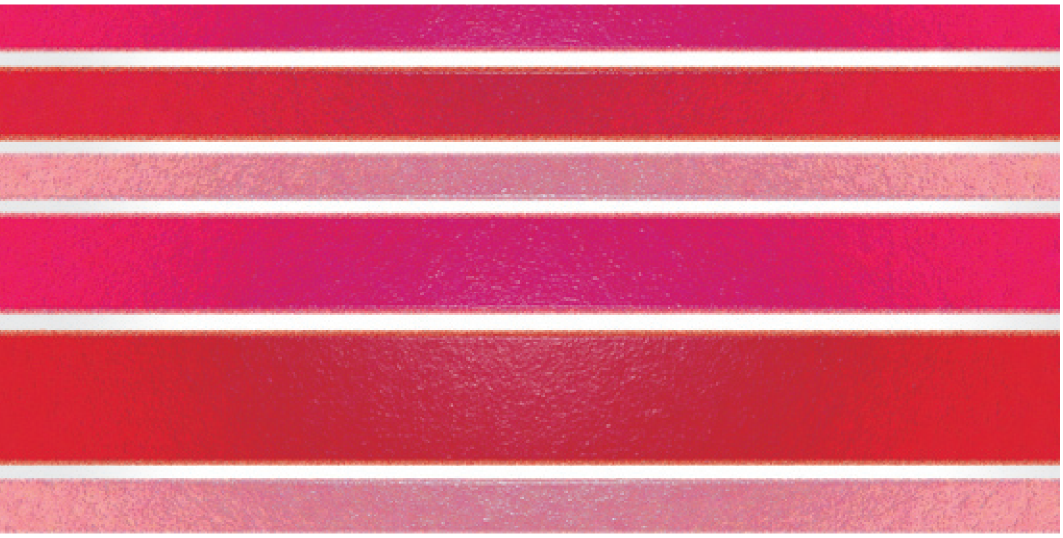
STADA
Arzneimittel

The Health Company



Report on the First Six Months of 2004

Dear Shareholders,

As expected, 2004 is proving to be a difficult year for STADA. After the first six months of this year, STADA had increased sales by +11% compared to the same period of the previous year. Net income, including special items, amounted to € 20.0 million, a decrease of -14% compared to the first half of the previous year.

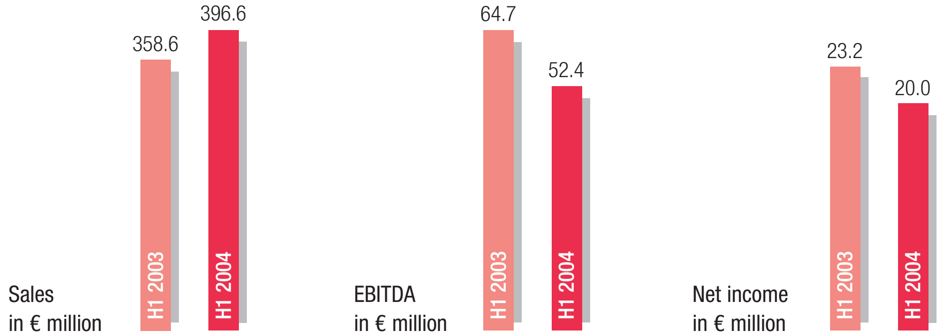
This year, of course, STADA has had to contend with the severe burdens imposed by healthcare policy, especially in Germany, as a result of the law on modernizing the German public healthcare system ("GKV-Modernisierungsgesetz" or "GMG"), which came into effect on January 1, 2004. In the first quarter of 2004, the STADA Group managed to cope with these adverse effects without lowering its growth forecast. In the second quarter, however, there was also an unexpectedly subdued demand in some key national markets and an increasingly difficult situation in terms of pricing and discounts. Consequently during the second quarter of 2004 at the Annual Shareholders' Meeting on June 15, STADA's Executive Board adjusted its forecast for the year to reflect the Company's weaker performance.

From today's perspective STADA's target of double-digit percentage sales growth for 2004 remains possible, although it is no longer certain. The Executive Board's target is now for net income in 2004 to be in the range of last year's level.

Development of Sales

In the first half of 2004, STADA Group sales rose by +11% to € 396.6 million compared to the same period of the previous year (H1 2003: € 358.6 million). Of this growth, 10 percentage points reflect organic Group sales, excluding acquisitions in the current year.

In the first six months of 2004, sales in the Generics core segment rose by +12% to € 292.2 million compared to the same period of the previous year (H1 2003: € 261.7 million). The development of sales in this segment was persistently influenced by adverse regulatory factors, especially in Germany and Spain. At the end of the first half of 2004, sales in the Branded Products segment rose by +5% to € 71.1 million compared to the level of sales for the same period of the previous year (H1 2003: € 67.5 million), largely influenced by weak demand for certain Group products of this segment in Germany, Italy and Spain. Sales in the Group's Special Pharmaceuticals segment increased in the first half of 2004 by +12% to € 12.2 million compared to the first half of 2003 (H1 2003: € 10.9 million).



In the first half of 2004, **Germany** continued to be by far the most important national market for STADA, generating 49.6% of Group sales (H1 2003: 53.0%). This national market continues to present STADA with particularly difficult challenges caused by the effects of the law on modernizing the German public healthcare system ("GKV-Modernisierungsgesetz" or "GMG") and the extraordinarily high level of competition in terms of discount conditions concerning sales to pharmacies, especially in the second quarter of 2004.

Mandatory discounts granted in Germany to the public health insurance system as a result of the GMG amounted to € 9.9 million for STADA in the first half of 2004 (H1 2003: € 3.1 million). In addition to these mandatory discounts, which directly affect Group sales and, in particular, earnings, a further consequence of the GMG was a weakness in demand, especially in the second quarter, for OTX products in the German market. OTX products are OTC drugs that were reimbursed in the past by the public health insurance system if prescribed by a doctor. The anticipated recovery in sales of these OTX products has so far failed to materialize. This is because doctors tend to ignore the exceptions list of OTX products that are still reimbursable, which has been applicable since April 1, 2004, and because the volume of drugs on alternative private prescriptions or bought by patients themselves has been lower than expected. This situation has particularly affected the STADA Group's second generics line ALIUD Pharma which, in contrast to the main generics line STADApharm, pursues a direct mailing strategy. As a result of this structure, ALIUD Pharma does not have a sales force of its own. It is therefore more difficult to successfully implement pharmacy-related sales and marketing activities to support recommendations and purchases by patients themselves of ALIUD Pharma's OTX products.

In addition, especially in the second quarter of 2004, STADA granted particularly large customer discounts in response to competition in its generics sales to pharmacies, which currently account for approx. 48% of STADA's total generics sales in Germany. As competitors have since withdrawn their partly excessive discount conditions, STADA, too, is now trying to return to less generous discount conditions for generics sold to pharmacies in the third quarter of 2004.

Despite all these factors impacting STADA's business in Germany, Group sales in the first half of 2004 rose by +4% to € 196.9 million (H1 2003: € 190.1 million). Generics, the largest of the core segments, increased its sales in Germany by +1% to € 140.0 million in the first half of 2004. This means that the STADA Group remains the third largest player in the German generics market, which in terms of its size and market penetration continues to be Europe's largest generics market by far.

Excluding mandatory discounts, STADA Group sales in Germany would have increased by +7%. In the opinion of the Executive Board, this growth rate – adjusted for the adverse impact of mandatory discounts – clearly indicates an unbroken growth trend in operative business in the important German market.

Originally, the mandatory discounts imposed by the GMG should have been gradually replaced by new reference prices for the relevant active ingredients during the course of 2004. However, the establishment of these new reference prices has already been delayed several times. Consequently, STADA no longer expects such reference prices to be introduced before the end of this year. Instead, it must be assumed that – as stated in the report for the first quarter of 2004 – mandatory discounts will be charged in full for the whole of 2004. From today's perspective, STADA will therefore be charged with over € 20 million in mandatory discounts in fiscal 2004.

It is currently unclear whether STADA can expect a reduction in charges in the German market due to the replacement of mandatory discounts with reference prices in 2005. If – as intended by the GMG – moderate new reference prices are introduced that include initial supplier products with similar active ingredients still covered by patents, STADA sees opportunities for significantly reducing its charges. In that case, mandatory discounts will have been simultanteously abolished and prices of the relevant products may only have to be lowered slightly, if at all. However, the current discussion on German healthcare policy is once again questioning this kind of reference pricing. If reference prices excluding patent-protected active ingredients were established, STADA may suffer because it would then have to substantially lower its prices – although this adverse effect may be partially or even fully offset by the simultaneous abolition of mandatory discounts. If, for the time being, reference prices were not established at all, STADA's charges would be significantly reduced. This is because on January 1, 2005, according to the GMG, the basis on which mandatory discounts are assessed will be reduced from the current 16% to only 6% of the ex-factory price of products containing active ingredients without reference prices.

The numerous new products STADA has either already launched this year or plans to launch during the remainder of 2004 and in 2005 may contribute to sales in Germany. It is worth mentioning here that on February 25, 2004 STADA signed an agreement with N.V. Organon under which it launched film-coated tablets containing the antidepressant Mirtazapine in Germany in April 2004. The acquisition of approvals for all three usual strengths of Mirtazapine has effectively enabled STADA to achieve a so-called "early entry" to the market: its "Mirtazapin STADA" product is the first and – so far (as of end of July 2004) – only generic drug containing this active ingredient in the German market.

Internationally, too, the STADA Group had to meet some surprising challenges in some markets, particularly in the second quarter of 2004, while at the same time the Group again reported strong growth rates in many other markets.

STADA's Italian subsidiaries generated total sales of € 30.2 million in the first half of 2004 (H1 2003: € 29.3 million). This was an increase of only +3% compared to the first half of 2003. The reasons for the unsatisfactory performance of sales in Italy – especially in the second quarter – were the unexpectedly weak local demand and the current intense competition in terms of price. The Italian generics line has been particularly exposed to this price competition since it became the market leader[1)] during the course of this year. STADA believes that demand for generics in Italy will grow again over the medium term. The growth rate in the Italian generics market, which was only around +9%[1)] in the first six months of 2004, should return to a double-digit percentage rate over the medium term, stimulating the growth of the local generics activities of the STADA Group.

1) Based on data for the first six months of 2004 from the international market research firm IMS Health.

In Belgium, STADA – through its local sales company – remains the market leader in the generics market. Pleasingly, the STADA Group managed to sustain its dynamic growth in this market in the first six months of 2004, raising sales in Belgium by +36% to € 29.6 million compared to the same period of the previous year (H1 2003: € 21.7 million).

In France, too, the performance of STADA's sales remained highly pleasing. In the first half of 2004, Group sales in France rose by +60 % to € 25.7 million compared to the first half of 2003 (H1 2003: € 16.0 million). This increase in sales can be attributed to the strong organic growth achieved by STADA's French generics line.

In Spain, despite the downward pressure on prices as a result of new reference pricing, STADA Group sales in the first half of 2004 increased by +9 % to € 21.8 million compared to the same period of the previous year (H1 2003: € 20.1 million), due in particular to further growth in unit sales in the local generics business. The Branded Products segment in Spain also suffered from unexpectedly weak demand for some of the Group's products. Although their market presence will remain separate, STADA's two sales companies in Spain are being operationally merged so that they can be better coordinated and strengthened.

In the rest of Europe, STADA's sales performance in the first half of 2004 was also largely positive compared to the same period of 2003. Sales decreased only in Denmark (by -17 %), but increased in Ireland (by +14 %), Austria (by +9 %), the Czech Republic (by +8 %), Switzerland (by +38 %) and the Netherlands (by +2 %). STADA Group sales growth in the U.K. was particularly strong (up by +55 %), partly as a result of last year's acquisition.

In the U.S., the delivery difficulties with pre-suppliers at the beginning of the year improved during the second quarter of 2004. Towards the end of this quarter, in particular, the temporarily weak local demand for some of the Group's products recovered. Overall, this transformed the decrease in sales reported in the first quarter of the year into sales growth in the first six months of 2004. Compared to the first half of 2003, STADA Group sales in the U.S. increased by +1% to € 22.8 million (H1 2003: € 22.6 million) and grew in dollar terms by +10 % to US$ 27.9 million in the first half of 2004 (H1 2003: US$ 25.3 million).

In Asia, the Group's strongest growth was seen in Vietnam, where sales rose by +90 % in the first half of 2004 to € 2.6 million (H1 2003: € 1.4 million). However, sales in the first six months of 2004 rose significantly in the other Asian countries compared to the same period of last year: by +22 % in China (incl. Hong Kong), by +10 % in Thailand, and by +15 % in the Philippines. Taken together, STADA Group sales in Asia in the first half of 2004 grew by +31 % compared to the same period of the previous year and now amount to € 10.6 million after the first six months of 2004 (H1 2003: € 8.1 million).

Despite the challenges still facing STADA, Group sales have continued to grow in the third quarter of 2004 and, after seven months, have increased by approx. +10 %; double-digit percentage sales growth for 2004 as a whole therefore remains possible.

Performance of Earnings

The performance of Group earnings in the second quarter of 2004 was strongly impacted by the above-mentioned factors. After the first six months of 2004, STADA's net income amounted to € 20.0 million (H1 2003: € 23.2 million), a decrease of -14 % compared to the first half of 2003. Also due to the +33 % increase in the average number of outstanding shares following the capital measures carried out in the previous year, earnings per share declined to € 0.75 (H1 2003: € 1.16), while diluted earnings per share, which are also dependent on the share price, also decreased to € 0.75 (H1 2003: € 1.07).

In the first half of 2004, earnings before taxes (EBT) decreased by -23% to € 31.1 million (H1 2003: € 40.3 million), earnings before interest and taxes (EBIT) declined by -24% to € 36.2 million (H1 2003: € 47.4 million) and earnings before interest, taxes, depreciation and amortization (EBITDA) decreased by -19% to € 52.4 million (H1 2003: € 64.7 million) compared to the same period of the previous year.

Key figures for the Group	H1 2004	H1 2003	±%
Sales in € million	396.6	358.6	+11%
Operating profit in € million	36.0	47.4	-24%
EBITDA in € million	52.4	64.7	-19%
EBIT in € million	36.2	47.4	-24%
EBT in € million	31.1	40.3	-23%
Net income in € million	20.0	23.2	-14%
Earnings per share (EPS) in € (according to IAS 33.10)[1)]	0.75	1.16	-35%
Earnings per share (diluted) in € (according to IAS 33.24)[1)]	0.75	1.07	-30%
Capital expenditure in € million	54.5	32.7	+67%
Depreciation/amortization in € million	16.2	17.3	-6%
Average number of employees (1/1–6/30)[2)]	2,563	2,337	+10%
Closing price of STADA stock (XETRA®) in € on June 30	34.28	55.40	-38%
Market capitalization in € million as of June 30	915.1	1,108.7	-17%

1) Calculation based on the average number of outstanding shares before stock split on July 30, 2004.

2) Employees of companies consolidated at only 50% were considered according to their respective consolidation rate in 2004. The figures for the previous year were adjusted accordingly.

These earnings figures for the first half of 2004 include the following one-time items:

- Discontinuation of goodwill amortization was first allowed in 2004 under IFRS and already reported in the first quarter of 2004. Scheduled amortization of goodwill had reduced EBT by a total of € 3.0 million in the first six months of 2003;
- Impairments of other intangible assets amounting to a total of € 3.6 million;
- The release of provisions for patent disputes (in Q1 2004 for Omeprazole and, in addition, in Q2 2004 for Epirubicin) now amounting to € 6.8 million;
- One-time compensation payments of € 3.8 million incurred by STADA in connection with the launch of Mirtazapine, since STADA had to cancel a development and production contract for this active ingredient with a partner because STADA had acquired the necessary approvals directly from the initial supplier.

On balance, these one-time items result in an improvement of € 2.4 million in EBT for the first half of 2004. With respect to the second quarter, however, they reduced EBT by a total of € -0.8 million.

In the first half of 2004, STADA's various business segments made the following contributions to net income for the period compared to the first half of 2003: Generics € 14.8 million (H1 2003: € 20.9 million), Branded Products € 4.3 million (H1 2003: € 3.9 million), Special Pharmaceuticals € 1.9 million (H1 2003: € 1.6 million), commercial business € 0.6 million (H1 2003: € 0.2 million), Group holding company / Other € -1.5 million (H1 2003: € -3.3 million). The profit margins achieved by each of the core segments in the first half of 2004 were thus as follows, calculated as the segment's contribution to net income for the period in relation to segment sales: 5.1% for Generics (H1 2003: 8.0%), 6.0% for Branded Products (H1 2003: 5.8%), and 15.3% for Special Pharmaceuticals (H1 2003: 14.8%). When evaluating these segment results, it must be noted that the above-mentioned one-time items affect the individual segments to varying degrees. As before, the fact that there is a greater allocation of profits within the Group holding company due to internal licensing payments must also be taken into account.

Taken together, it is clear that the above-mentioned extraordinary challenges facing STADA in various national markets are significantly impacting its earnings performance. For the first time in eight years, the STADA Group failed to continue its consistently dynamic earnings growth in the second quarter of 2004.

This result was also due to the extreme effects of the mandatory discounts in the German market which directly reduce STADA's net income. These mandatory discounts were dramatically increased by the introduction of the GMG on January 1, 2004. This becomes clear when comparing the mandatory discounts STADA has to pay with the total EBT generated by the Group in the first half of 2004, which amounted to 32% of the Group EBT in the same period (H1 2003: 8%).

In view of the inevitable adverse effects of these mandatory discounts, the Executive Board's target is now for net income in 2004 to be in the range of last year's level. Excluding the adverse effects of mandatory discounts, this would once again result in clear double-digit percentage growth in net income. The cost-cutting programs already initiated should help achieve this goal and are aimed in particular at further reducing the cost of sales; STADA is also using these programs to review the efficiency of its selling expenses, without departing from the principle of conducting intensive sales and marketing activities in order to exploit the structural growth potential offered by the markets.

Balance Sheet Structure and Acquisitions Policy

The structure of STADA's balance sheet as of June 30, 2004 continued to be influenced by the expansion of its operating business and by the effects of the capital measures carried out in the second half of 2003. As part of the expansion of its operating business, inventories increased to € 192.1 million (Dec 31, 2003: € 166.7 million) and trade receivables grew to € 172.5 million (Dec 31, 2003: € 135.4 million). After last year's capital increase, STADA's equity ratio remained high at 63.4% as of June 30, 2004 (Dec 31, 2003: 64.2%).

Drawing on the strength of its balance sheet, STADA intends to continue its active policy of acquisitions. However, reasonably priced acquisition candidates that would suit the STADA structure have proved hard to find so far this year.

Apart from the acquisitions already reported in the first quarter of 2004 (investment in LipoNova GmbH and simultaneous acquisition of Europe-wide licensing rights for the autologous tumor vaccine Reniale®, and acquisition from N.V. Organon of approvals for the German market issued for film-coated tablets containing the antidepressant Mirtazapine), only a few minor product acquisitions have been achieved so far in fiscal 2004. These were in Ireland, Italy and Spain (total volume of annual sales so far acquired: approx. € 3.2 million p.a., approx. € 0.2 million of this already consolidated in 2004). Furthermore, the increase of the 60% investment in the Italian distribution specialist NPA New Pharmajani S.p.A. to 100% was also achieved during the same period.

STADA will continue its highly intensive search for suitable acquisition candidates during the remainder of 2004.

Development Projects

STADA maintains a full product pipeline, which is expected to generate numerous product launches over the next few years. This applies to generics in the EU in particular.

STADA's sales companies throughout the Group launched a total of 169 new products in the first half of 2004 (H1 2003: 183 new products). Major product launches in Germany included generics containing the active ingredients Ramipril and Amlodipine (both used to treat cardiovascular diseases) and, in France, generics containing the active ingredient Omeprazole in the second quarter of 2004. Two years earlier than originally anticipated, Omeprazole was launched in France by STADA's local sales company after the local property rights had been examined. Omeprazole is already the STADA Group's best-selling active ingredient with respect to sales in other countries.

STADA also conducts a few special development projects requiring specific expertise in collaboration with partners that specialize in the relevant fields.

These include medical patches containing active ingredients that act transdermally, i.e. through the skin, some of which are at the clinical trial stage while others are already at the approval stage. STADA has almost completed the development of a patch containing the analgesic active ingredient Fentanyl for the European market; it has already filed an application for national approval. The initial supplier, which is still without competition, is currently generating Europe-wide sales of approx. € 370 million[1)] from Fentanyl in this dosage form. STADA is also developing Fentanyl patches for the U.S. market as well as patches containing the active ingredient Clonidine, which lowers blood pressure. Current sales of Fentanyl patches in the U.S. amount to approx. € 1,050 million[1)], while sales of Clonidine patches total approx. € 180 million[1)]. From today's perspective, the patches currently being developed could be launched on the market in 2005/2006; STADA estimates that, in total, patches containing active ingredients could contribute more than € 50 million p.a. to Group sales in the medium term.

1) Source: IMS Health,
12-month figure, December 2003.

Since 2001, STADA has been collaborating with external partners, mainly using venture capital funding, to develop biogenerics for the active ingredients Erythropoetin, Filgrastim and Interferon β; STADA forecasts total Group sales of over € 100 million p.a. for these biogenerics after their third full marketing year following the launch. As part of these projects, the development of a biogeneric for Erythropoetin, from which initial suppliers are currently generating Europe-wide sales of over € 1.4 billion[2)], is by far the most advanced. The first clinical trial for this active ingredient started in the first quarter of the current year after the necessary scope of the clinical trials for biogenerics – usually much greater than that for normal generics – had been agreed with approval experts. From today's perspective, approval for Erythropoetin could be obtained by the end of 2006.

2) Source: IMS Health,
12-month figure, March 2004.

Since acquiring the Europe-wide distribution rights in the first quarter of 2004, relevant development projects for STADA include the ongoing approval process for the autologous tumor vaccine Reniale® (used to treat particular forms of kidney cancer) by its strategic partner LipoNova. As part of the ongoing centralized approval process for the drug Reniale®, which has been awarded orphan drug status[3)], the European drug-approval agency (EMEA) has given its initial assessment of the dossier submitted. Based on this assessment, LipoNova believes that approval for Reniale® could be obtained in 2005. The annual maximum sales potential of the European market for Reniale® is estimated at approx. € 400 million. Depending on the launch dates in the various national markets, the annual sales potential of Reniale® could peak at over € 50 million. This sales potential will largely depend on the drug's reimbursability in the various national markets, although from today's perspective it is impossible to make any definitive statements on this issue due to the innovative nature of the product.

3) Orphan drug status: a special status awarded to drugs that treat particularly rare diseases. This status involves a special, centralized approval process at the EMEA, the European drug-approval agency, and – once approval has been granted – market exclusivity for at least 6 years (at present).

STADA in the Capital Markets

STADA's share price has fallen sharply in the course of 2004, especially since STADA lowered its forecast for 2004 as a whole. Despite intensive investor relations activities, the capital markets are evidently more focused on the challenges currently facing STADA than on its long-term growth prospects. STADA's share price, which was € 34.28 as of June 30, 2004, had fallen by -30% compared to the closing price at the end of 2003 (€ 49.18). Consequently, market capitalization amounted to € 0.92 billion as of June 30, 2004 (end of 2003: € 1.31 billion).

In the current third quarter of 2004, STADA has carried out a de facto stock split based on capital measures adopted by its Annual Shareholders' Meeting on June 15 this year. After the relevant resolutions had been entered in the commercial register on July 28, 2004, STADA issued 26,695,410 bonus shares, increasing its issued capital stock by € 69,408,066.00 to € 138,816,132.00 by converting € 43,930,856.44 of its capital reserve and € 25,477,209.56 of its other retained earnings into capital stock. As a result, the number of STADA shares in issue doubled to 53,390,820. Once this capital measure had been implemented by Deutsche Börse AG after the close of trading on July 30, 2004, its impact on STADA's share price was the same as a de facto 1:1 stock split: on the morning of the first day of trading after the conversion, August 2, 2004, the share price was almost reduced by half because the number of shares in issue had doubled (XETRA® closing price prior to conversion: € 31.11; XETRA® opening price after conversion: € 15.88) and STADA's market capitalization remained practically unchanged.

Further resolutions adopted by the Annual Shareholders' Meeting on June 15, 2004 included the following:

- A dividend of € 0.70 per common share was approved for fiscal 2003 (2002: € 0.65); allowing for the higher number of shares as a result of the capital measures carried out in 2003, the total dividend distribution therefore rose by +44% to € 18.7 million (2002: € 13.0 million).
- A new authorized capital was created because almost all of the existing authorized capital had been utilized. 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. Shareholders' statutory pre-emptive rights may be excluded for fractional amounts or in the case of capital increases against cash contributions of up to 10% of the Company's issued capital stock, provided the issue price meets legal requirements.
- The company is authorized, under certain conditions, until December 15, 2005 to buy and resell its own shares up to a maximum of 10% of its current issued capital stock.

STADA's free float remains 100%. As of August 1, 2004, no single investor had reported owning a shareholding of more than 5% of STADA's issued capital stock, after DWS Investment had fallen below this threshold in July of this year. One other investor (Morgan Stanley) had briefly held more than 5% of STADA's shares in the second quarter of 2004. STADA continues to hold only a relatively small number of its own shares (17,083 as of June 30, 2004 compared to 18,685 as of December 31, 2003).

Outlook

The second half of 2004 will continue to present STADA with difficult challenges. Nonetheless, from today's perspective, the Executive Board continues to believe that the intended double-digit percentage sales growth for the whole of 2004 is possible, although not certain.

Despite the adverse effects outlined above, STADA's target is now for net income in 2004 to be in the range of last year's level. In order to achieve this target, STADA has initiated cost-cutting programs in its Production and Sales & Marketing activities.

The Executive Board expects that the measures introduced will also have a positive impact in 2005. In addition, the Group-wide flow of product launches resulting from the numerous development projects continues to stimulate growth. In the opinion of the Executive Board, if the current healthcare policy framework proves to be stable in STADA's key national markets, especially in Germany, and the markets return to a policy of rational conditions in terms of pricing and discounts, STADA will be able to successfully continue its profit-oriented growth course in 2005 with renewed growth in sales and earnings.

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Forward-looking statements contain risks: This interim report of STADA Arzneimittel AG contains 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 differing significantly from the estimates expressed or implied in the statements regarding future events. 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 statements regarding future events 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 approval authorities and other supervisory agencies; the approval 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; currency, exchange rate and interest rate fluctuations, operating results, as well as other factors detailed in the annual reports and in other Company statements. STADA neither plans to provide updates on statements regarding future events nor does STADA assume an obligation to do so. STADA, however, as mandatory disclosures stipulated in the Stock Corporation Act, publishes material information on current business trends that in the view of the Executive Board could affect the share price as mandatory disclosures prescribed by German company law, and makes this information available on its website (www.stada.com) as well.

Rounding: The key performance indicators presented in this **interim 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 interim report is published in German (original version) and English (non-binding translation) and is subject to German law.

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Group results

The consolidated interim statements of STADA Arzneimittel AG as of June 30, 2004 (like the consolidated financial statements as of December 31, 2003) were prepared in accordance with the accounting standards of the International Accounting Standards Board (IASB), which are known as International Financial Reporting Standards (IFRS). With the exception of IFRS 3 and the revised IAS 36 and IAS 38, the same accounting policies applied in the consolidated financial statements for fiscal year 2003 were applied to these interim financial statements. The notes to the consolidated financial statements for 2003 also apply to these interim financial statements where appropriate. The present interim report fulfills the requirements for interim financial reports set out in IAS 34.

Consolidated Income Statement in € 000s	H1 2004	H1 2003	Q2 2004	Q2 2003
1. Sales	396,633	358,563	194,191	177,369
2. Cost of sales	201,117	169,571	101,407	82,304
3. Gross margin	**195,516**	**188,992**	**92,784**	**95,065**
4. Other operating income	10,505	4,538	2,940	2,390
5. Selling expenses	120,907	99,439	61,751	52,482
6. General and administrative expenses	27,131	23,495	14,382	11,936
7. Research and development expenses	10,847	10,021	5,516	5,129
8. Other operating expenses	11,106	13,194	4,779	5,725
9. Operating profit	**36,030**	**47,381**	**9,296**	**22,183**
10. Investment income	150	50	150	0
11. Interest income, net	-5,033	-7,098	-2,433	-3,593
12. Financial result	**-4,883**	**-7,048**	**-2,283**	**-3,593**
13. Earnings before taxes	**31,147**	**40,333**	**7,013**	**18,590**
14. Taxes on income	11,099	17,006	2,340	7,756
15. Net income for the period	**20,048**	**23,327**	**4,673**	**10,834**
16. Minority interests	-19	-151	36	-95
17. Net income	**20,029**	**23,176**	**4,709**	**10,739**
18. Earnings per share in € (according to IAS 33.10)[1]	0.75	1.16[2]	0.18	0.54[2]
19. Earnings per share (diluted) in € (according to IAS 33.24)[1]	0.75	1.07[2]	0.18	0.50[2]

1) Calculation based on the average number of outstanding shares before stock split on July 30, 2004.
2) For common shares plus preferred shares.

Consolidated Cash Flow Statement in € 000s (Excerpt)	H1 2004	H1 2003
Cash flow (gross)	37,664	40,649
Cash used for operating activities	-21,425	-4,946
Cash used for investing activities	-54,521	-32,664
Cash flow used for/provided by financing activities	-15,982	24,340
Net cash flow for the period	-91,928	-13,270

Segment Reporting in € 000s		H1 2004	H1 2003
1. Generics	Sales	292,167	261,716
	Operating profit	21,776	35,662
	Contribution to net income for the period	14,808	20,925
	Segment assets (June 30)	337,986	185,027
	Liabilities (June 30)	83,649	79,045
2. Branded products	Sales	71,128	67,534
	Operating profit	7,881	7,621
	Contribution to net income for the period	4,284	3,906
	Segment assets (June 30)	102,258	23,652
	Liabilities (June 30)	19,060	20,003
3. Special pharmaceuticals	Sales	12,158	10,900
	Operating profit	2,935	2,741
	Contribution to net income for the period	1,862	1,610
	Segment assets (June 30)	66,428	14,553
	Liabilities (June 30)	5,446	2,713
4. Commercial business	Sales	16,050	15,915
	Operating profit	891	840
	Contribution to net income for the period	586	221
	Segment assets (June 30)	2,372	1,205
	Liabilities (June 30)	6,354	10,371
5. Group holding company / other	Sales	5,130	2,498
	Operating profit	2,547	517
	Contribution to net income for the period	-1,492	-3,335
	Segment assets (June 30)	96,207	99,585
	Liabilities (June 30)	211,691	319,219

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Consolidated Balance Sheet in € 000s	June 30, 2004	Dec. 31, 2003
Assets		
A. Non-current assets	**508,928**	**470,561**
I. Intangible assets	427,547	395,832
II. Property, plant and equipment	61,732	61,865
III. Financial assets	19,649	12,864
B. Current assets	**451,303**	**474,873**
I. Inventories	192,121	166,650
II. Trade accounts receivable	172,538	135,356
III. Other assets and prepaid expenses / deferred charges	37,875	32,504
IV. Securities	948	614
V. Cash and cash equivalents	47,821	139,749
C. Deferred tax assets	**10,139**	**9,678**
	970,370	955,112
Equity and Liabilities		
A. Shareholders' equity	**615,390**	**613,311**
I. Share capital	69,408	69,408
II. Reserves and retained earnings	545,982	543,903
B. Minority interests	**147**	**1,187**
C. Provisions	**15,133**	**20,873**
D. Liabilities	**326,200**	**307,395**
I. Financial liabilities	182,322	178,596
II. Trade accounts payable	85,592	77,793
III. Other liabilities and deferred income	58,286	51,006
E. Deferred tax liabilities	**13,500**	**12,346**
	970,370	955,112

Statement of Changes in Shareholders' Equity in € 000s	1/1 – 6/30/04	1/1 – 6/30/03
Shareholders' equity	613,311	324,127
Net income for the period	20,048	23,327
Capital increase	4	–
Dividend of STADA Arzneimittel AG	-18,675	-12,995
Other changes / Exchange rate changes	702	-1,116
Shareholders' equity	615,390	333,343

Consolidated Sales by Regions[1] in € 000s	H1 2004	H1 2003	±%
Europe	362,801	327,750	+11%
Belgium	29,592	21,692	+36%
Denmark	4,198	5,070	-17%
Germany	196,850	190,082	+4%
France	25,659	16,017	+60%
UK	14,677	9,489	+55%
Ireland	6,591	5,806	+14%
Italy	30,249	29,338	+3%
The Netherlands	20,565	20,260	+2%
Austria	3,826	3,522	+9%
Switzerland	2,342	1,701	+38%
Spain	21,784	20,059	+9%
Czech Republic	2,465	2,279	+8%
Rest of Europe	4,003	2,435	+64%
The Americas	22,803	22,655	+1%
USA	22,783	22,627	+1%
Rest of the Americas	20	28	-26%
Asia	10,554	8,084	+31%
China	3,031	2,490	+22%
The Philippines	2,146	1,860	+15%
Thailand	1,443	1,317	+10%
Vietnam	2,612	1,374	+90%
Rest of Asia	1,322	1,043	+27%
Rest of world	475	74	+541%

1) Categorized according to the respective national market where the sales were achieved.