the current fourth quarter of 2006 and which is usually carried out in the framework of this process – that there is a chance to obtain an EU-wide approval for Erythropoietin-zeta for the indication "dialysis" in 2007. Thus, the start of the EU-wide marketing of Epo-zeta continues to seem possible for the beginning of 2008. For the indication "oncology", which is also being strived for in the approval process, BIOCEUTICALS Arzneimittel AG is currently carrying out complimentary trials; possibly, this indication will not yet be approved by the EMA at the start of marketing for Epo-zeta. However, an approval for the indication "oncology" for the EU will also continue to be strived for in the foreseeable future.

In discussions with various interested parties, STADA continues to investigate whether marketing with or via partners in various national markets may be appropriate.

Since the second quarter of 2006, the pre-clinical trials have been ongoing for the Filgrastim<sup>3)</sup> biosimilar project. After the successful completion of these pre-clinical trials, the start of the clinical trials is expected by the end of 2006/beginning of 2007.

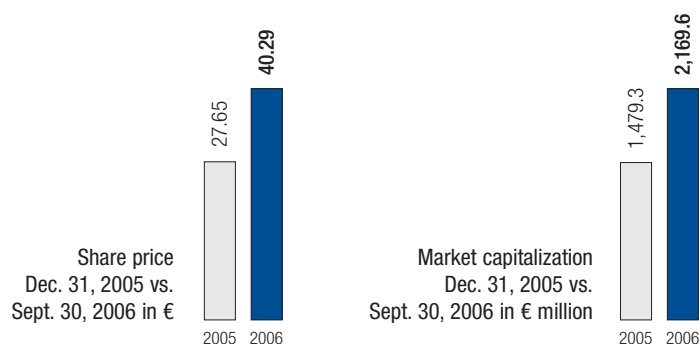
### Balance sheet and cash flow

The STADA balance sheet structure has been significantly affected by the credit financed takeover of Hemofarm in the third quarter of 2006. Thus, the value of the non-current assets brought in by the Hemofarm Group to the consolidated financial statements, including preliminary purchase price disbursement, amounts to approx € 390 million, of this amount, approx. € 230 million currently emanates from a preliminary allocation of the paid value added to the individual assets in accordance with IFRS 3. With current assets, approx. € 166 million was brought in by the

1) Erythropoietin is used, among other things, for dialysis patients to stimulate hematopoieses as well as in cancer therapy.

2) The exclusive production partner for Epo-zeta is Norbitec GmbH, Uetersen, in which BIOCEUTICALS Arzneimittel AG holds one third of the shares.

3) Filgrastim is used, among other things, to treat neutropenia, e.g. following cytotoxic chemotherapy and bone marrow transplants.



Hemofarm Group; here, no value-added has been allocated. The remaining non-allocated goodwill amounts to approx. € 117 million, according to preliminary purchase price allocation.

The deconsolidation of the American STADA Inc. and the Swiss Helvepharm AG is having the opposite effect in the third quarter of 2006. In comparison to December 31, 2005 this results in – both disposals taken together – a reduction of non-current assets of approx. € 7.8 million and of current assets of approx. € 27.3 million; at the same time current liabilities fell by € 0.5 million and non-current liabilities by € 13.3 million.

As of September 30, 2006, the equity-to-assets ratio was 35.6% (December 31, 2005: 50.7%), net debt amounted to € 852.5 million on this date (December 31, 2005: € 234.2 million).

STADA wants to further accelerate the longterm growth course by making appropriate acquisitions in the future as well. In this connection, the Group consistently examines suitable objects. For the financing of such projects, appropriate capital measures continue to be imaginable in the foreseeable future.

Cash flow from operating activities in the first nine months of 2006 amounted to € -5.6 million; this negative cash flow from operating activities – not calculating the initial consolidation of the Hemofarm Group – is, with a rise in inventories and trade accounts receivable that is lower as compared to sales, primarily attributable to a significant reduction in current liabilities. This includes a one-time special effect in the amount of € 38.9 million for the partial payment of existing liabilities from the purchase of the SANKYO branded product package in the fourth quarter of 2005. Without this one-time special effect, cash flow from operating activities would have been positive with € 33.3 million in the first nine months of 2006.

#### STADA share

On September 30, 2006 STADA's restricted registered common share was listed at € 40.29 while, as of December 31, 2005, STADA's share price was € 27.65. Thus, on September 30, 2006, STADA's market capitalization amounted to € 2.170 billion. As of December 31, 2005 the enterprise value of STADA was € 1.479 billion.

As of September 30, 2006, there was no report of any investor holding an interest in the share capital of STADA Arzneimittel AG above the 5% legal threshold.

In the first nine months of the current fiscal year, STADA did not purchase any of its own shares and sold 1,821 of its own shares at an average price of € 29.74. As of September 30, 2006, STADA thus held 118,094 of its own shares. In the first three quarters of 2006, 17,417 options from STADA warrants<sup>1)</sup> were exercised, leading to the creation of 348,340 new STADA shares. STADA's share capital thereby rose as of September 30, 2006 to € 140,006,464 (December 31, 2005: € 139,100,780).

#### Outlook: Continuation of the sustainable growth course

In its prognosis for the further business development of the STADA Group, the Executive Board continues to be optimistic.

Indeed, given STADA's business model, significant regulatory interventions as well as intensive competition, in particular also price wars, occasionally are to be expected in individual national markets.

However, due the structural growth potential of the markets in which STADA is active as well as in view of the Group's increasingly internationally diversified operative alignment, from today's perspective, the STADA Executive Board continues to assume to be able to continue the sustainable growth course in the future. Thereby, operating profit should increase at a rate stronger than sales.

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W. Jeblonski

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**Members of the Supervisory Board:** Dr. med. Eckhard Brüggemann (Chairman), Karl Hertle<sup>2)</sup> (Vice Chairman), Dr. Martin Abend, Heike Ebert<sup>2)</sup>, Uwe E. Flach, Dr. K. F. Arnold Hertzsch, Dieter Koch, Constantin Meyer, Adolf Zissel<sup>2)</sup>

Forward-looking statements: This nine months report of STADA Arzneimittel AG 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: The key performance indicators presented in this nine months report are occasionally stated in euro millions, while in the interim financial statements presented at the end of this report the same figures are generally stated more precisely in euro thousands. Thus, some rounding differences may occur, although they are not material by their nature.

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

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The consolidated interim statements of STADA Arzneimittel AG as of 30.09.06 (like the consolidated financial statements as of December 31, 2005) were prepared in accordance with the accounting standards of the International Accounting Standards Board (IASB), which are known as International Financial Reporting Standards (IFRS). The same accounting policies applied in the consolidated financial statements for fiscal year 2005 were applied to these interim financial statements. The notes to the consolidated financial statements for 2005 also apply to these interim financial statements where appropriate. The present quarterly report fulfills the requirements for interim financial reports set out in IAS 34.

1) The legally binding warrant conditions are published on the company's web site at [www.stada.com](http://www.stada.com).

2) Employee representatives.

# GROUP RESULTS

Consolidated Income Statement in € 000s <sup>1)</sup>	1/1–9/30/06	1/1–9/30/05	7/1–9/30/06	7/1–9/30/05
01. Group sales	870,254	739,177	290,268	246,791
02. Cost of sales	445,202	371,304	151,420	123,245
<b>03. Gross profit</b>	<b>425,052</b>	<b>367,873</b>	<b>138,848</b>	<b>123,546</b>
04. Other operating income	21,737	10,073	11,234	1,076
05. Selling expenses	220,265	192,079	74,597	61,887
06. General and administrative expenses	64,300	51,729	24,606	15,871
07. Research and development expenses	22,646	22,994	7,117	7,188
08. Other operating expenses	25,265	22,328	4,125	6,807
<b>09. Operating profit</b>	<b>114,313</b>	<b>88,816</b>	<b>39,637</b>	<b>32,869</b>
10. Closing of US activities	-12,042	0	-12,042	0
11. Closing of the LipoNova/Reniale® project	0	-19,991	0	-19,991
12. Investment income	250	0	0	0
13. Interest result	-13,330	-7,074	-7,496	-1,944
<b>14. Financial result</b>	<b>-13,080</b>	<b>-7,074</b>	<b>-7,496</b>	<b>-1,944</b>
<b>15. Earnings before taxes</b>	<b>89,191</b>	<b>61,751</b>	<b>20,099</b>	<b>10,934</b>
16. Taxes on income	28,921	28,080	2,147	9,422
<b>17. Net income<sup>2)</sup></b>	<b>60,270</b>	<b>33,671</b>	<b>17,952</b>	<b>1,512</b>
• thereof net income distributable to shareholders of STADA Arzneimittel AG	60,127	33,406	17,897	1,413
• thereof net income relating to minority interests	143	265	55	99
18. Earnings per share in € (in accordance with IAS 33.10)	1.12	0.63	0.33	0,03
19. Earnings per share in € (diluted) (in accordance with IAS 33.31)	1.03	0.58	0.31	0.02

1) The following changes took place in the scope of consolidation in the third quarter of 2006: Helvepharm AG, Frauenfeld, Switzerland, as well as STADA Inc. and STADA Pharmaceuticals Inc., both Cranbury, USA, were deconsolidated. A part of Hemofarm a.d., Vrsac, Serbia, was consolidated for the first time. Also in the third quarter of 2006, ZAO Trand was merged into Nizpharm OJSC, both Nizhny Novgorod, Russia. In addition, the Group's stake in Nizpharm OJSC increased to 99.58%.

2) Unless otherwise stated, "net income" in this nine months 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.

Consolidated Cash Flow Statement in € 000s (excerpt) <sup>3)</sup>	1/1–9/30/06	1/1–9/30/05
Cash flow (gross)	104,821	71,695
Cash flow from operating activities	-5,610	43,739
Cash flow from investing activities	-532,579	-166,560
Cash flow from financial activities	552,289	102,260
Other changes in shareholders' equity / currency translation	12,660	-109
Net cash for the period	26,760	-20,670

3) The figures for the previous year were adjusted due to structural changes in the cash flow statement within the framework of the annual financial statements 2005.

Consolidated Statement of Changes in Shareholders' Equity in € 000s	1/1–9/30/06	1/1–9/30/05
Shareholders' equity	684,811	638,995
Net income distributable to shareholders of STADA Arzneimittel AG	60,127	33,406
Capital increase through the exercising of warrants	5,730	1,602
Change in the provision for cash flow hedges	0	+1,676
Dividend of STADA Arzneimittel AG	-20,819	-20,775
Other changes/currency translation/changes in minority interest	19,301	9,919
Shareholders' equity	749,150	664,823

Segment Reporting in € 000s	1/1–9/30/06	1/1–9/30/05	
1. Generics	Group sales	609,704	533,712
	Operating profit	92,848	68,741
	Contribution to net income for the period	49,342	38,410
	Segment assets (Sept. 30)	449,974	384,836
2. Branded Products	Liabilities (Sept. 30)	211,008	138,096
	Group sales	187,867	152,792
	Operating profit	32,294	27,081
	Contribution to net income for the period	20,963	16,355
3. Specialty Pharmaceuticals	Segment assets (Sept. 30)	153,319	121,685
	Liabilities (Sept. 30)	110,068	24,151
	Group sales	18,427	18,484
	Operating profit	3,139	2,646
4. Commercial business	Contribution to net income for the period	1,941	1,759
	Segment assets (Sept. 30)	66,621	66,533
	Liabilities (Sept. 30)	2,848	2,659
	Group sales	46,098	29,209
5. Group holding company / other	Operating profit	1,371	1,632
	Contribution to net income for the period	729	929
	Segment assets (Sept. 30)	5,093	4,274
	Liabilities (Sept. 30)	11,971	10,171
5. Group holding company / other	Group sales	8,158	4,980
	Operating profit <sup>4)</sup>	-15,339	-11,284
	Contribution to net income for the period	-12,848	-24,047
	Segment assets (Sept. 30)	57,145	75,160
	Liabilities (Sept. 30)	928,200	327,293

4) Including eliminations within the segments.

Consolidated Balance Sheet in € 000s

	Sept. 30, 2006	Dec. 31, 2005
<b>Assets</b>		
<b>A. Non-current assets</b>	<b>1,328,172</b>	<b>783,806</b>
1. Intangible assets	925,639	612,205
2. Property, plant and equipment	264,999	94,540
3. Financial assets	58,310	32,702
4. Non-current trade accounts receivable	1,781	1,065
5. Other non-current assets	60,445	31,912
6. Deferred tax assets	16,998	11,382
<b>B. Current assets</b>	<b>775,787</b>	<b>565,967</b>
1. Inventories	302,063	224,042
2. Current trade accounts receivable	333,051	230,254
3. Other current assets	41,144	38,902
4. Other current assets	13	13
5. Cash and cash equivalents	99,516	72,756
<b>Total assets</b>	<b>2,103,959</b>	<b>1,349,773</b>
<b>Equity and Liabilities</b>		
<b>A. Shareholders' equity<sup>1)</sup></b>	<b>749,150</b>	<b>684,811</b>
1. Share capital	140,006	139,101
2. Reserves and unappropriated retained earnings	589,612	543,438
3. Minority interests	19,532	2,272
<b>B. Non-current liabilities and provisions</b>	<b>377,993</b>	<b>316,856</b>
1. Non-current provisions	19,041	17,362
2. Non-current financial liabilities	287,057	258,723
3. Non-current trade accounts payable	637	827
4. Other non-current liabilities	4,956	2,797
5. Deferred tax liabilities	66,302	37,147
<b>C. Current liabilities and provisions</b>	<b>976,816</b>	<b>348,106</b>
1. Current provisions	5,371	3,985
2. Current financial liabilities	664,942	48,214
3. Current trade accounts payable	156,401	124,614
4. Other current liabilities	150,102	171,293
<b>Total assets</b>	<b>2,103,959</b>	<b>1,349,773</b>

1) In the time between January 1 and September 30, 2006, a total of 17,417 options from the STADA warrant (ISIN DE0007251845) were exercised, leading to 348,340 new shares. Registered capital as of September 30, 2006 thereby includes 53,848,640 shares.

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 July 1, 2006.

5) Deconsolidation of STADA Inc. as of August 21, 2006.

Consolidated sales by region <sup>2)</sup> in € 000s	1/1–9/30/06	1/1–9/30/05	± %
Europe	817,465	695,867	+18%
• Belgium	75,947	67,226	+13%
• Bosnia-Herzegovina <sup>3)</sup>	3,131	197	+1,489%
• Denmark	18,018	14,820	+22%
• Germany	351,253	323,276	+9%
• Finland	4,428	135	+3,180%
• France	52,232	51,875	+1%
• United Kingdom	29,315	22,198	+32%
• Ireland	12,542	11,408	+10%
• Italy	74,986	65,162	+15%
• Lithuania	667	750	-11%
• Montenegro <sup>3)</sup>	768	-	-
• The Netherlands	28,743	28,639	+0%
• Austria	7,468	7,664	-3%
• Portugal	7,384	3,384	+118%
• Romania <sup>3)</sup>	2,248	1,280	+76%
• Russia	57,760	38,911	+48%
• Switzerland <sup>4)</sup>	5,442	4,327	+26%
• Serbia <sup>3)</sup>	17,137	-	-
• Spain	46,104	39,910	+16%
• Czech Republic	5,864	4,860	+21%
• Ukraine	6,247	4,297	+45%
• Rest of Europe	9,781	5,548	+76%
Africa <sup>3)</sup>	1,810	23	+7,770%
The Americas	16,934	23,577	-28%
• USA <sup>5)</sup>	16,645	23,478	-29%
• Rest of Americas	289	99	+192%
Asia	34,043	19,648	+73%
• China	3,480	4,498	-23%
• Kazakhstan	2,790	2,009	+39%
• The Philippines	5,467	4,846	+13%
• Thailand	1,446	1,876	-23%
• Vietnam	17,117	4,410	+288%
• Rest of Asia	3,743	2,009	+86%
Rest of world	2	62	-97%

