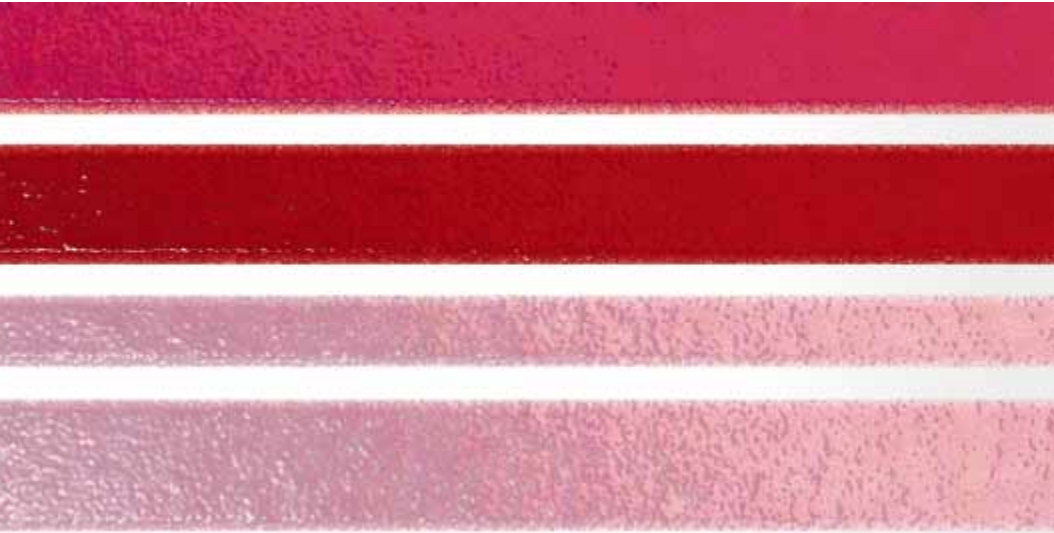




The Health Company



Report on the  
First Three Months of 2004

## Dear Shareholders,

STADA was again successful in the first quarter of 2004, achieving the highest quarterly Group sales in the Company's history. Group net income, including several special effects, also reached new record quarterly heights. These good results were achieved despite the expected health care policy challenges in various national markets. STADA's corporate structure and growth dynamics have proven to be lasting and resilient.

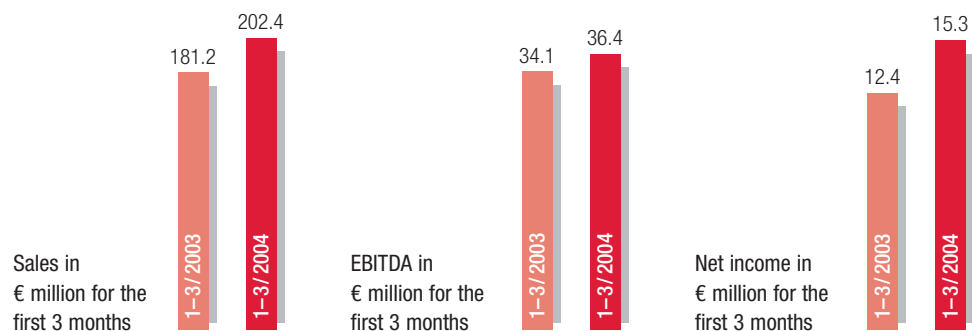
Sales of the STADA Group grew by +12% to € 202.4 million in the first three months of 2004 (Q1 2003: € 181.2 million). Initial consolidation of acquisitions had no impact on this growth rate; the increase in sales was organic. Sales in the first quarter of 2004 increased in all three core segments of the Group: in the Generics segment by +15% to € 147.5 million (Q1 2003: € 128.6 million), in the Branded Products segment by +4% to € 39.4 million (Q1 2003: € 38.1 million) and in the Special Pharmaceuticals segment by +7% to € 5.9 million (Q1 2003: € 5.5 million).

In the first quarter of 2004, a particular challenge for STADA was the market developments resulting from the new German law on modernizing the public health care system ("GKV-Modernisierungsgesetz" or "GMG"), which took effect on January 1, 2004. Advance effects at year-end 2003 due to the GMG and uncertainties of doctors and patients, in part due to a lack of complete implementation regulations, have also influenced STADA's performance in the German market at the start of the year. Furthermore, some of STADA's products are heavily affected by mandatory discounts granted in favor of the public health care insurance system. Despite these difficulties, Group sales in Germany increased by +6% to € 103.1 million in the first quarter of 2004 (Q1 2003: € 97.5 million). In the same period Generics, the Group's largest core segment, grew by +9% to € 72.9 million in Germany (Q1 2003: € 67.0 million). This sales increase was supported in particular by the introduction of important new generics promptly after expiration of the respective patents or other commercial property rights (e.g. the active ingredients Ramipril and Amlodipine, both used for treating cardiovascular diseases).

Adjusted for the mandatory GMG discounts which represented a burden of € 4.6 million for the STADA Group in the first quarter of 2004 (mandatory discounts in Q1 2003: € 1.4 million, in accordance with the formerly applicable German Drug Spending Limitation Act, Arzneimittelausgabenbegrenzungsgesetz or "AABG"), Group sales in the first quarter of 2004 in Germany would have increased by +9%.

From today's perspective, these mandatory discounts will be reduced from 16% to then only 6% of GKV sales of the relevant products, as of 2005, in accordance with the applicable provisions of the GMG.

However, as soon as new reference prices have been established for the products that are now affected by the mandatory discounts, these discounts will be completely eliminated with immediate effect. In this context, in accordance with the GMG, patent-protected, non-innovative drugs will be included in such new reference prices, which would, applying the existing calculation method, lead to relatively moderate reference prices. However, the establishment of new reference prices is apparently delayed; at present, STADA no longer expects such new reference prices to replace mandatory discounts in the course of 2004.



In terms of international business, which, at 49.1 %, accounts for nearly half of Group total sales, STADA again managed to grow in numerous national markets, despite health care policy challenges in some markets. In Spain, Group sales in the first quarter of 2004 increased by +7% to € 10.6 million (Q1 2003: € 9.9 million), in spite of new, price-reducing reference prices, particularly as a result of continued volume growth of the Generics business in this market. In Italy, the local challenges faced by the Group are caused by the particularly intense price competition; nonetheless, Group sales in this market increased by +6% to € 15.7 million in the first three months of 2004 (Q1 2003: € 14.8 million). In France, the Group benefits from intensive investments in sales and marketing, with strong growth of +67% to € 12.7 million (Q1 2003: € 7.6 million). Compared to the previous year's sales figures in the first quarter, Group sales also increased pleasantly in Belgium by +43% to € 13.8 million (Q1 2003: € 9.7 million), in Ireland by +17% to € 3.4 million (Q1 2003: € 2.9 million) and in Austria by +17% to € 2.0 million (Q1 2003: € 1.7 million). In the United States, Group sales in the first quarter of 2004 declined by -15% to € 11.4 million (Q1 2003: € 13.5 million) or in local currency terms, by -2% to US \$ 14.2 million (Q1 2003: US \$ 14.5 million), compared to the same period in the previous year. The previous year's strong sales performance could not be achieved mainly as a result of temporary delivery problems with suppliers. In Asia, Group business showed particularly strong growth in China by +115% to € 2.0 million (Q1 2003: € 0.9 million) and in Vietnam by +71% to € 1.0 million (Q1 2003: € 0.6 million).

Key figures for the Group	Q1 2004	Q1 2003	± %
Sales in € million	202.4	181.2	+12%
Operating profit in € million	26.7	25.2	+6%
EBITDA in € million	36.4	34.1	+7%
EBIT in € million	26.7	25.2	+6%
EBT in € million	24.1	21.7	+11%
Net income in € million	15.3	12.4	+23%
Earnings per share (EPS) in € (according to IAS 33.10)	0.57	0.62	-8%
Earnings per share in € (diluted) (according to IAS 33.24)	0.56	0.60	-7%
Capital expenditure in € million	31.3	23.2	+35%
Depreciation/amortization in € million	9.7	8.8	+9%
Average number of employees (1/1-3/31) <sup>1)</sup>	2,537	2,297	+10%
Closing price of STADA stock (XETRA®) on March 31 in €	41.37	43.30	-4%
Market capitalization in € million as of March 31	1,104.4	866.6	+27%

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

In the first quarter of 2004, STADA achieved a net income of € 15.3 million including several special effects, achieving the highest quarterly net income in the Company's history with an increase of +23% (Q1 2003: € 12.4 million). Because the capital measures taken in the previous year increased the average number of shares outstanding by +33% in the first quarter of 2004, quarterly earnings per share fell to € 0.57 (Q1 2003: € 0.62) and diluted quarterly earnings per share (IAS 33.24), which also depend on the share price, fell to € 0.56 (Q1 2003: € 0.60). Nonetheless, other earnings indicators for the first

quarter of 2004 were clearly higher than the corresponding figures for the previous year: Earnings before taxes (EBT) rose by +11% to € 24.1 million (Q1 2003: € 21.7 million), while earnings before interest and taxes (EBIT) rose by +6% to € 26.7 million (Q1 2003: € 25.2 million) and earnings before interest, taxes, depreciation and amortization (EBITDA) rose by +7% to € 36.4 million (Q1 2003: € 34.1 million).

A special effect impacting earnings was the discontinuation of scheduled goodwill amortization, which had produced a charge of € 1.5 million against Group earnings before taxes in the first quarter of 2003. According to IFRS 3 (Business Combinations) and the revised IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), the scheduled amortization of goodwill and intangible assets having indefinite useful lives is no longer admissible. Observance of the new standard is mandatory as of January 1, 2005, but it can also be applied voluntarily from the first quarter of 2004. STADA chose to implement the new IFRS measurement rule already in 2004 because those competitors of the Group whose financial statements are prepared in accordance with U.S. accounting regulations (US GAAP) have not applied goodwill amortization charges for several years. By discontinuing scheduled goodwill amortization in 2004 in accordance with IFRS, STADA has neutralized a competitive disadvantage relative to those companies whose financial statements are prepared according to US GAAP.

Under the revised IFRS rules, scheduled amortization is replaced by "impairment tests" in which the carrying amount of intangible assets having indefinite useful lives is compared against the recoverable amount of such assets. In total, STADA recognized expenses of € 3.6 million as a result of impairment losses on other intangible assets in the first quarter of 2004.

A special effect positively contributing to earnings was the release of provisions related to a patent dispute concerning the sale of generics containing the active ingredient Omeprazole, which has been ongoing since 1999. During this time, STADA continually established relevant sales-related provisions. In the first quarter of 2004, the European Court of Justice ruled in favor of STADA and therefore the provision of € 5.3 million that had been established for this patent dispute was released as of March 31, 2004. At the same date, STADA carried provisions for other patent disputes totaling € 1.6 million.

In the first quarter of 2004, the segments made the following contributions to net income, as compared to the first quarter of 2003: Generics € 9.9 million (Q1 2003: € 9.3 million); Branded Products € 3.2 million (Q1 2003: € 3.0 million); Special Pharmaceuticals € 0.6 million (Q1 2003: € 0.9 million), commercial business € 0.4 million (Q1 2003: € 0.1 million); Group Holding / other € 1.2 million (Q1 2003: € -0.8 million). Thus, the margins of the core segments in the first quarter of 2004 were as follows (in each case the respective segment's contribution to net income for the period in relation to its segment sales): 6.7% for Generics (Q1 2003: 7.2%), 8.2% for Branded Products (Q1 2003: 7.9%) and 10.9% for Special Pharmaceuticals (Q1 2003: 16.4%). As already mentioned in the annual report, it should be noted in this context that the Group's holding company is allocated a higher portion of profits through the mechanism of internal licensing payments.

The balance sheet structure as of March 31, 2004 still continues to be influenced by the effects of the capital measures implemented in the second half of 2003. The Group's equity ratio is high, at 63.3% (March 31, 2003: 42.3%, December 31, 2003: 64.2%). The Group's net debt has been reduced by € 195.1 million to € 63.8 million in the last 12 months (net debt as of March 31, 2003: € 258.9 million, December 31, 2003: € 38.2 million) despite the fact that it rose during the period under review, in particular due to acquisitions.

On the solid base of its strong balance sheet structure, STADA will continue to pursue an active acquisitions policy in the current fiscal year 2004.

In the field of oncology, for example, STADA has entered into a strategic partnership with LipoNova GmbH in the field of tumor vaccines. On February 26, 2004 STADA paid approx. € 6.4 million to acquire approx. 16% of LipoNova's stock and the exclusive Europe-wide marketing rights to the tumor vaccine Reniale® (an adjuvant therapy for certain stages of renal cell

carcinoma), which is currently going through the drug approval process. When Reniale® receives the EMEA drug approval, which LipoNova currently expects will happen in 2005, STADA will acquire another approx. 16 % of LipoNova's equity for a price of approx. € 8 million. This strategic partnership with LipoNova gives STADA the opportunity to offer an innovative cancer therapy product in its portfolio for the first time without having to conduct its own research into active ingredients.

Moreover, STADA increased its share in the Italian distribution specialist NPA New Pharmajani S.p.A. in the course of the current second quarter from 60 % to 100% with effect from April 24, 2004.

Furthermore, in the current second quarter of 2004, STADA introduced a new product on the German market, film-coated tablets containing the antidepressant active ingredient Mirtazapine, on the basis of an agreement concluded with N.V. Organon on February 25, 2004. Having acquired Mirtazapine drug approvals in all three usual strengths, STADA de facto achieved a so-called "early entry" into the market: "Mirtazapin STADA" is the first and (as of May 1, 2004) the only generic product in the German market containing this active ingredient.

This early entry came in addition to numerous other launches of new products from STADA's own development activities. At STADA, product development activities are and always have been focused on so-called multisource products that are not patent protected or will not be in the future. Own research on new active ingredients is not part of STADA's development activities. Groupwide, a total of 90 new products were introduced to market in the first quarter of 2004 (first quarter 2003: 79 new products). The Group's French subsidiary introduced generics of Omeprazole, the best-selling active ingredient of the Group for the first time in the current second quarter of 2004.

With its well-filled product pipeline, STADA can look forward to numerous new product launches in the coming years as well, especially with respect to Generics in the EU. STADA's estimate of the sales currently being generated in the four biggest EU markets (Germany, France, Italy, Spain) with the active ingredients that will become available for generics competition in the years from 2004 to 2010 remains unchanged at more than € 12 billion. The primary goal of STADA's development activities therefore has been and continues to be to provide the STADA sales companies with marketable drug approvals in the respective national markets for all important active ingredients, promptly after the corresponding patents or other commercial property rights have expired.

In cooperation with specialized partners, STADA also conducts development projects requiring a high level of pharmaceutical technology expertise. For example, clinical trials of a medical patch containing an active ingredient which acts transdermally (through the skin) have already been completed and the first national drug approval application for this product was filed in the first quarter of 2004. Further clinical trials of a second patch containing an active ingredient are proceeding according to plan.

The development of three biogeneric products containing the active ingredients Erythropoetin, Filgrastim and Interferon  $\beta$  has made good progress. These development projects, financed with venture capital to a substantial degree and conducted in collaboration with external development partners, have been ongoing since 2001. The first clinical trial for this biogenerics project started in the first quarter of 2004, after the necessary extent of the clinical trials for biogenerics, which – in line with expectations – far exceeds that of normal generics, was determined in consultation with drug approval experts.

Because a total of approx. 6.7 million new shares were issued in conjunction with the capital measures conducted in the second half of 2003, STADA's market capitalization of € 1.10 billion at March 31, 2004 was +27 % higher than at March 31, 2003, when it was € 0.87 billion. As compared to year-end 2003, however, STADA's market capitalization and its share price significantly decreased by -16% to € 1.10 billion (12/30/2003: € 1.31 billion) and to € 41.37 (12/30/2003: € 49.18), respectively. In the first quarter of 2004, the stock market was evidently focused on the short term health care policy challenges, and not on the long term with the good fundamental trend of STADA's business and growth opportunities. STADA's response was a further intensification of its investor relations activities. In the first quarter and the current second quarter of 2004, STADA has made presentations to institutional investors in roadshows and conferences in Belgium, China (Hong Kong), Germany, Denmark, France, the United Kingdom, Japan, Austria, Sweden, Singapore and the United States.

Additionally, STADA plans a de facto stock split through the issue of bonus shares. During the current second quarter, the Executive Board and Supervisory Board have decided to propose to STADA's Shareholders' Meeting on June 15, 2004 that the company double the number of its shares in issue by carrying out a capital increase from its existing funds, issuing bonus shares in the ratio of 1 for 1. As far as its stock price is concerned, this capital increase would have the same effect as a 1-for-1 stock split: given that its market capitalization would remain the same, its stock price would be reduced by half for technical reasons because the number of shares would double.

The Executive Board and Supervisory Board will also be proposing advance resolutions to the coming Annual Shareholders' Meeting that would extend the possibility to buy or sell own shares<sup>1)</sup> of up to 10% of STADA's issued capital stock by a further year until December 15, 2005 and to increase the company's issued capital stock by up to 50%, reserving the right to exclude shareholders' subscription rights, especially for acquisition purposes.

1) As of March 31, 2004 STADA holds 17,373 own shares (as of December 31, 2003: 18,685 own shares).

Looking forward, and assuming from today's perspective that the Group's business risks<sup>2)</sup> remain essentially unchanged, STADA's Executive Board continues to believe that the Group will be able to meet successfully the current challenges posed by government health care policies and therefore again achieve sales and earnings growth in the double-digit percentage range in 2004. According to this optimistic forecast of the Executive Board, fiscal year 2004 should be the ninth record year in a row.

2) The Group's business risks are described in detail in the Annual Report 2003, pp. 60–65.

Assuming that the regulatory conditions in the most important national markets for STADA, especially Germany, remain constant, STADA's Executive Board believes, from today's perspective, that the Group will successfully continue its course of profitable growth into 2005 as well.

H. Retzlaff

W. Jeblonski

P. Niemann

Dr. K.-P. Reich

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**Members of the Executive Board:** Hartmut Retzlaff (Chairman), Wolfgang Jeblonski, Peter Niemann, Dr. Klaus-Peter Reich

**Members of the Supervisory Board:** Dr. med. Eckhard Brüggemann (Chairman), Karl Hertle<sup>1)</sup> (Vice Chairman), Ms. Heike Ebert<sup>1)</sup>, Dr. Martin Abend, Uwe E. Flach, Dr. K. F. Arnold Hertzsch, Dieter Koch, Reinhard Kraft<sup>1)</sup>, Constantin Meyer

<sup>1)</sup> Employee representatives.

**Forward-looking statements contain risks:** This quarterly 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 un-known 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](http://www.stada.com)) as well.

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

Always up-to-date – STADA on the Internet: [www.stada.com](http://www.stada.com)

# Group results

The consolidated interim statements of STADA Arzneimittel AG as of March 31, 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). The same accounting policies applied in the consolidated financial statements for fiscal year 2003 were applied to these interim financial statements. Thus, the notes to the consolidated financial statements for 2003 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.

Consolidated Income Statement in € 000s		Q1 2004	Q1 2003
1.	Sales	202,442	181,194
2.	Cost of sales	99,710	87,267
3.	<b>Gross margin</b>	<b>102,732</b>	<b>93,927</b>
4.	Other operating income	7,565	2,148
5.	Selling expenses	59,156	46,957
6.	General and administrative expenses	12,749	11,559
7.	Research and development expenses	5,331	4,892
8.	Other operating expenses	6,327	7,469
9.	<b>Operating profit</b>	<b>26,734</b>	<b>25,198</b>
10.	Investment income	0	50
11.	Interest income, net	-2,600	-3,505
12.	<b>Financial result</b>	<b>-2,600</b>	<b>-3,455</b>
13.	<b>Earnings before taxes</b>	<b>24,134</b>	<b>21,743</b>
14.	Taxes on income	8,759	9,250
15.	<b>Net income for the period</b>	<b>15,375</b>	<b>12,493</b>
16.	Minority interests	-55	-56
17.	<b>Net income</b>	<b>15,320</b>	<b>12,437</b>
18.	Earnings per share in € (according to IAS 33.10)	0.57	0.62 <sup>1)</sup>
19.	Earnings per share in € (diluted) (according to IAS 33.24)	0.56	0.60 <sup>1)</sup>

1) For common shares plus preferred shares.

Consolidated Cash Flow Statement in € 000s (Excerpt)		Q1 2004	Q1 2003
Cash flow (gross)		25,729	21,321
Cash provided by / used for operating activities		6,129	-9,023
Cash used for investing activities		-31,333	-23,157
Cash flow provided by financing activities		763	40,215
Net cash flow for the period		-24,441	8,035

Segment Reporting in € 000s		Q1 2004	Q1 2003
1. Generics	Sales	147,478	128,628
	Operating profit	15,129	17,443
	Contribution to net income for the period	9,947	9,293
	Segment assets (March 31)	338,517	179,696
	Liabilities (March 31)	78,703	72,149
2. Branded products	Sales	39,429	38,093
	Operating profit	5,518	6,048
	Contribution to net income for the period	3,233	2,997
	Segment assets (March 31)	106,379	26,536
	Liabilities (March 31)	18,208	22,608
3. Special pharmaceuticals	Sales	5,910	5,522
	Operating profit	1,140	1,543
	Contribution to net income for the period	644	904
	Segment assets (March 31)	68,940	16,632
	Liabilities (March 31)	6,718	2,161
4. Commercial business	Sales	8,120	7,436
	Operating profit	492	590
	Contribution to net income for the period	383	61
	Segment assets (March 31)	2,453	974
	Liabilities (March 31)	3,709	8,502
5. Group holding company / other	Sales	1,505	1,515
	Operating profit	4,455	-426
	Contribution to net income for the period	1,168	-762
	Segment assets (March 31)	102,375	102,450
	Liabilities (March 31)	227,334	324,440

Consolidated Balance Sheet in € 000s	Mar. 31, 2004	Dec. 31, 2003
<b>Assets</b>		
<b>A. Non-current assets</b>	<b>492,224</b>	<b>470,561</b>
I. Intangible assets	410,830	395,832
II. Property, plant and equipment	62,068	61,865
III. Financial assets	19,326	12,864
<b>B. Current assets</b>	<b>491,950</b>	<b>474,873</b>
I. Inventories	187,715	166,650
II. Trade accounts receivable	152,584	135,356
III. Other assets and prepaid expenses / deferred charges	35,604	32,504
IV. Securities	739	614
V. Cash and cash equivalents	115,308	139,749
<b>C. Deferred tax assets</b>	<b>10,715</b>	<b>9,678</b>
	<b>994,889</b>	<b>955,112</b>
<b>Equity and Liabilities</b>		
<b>A. Shareholders' equity</b>	<b>629,379</b>	<b>613,311</b>
I. Share capital	69,408	69,408
II. Reserves and retained earnings	559,971	543,903
<b>B. Minority interests</b>	<b>1,471</b>	<b>1,187</b>
<b>C. Provisions</b>	<b>16,166</b>	<b>20,873</b>
<b>D. Liabilities</b>	<b>334,672</b>	<b>307,395</b>
I. Financial liabilities	179,800	178,596
II. Trade accounts payable	96,101	77,793
III. Other liabilities and deferred income	58,771	51,006
<b>E. Deferred tax liabilities</b>	<b>13,201</b>	<b>12,346</b>
	<b>994,889</b>	<b>955,112</b>

Statement of Changes in Shareholders' Equity in € 000s	1/1–3/31/04	1/1–3/31/03
<b>Shareholders' equity</b>	<b>613,311</b>	<b>324,127</b>
Net income for the period	15,375	12,493
Capital increase	4	0
Other changes / Exchange rate changes	+689	-640
<b>Shareholders' equity</b>	<b>629,739</b>	<b>335,980</b>

Consolidated Sales by Regions <sup>1)</sup> in € 000s	Q1 2004	Q1 2003	±%
<b>Europe</b>	<b>185,232</b>	<b>163,763</b>	<b>+13%</b>
Belgium	13,843	9,701	+43%
Denmark	2,126	2,832	-25%
Germany	103,089	97,476	+6%
France	12,672	7,566	+67%
UK	7,089	3,066	+131%
Ireland	3,350	2,865	+17%
Italy	15,650	14,780	+6%
The Netherlands	10,639	10,353	+3%
Austria	1,971	1,683	+17%
Switzerland	973	961	+1%
Spain	10,643	9,931	+7%
Czech Republic	1,151	1,442	-20%
Rest of Europe	2,036	1,107	+84%
<b>The Americas</b>	<b>11,451</b>	<b>13,511</b>	<b>-15%</b>
USA	11,442	13,450	-15%
Rest of the Americas	9	61	-84%
<b>Asia</b>	<b>5,579</b>	<b>3,844</b>	<b>+45%</b>
China	2,033	947	+115%
The Philippines	953	852	+12%
Thailand	736	615	+20%
Vietnam	997	585	+71%
Rest of Asia	860	845	+2%
<b>Rest of world</b>	<b>180</b>	<b>76</b>	<b>+137%</b>

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