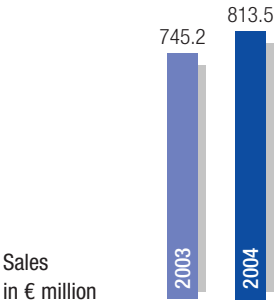
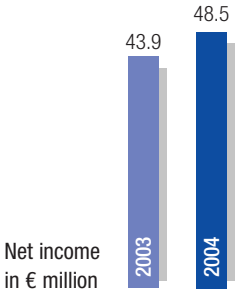
STADA
Arzneimittel

The Health Company

Annual Report 2004





Key figures for the Group in € million	2004	2003	± %
Sales	813.5	745.2	+9%
Sales in core segments, total	772.6	705.9	+9%
• Generics	608.3	549.1	+11%
• Branded Products	139.6	135.3	+3%
• Special Pharmaceuticals	24.7	21.5	+15%
Operating profit	87.8	85.6	+3%
EBITDA	122.7	116.8	+5%
EBIT	88.2	85.7	+3%
EBT	77.6	72.1	+8%
Net income[1)]	48.5	43.9	+11%
Cash flow (gross)	81.3	78.8	+3%
Equity capital	639.0	614.5	+4%
Capital expenditure	82.1	76.5	+7%
Depreciation/amortization	34.5	31.1	+11%
Average number of employees	2,586	2,465	+5%

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

Key share data	2004	2003	± %
Market capitalization in € million (year-end)	1,061.9	1,312.9	-19%
Year-end closing price (XETRA®) in €	19.89	24.59[2)]	-19%
Number of shares (year-end)	53,390,820	53,390,580[2)]	0%
Average number of shares	53,348,910[2)]	43,327,286[2)]	+23%
Basic earnings per share in €[3)]	0.91[2)]	1.01[2)]	-10%
Diluted earnings per share in €[4)]	0.88[2)]	0.95[2)]	-7%
Dividend per share in €	0.39[5)]	0.35[2)]	+11%
Total dividend payments in € million	20.9[5)]	18.7	+12%

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

3) According to IAS 33.10.

4) According to IAS 33.24.

5) Proposed.

STADA at a Glance

STADA – The Health Company

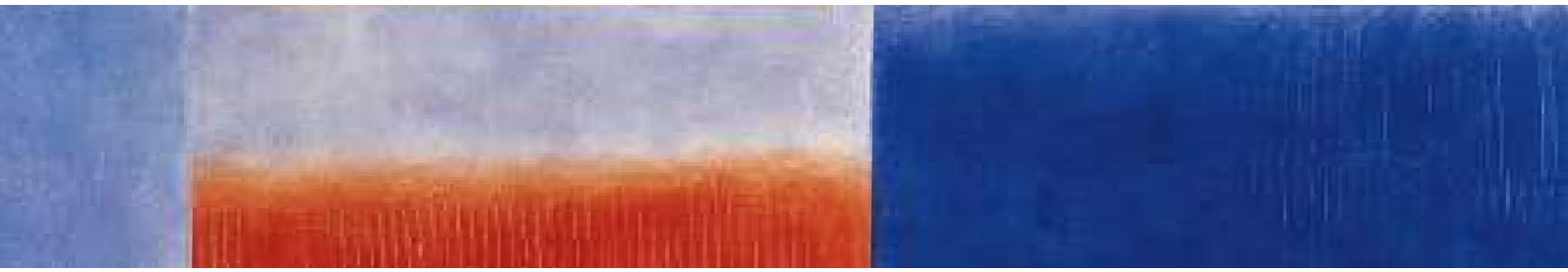
- STADA's strategy, consistent and sustainable: competence with multisource active ingredients in the three core segments of Generics, Branded Products, and Special Pharmaceuticals
- Focus: sales and marketing (54% of the total of 2,586 employees)

2004: Success in spite of challenges

- The ninth record year in a row
- STADA Group sales increased 9% to € 813.5 million
- Net income increased 11% to € 48.5 million
- Dividend to increase 11% to € 0.39 per share pursuant to the proposal of the Executive Board and the Supervisory Board
- Peak charges of € 21.4 million from mandatory discounts due to the delayed implementation of specific regulations of the German law on modernizing the public health insurance system ("GKV-Modernisierungsgesetz" or "GMG")
- Additional challenges – some of them unforeseen – posed by various national markets
- "STADA – Fit for Future": sustained cost optimization program initiated with focus on the operating business
- 395 product launches in the Group
- Successful conclusion of negotiations on the acquisition of Nizhpharm and thus entry to the Russian pharmaceutical market
- "Early entry" with Mirtazapin STADA in Germany
- Product acquisitions in Great Britain, Ireland, Italy and Spain
- Strategic partnership with LipoNova in the field of tumor vaccines

Growth perspectives

- Structural growth opportunities based on increasing generics penetration and patent expirations
- Prepared to meet foreseeable challenges (particularly due to government regulation and intensified competition)
- International operations: 34 sales companies in 21 countries
- Well-filled product pipeline and experienced product development
- Continuation of an active and realistic acquisition policy
- Ongoing goal: annual growth in the double-digit percentage range in sales and earnings
- From today's perspective, an increase in net income for 2005 to more than € 60 million is expected



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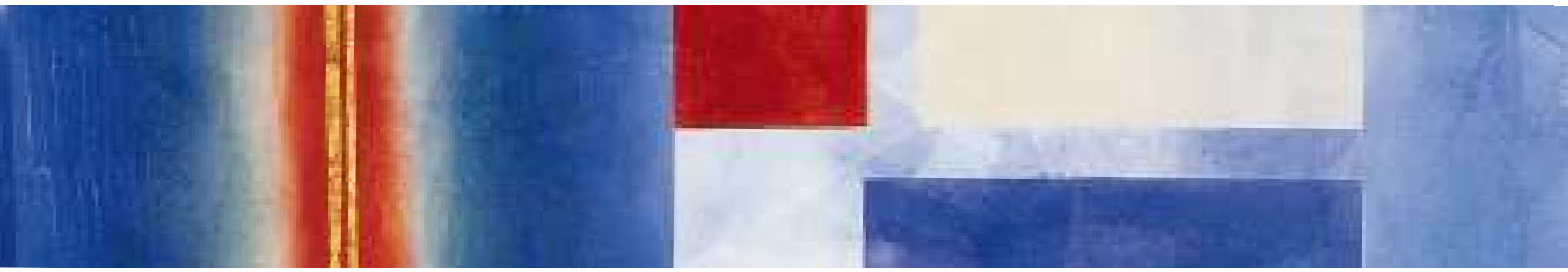


STADA 2004 Consolidated Financial Statements

Additional Information

Letter to Shareholders

Dear Shareholders,

Fiscal 2004 was a very difficult and challenging year for STADA, but it was also successful.

Especially challenging in 2004 were a number of government health care regulations. STADA is not usually the focus of such regulations since particularly its largest core segment, Generics, in fact supports the cost reductions sought by health care systems. But sometimes – in part due to technical errors in health policy – we are also affected by regulatory measures. This is precisely what occurred in fiscal 2004, in particular in the important German market. Since the implementation was delayed for individual regulations of the German health care reform ("GMG") that took effect on January 1, 2004, we were faced in 2004 with GMG-related mandatory discounts of over € 21 million; significantly more than originally expected. In addition, in some countries there were a number of other adverse factors in the market during the first half of 2004, some of them unforeseen. For instance, in the German generics market there was a temporary discount battle in the pharmacy distribution channel, and in Italy and Spain demand was weak for certain products from the Group's Branded Products segment. Without a doubt, 2004 was a difficult year for STADA.

Nonetheless, 2004 was a successful year for STADA: sales and net income clearly increased for the ninth time in a row. All of us here at STADA met the extraordinary challenges of the year and did everything possible to stay on course. For instance, we introduced our "STADA – Fit for Future" cost optimization program. As a result we managed to further increase Group sales by 9% to € 813.5 million in 2004. I consider it a particularly outstanding success that despite all of the difficulties, we again achieved double-digit percentage growth in net income of 11% to € 48.5 million. I view this as a clear indication that the basic growth trend of STADA remains unbroken. Thus despite the challenges of fiscal 2004, we are in a position to increase last year's record dividend.

We were also successful in the expansion of our strategic positioning in 2004. With the conclusion of negotiations concerning the acquisition of the fourth-largest national Russian pharmaceutical company, Nizhpharm, we entered one of the most important pharmaceutical markets in Eastern Europe. By increasing our stake in the Italian sales specialist NPA New Pharmajani to 100% and acquiring a number of products in countries including Italy and Spain, we were able to improve our position in the respective national markets. The strategic

partnership with LipoNova, a development company specializing in tumor vaccination, gives us a good opportunity to offer an innovative product for cancer treatment in the near future and further expand STADA's business with oncology products. Finally, we were also able to strengthen our market position in many national markets in 2004 with a constant flow of new products from our development activities.

We owe the success of STADA above all to the strong commitment and the outstanding performance of our employees. I would like to take this opportunity to thank them on behalf of the entire Executive Board. At the same time, I would like to thank the Supervisory Board and the Advisory Board for their excellent and constructive cooperation.

The capital market initially responded to the challenges of 2004 with a significant reduction in the price of the STADA share. In our opinion, this was an excessive reaction. However, the STADA share has since recovered well from the low around mid-2004, with growth of approx. 86% by the end of February 2005. Both STADA's effective response to the difficult year 2004 and the Executive Board's repeated emphasis of our future prospects have given investors renewed confidence.

Given the future potential of STADA, the Executive Board has good reason to be optimistic. The strategic positioning with an emphasis on generics and our international sales position give us an excellent opportunity to profit significantly from the structural growth potential in the global health market. In 2005 and the following years, a constant flow of new products will continue to encourage our expansion. Many active ingredients with strong sales potential will become available for generic competition and hence also for STADA after expiration of the relevant commercial property rights. And of course we expect that we will be able to further optimize costs in the coming years with our "STADA – Fit for Future" program.

In addition, the health policy burdens from today´s perspective will be significantly reduced for STADA in Germany in the current fiscal year 2005. On the one hand, the basis on which the mandatory discounts are calculated in accordance with the GMG has declined substantially from 16% to only 6%. On the other hand, new, moderate reference prices have been in effect for the two best-selling active ingredients of STADA since the beginning of the year; thus mandatory discounts have been eliminated for these products. Unless German health policy makers unexpectedly introduce new regulatory measures, the extraordinary reduction in earnings arising from the GMG in 2004 should not be repeated to the same degree for STADA in 2005.

But despite all optimism, we acknowledge that STADA will have to face significant structural challenges in the future as well. In many countries, health policy makers will repeatedly seek to cut costs and will not always promote generics in the process, in fact sometimes may also adversely affect them. And the markets in which we are active will continue to be characterized by high price sensitivity and intense competitive pressure. Nonetheless, from today's perspective we believe that the risks arising from these challenges are more than offset by our opportunities and our potential.

We are therefore confident that we will be able to continue our many years of growth with renewed energy. In 2005 we intend to once again achieve the double-digit percentage growth in sales and earnings that is usual for STADA. We therefore anticipate from today's perspective to be able to increase net income for the current fiscal year to more than € 60 million. In our view, this should create a good basis for a further increase in the value of the STADA share. In other words, 2005 should once again be a good year, also for our shareholders.

Hartmut Retzlaff
Chairman of the Executive Board

STADA – The Health Company

STADA Strategy

The strategic focus: multisource products – especially generics – for the health care market

In accordance with STADA´s strategic positioning ("STADA – The Health Company"), the group activities are focused on the health care market. STADA has been concentrating for years on selected segments of the global pharmaceutical market and associated health care market segments that show clear growth and earnings potential. In the three core segments of Generics, Branded Products and Special Pharmaceuticals, STADA focuses on off-patent active ingredients, known as "multisource products." Within this strategy, STADA does not conduct any of its own costly and high-risk research at all on new active ingredients for pharmaceutical products. Instead, STADA's business activities emphasize the marketing of proven active ingredients in comparable and innovative or improved dosage forms, without being limited to specific areas of indication. Since the necessary development costs are substantially lower than research costs incurred in the search for new active ingredients, STADA is in a position to offer many products from its portfolio at a low price. The Group benefits from this, especially in the high-growth area of generics, which is STADA's largest core segment by far.

Successful product development

In addition to its own expertise, STADA has deliberately chosen to take advantage of international external partners to a notable extent in the area of product development. In doing so, the Group sometimes even cooperates with competitors in order to keep its own development costs as low as possible. One of the fundamental core competencies of STADA's product development is its capability and experience in managing this network of international development partners cost effectively and with due regard to the applicable commercial property rights and patent expiration dates. Particularly in the field of generics, it is of great importance that new products are introduced in all national generics markets promptly after the date of expiration of the commercial property rights. With 395 product launches in 2004, STADA has once again proven its expertise and competency in product development.

Comprehensive international sales network

STADA´s pronounced focus on customers and sales is an essential component of its strategy. With this strategy in mind, STADA has in recent years steadily built up its local sales companies in close proximity to markets. The individual sales companies are solely responsible for operating management in their respective business segments or national markets within the framework of agreed strategic and operational objectives. This sales model enables STADA to accommodate variations in structural conditions, to react flexibly to the demands of the various national market segments and, therefore, to take advantage of the market opportunities offered.

Successful outsourcing

STADA's business model does not include the production of active ingredients or auxiliary materials. Instead, the Group has been utilizing a global network of raw materials suppliers for many years. In addition, STADA places the majority of its pharmaceutical production[1)] with external contract manufacturers, which produce and package the products on the basis of STADA's drug approvals. This outsourcing provides STADA with significant savings in cost of sales for many of its products, since external specialists are often able to produce individual drugs at significantly lower costs. Furthermore, in connection with its own production activities, STADA continually reviews whether it is more beneficial to outsource pharmaceutical production or packaging to external partners in each particular case. However, STADA always maintains a minimum number of its own production facilities.

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

Lean and cost-oriented Group structures

STADA has always placed value on lean and cost-oriented Group structures. In addition, faced with severe charges resulting from health policy decisions, STADA introduced a cost optimization program in 2004 called "STADA – Fit for Future." This program is intended to allow the Group to further reduce the cost of sales of many of its products as well as to optimize corporate structure in the following years also.

Consistent and sustainable Group strategy

STADA Group strategy is characterized by consistency and sustainability: consistency because STADA has been following this basic strategy for years, and sustainability, because the implementation of this strategy has enabled STADA to achieve steady sales and earnings growth in the double-digit percentage range over many years. STADA regards the fact that sales and net income clearly increased, even in the extremely difficult year of 2004, as particular evidence of the sustainability of its strategy. Therefore 2004 was STADA's ninth record year in a row.

Breath of air

Group Segments

STADA markets multisource products, i.e. products with active ingredients that are off-patent and free of other commercial property rights, in those segments of the pharmaceutical market where such products can be positioned: Generics, Branded Products, and Special Pharmaceuticals. These sectors have been the core segments of STADA's operational business for many years. To a limited extent, STADA also engages in non-core activities such as commercial business to support or supplement the core segments.

Generics

Generics: a global growth market

Generics contributed 74.8% to sales in 2004 (previous year: 73.7%) and by far represents STADA's largest core segment. Generics are drugs which, after expiration of the patent or other relevant commercial property rights, are offered in the same quality but for lower prices than products of an initial supplier having the same active ingredient. This means generics are typical "multisource products" with active ingredients that any supplier can readily procure.

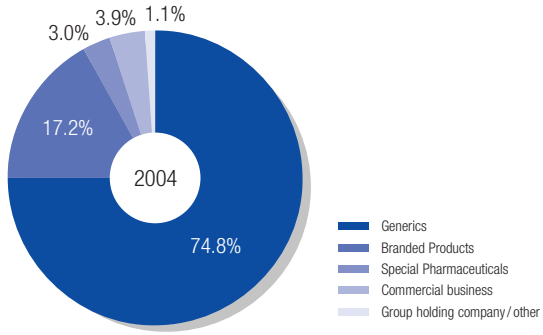
In the global health market, generics are considered to have especially strong growth potential because they allow for effective and at the same time low-cost therapy in many indication areas and hence contribute significantly to cost savings. In view of the extremely high financing pressure that burdens the respective public health care systems in individual national markets, such cost savings play a decisive role.

The Drug Prescription Report (Arzneimittelverordnungsreport – AVR) published by the Research Institute for Local Health Care Systems (Wissenschaftliches Institut der Ortskrankenkassen – WIdO) in 2004 demonstrates, using the example of the German market, just how important generics are both in terms of guaranteeing high quality and very affordable access to drugs. According to calculations in the AVR, € 3.4 billion were saved in Germany in 2003 by prescribing generics. According to STADA's own calculations, STADA generics alone generated total savings in excess of € 200 million[1)] in 2004 when comparing the prices of the generics distributed by STADA in 2004 with the prices of products from initial suppliers. Worldwide, cost savings realized through the use of generics reached an estimated total of USD 25 billion[2)] in 2003.

1) On the basis of pharmacy prices including V.A.T.

2) Press release of the consulting firm Frost & Sullivan dated January 24, 2005.

Sales by STADA Group segment



Both historical data as well as forecasts demonstrate the distinct growth momentum of generics. On average, the annual growth rate of the global generics market has been approx. 17% in the past five years, i.e. between 2000 and 2004. In 2004, the global generics market was estimated at a volume of approx. € 30 billion. This corresponds to a market share of approx. 8% in the global pharmaceutical market. Experts are forecasting average growth rates of 10-15% per year for the global generics market until 2009 and thus an increase to a worldwide market volume of approx. € 48-60 billion.[1) 2)]

In most of Europe's national markets as well, the market share of generics increased to a greater degree in 2004 than the respective national pharmaceutical markets.[3)]

1) Source: IMS Health.
2) The market data on generics fluctuates – in some cases substantially – due to differing market definitions from source to source.

3) Source: IMS Health.

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

5) In terms of total pharma market.

Generics in the EU in 2004[4)]

Market	Total pharma market volume in € million	Change from previous year in %	Generics market volume in € million	Change from previous year in %	Generics market share[5)]
Germany	20,170	+1	4,580	+4	22.7%
France	18,160	+6	1,090	+42	6.0%
UK	12,570	+10	2,420	+29	19.3%
Italy	11,640	+3	230	+20	2.0%
Spain	7,950	+7	390	+20	5.0%
The Netherlands	4,060	+1	730	-17	18.1%
Belgium	2,750	+7	150	+46	5.5%
Sweden	2,600	+2	230	+8	8.9%
Austria	1,620	+6	130	+26	7.8%
Denmark	1,410	+4	230	+20	16.0%
Ireland	1,120	+15	70	+15	6.3%
Czech Republic	910	+11	230	+13	24.9%

In an international comparison, Germany has a high generics penetration of 22.7% in relation to the entire pharmaceutical market, or 59.0% in relation to the generics-capable market.[1] Nonetheless, this well-developed national generics market still has significant growth potential. In 2003, for example, additional savings in the amount of € 1.45 billion could have been realized if full advantage had been taken of the entire spectrum of potential applications for generics in Germany.[2] Health policy makers therefore have a consistent incentive to take better advantage of these unutilized generics potentials through regulatory measures in order to increase the savings achievable with generics. For generics suppliers like STADA, the implementation of such regulations is usually associated with additional growth potential.

1) Source: IMS Health.

2) Source: Pro Generika, press release dated December 16, 2004.

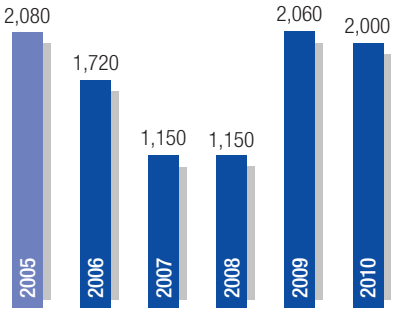
This applies all the more to countries in which market penetration with generic products is still low for historical reasons, for instance the pharmaceutical markets of France and Spain. These countries, too, repeatedly introduce health policy initiatives to promote the increased use of generics. Such initiatives, for example, have made France one of the fastest growing national generics markets.

Additional growth potential from the expiration of commercial property rights

In addition to the positive penetration dynamics of generics around the world, the continuous influx of active ingredients where commercial property rights have expired will create further growth potentials for generics.

In Germany, the United Kingdom, France, and Italy alone – the four pharmaceutical markets with the highest sales in the EU – the sales volume of active ingredients that will become available for generic competition from 2005 to 2010 amounts to more than € 10 billion.[3] Also within the EU, the respective expiration dates of the commercial property rights occur at different times. For example, while STADA was able to sell Omeprazole, the active ingredient with the highest sales in the Group, as early as 1999 in Germany, the local STADA sales company in France was not permitted to introduce it until the second quarter of 2004. In Italy the relevant commercial property rights will not expire until 2007. As a result of the staggered introduction of many generics in the EU due to the differences in local commercial property rights, some of the active ingredients that have been in the Group's portfolio and marketed in individual national markets for some time still have significant introduction potentials.

3) Source: STADA estimate of 2003 sales volumes at ex-factory prices for active ingredients for which STADA currently expects the patents or other commercial property rights relevant for generics competition to expire by 2010, based on data provided by various international market research institutes.



Newly available sales volumes for generics marketing in the four countries Germany, UK, France and Italy in € million per year[1)]

1) Source: STADA estimate of 2003 sales volumes at ex-factory prices for active ingredients for which STADA, from today's perspective, expects expiration of patents or other commercial property rights relevant for generics competition by 2010, based on data provided by various international market research institutes. Note: STADA's expectations as to the date of availability of active ingredients for generics competition are continuously being reviewed from a legal perspective and may in future significantly differ from today's (as of March 1, 2005) expectations as expressed in this graph. The actual sales volumes becoming available for generics competition at the respective dates are subject to fluctuations as a result of changing market success, legal situations or market structures, among other factors.

Timely product development and local sales presence: important growth premises

In order to take optimum advantage of the potential of new generics which is associated with the expiration of commercial property rights, efficient and well-timed development activities are required. For years, STADA has demonstrated this skill with the numerous new generics introduced to the market promptly after expiration of the patent or other relevant commercial property rights.

STADA has the opportunity to take advantage of the potential of the generics market and the continuous expansion of its portfolio because the Group has an international sales network with local and therefore market-oriented companies. This broad national presence makes it possible for STADA to meet respective requirements by applying different sales concepts and to respond relatively flexibly to structural changes.

Current challenges for STADA's generics business

There is no question that spending restraints in health care form the basis for the long-term growth potential of generics suppliers. However, generics are at the same time price-sensitive market segments. This is especially apparent in the USA. There, the still-small product portfolio of the local STADA sales company is subject to high margin pressure. In addition, even generics can be affected by government regulations to contain costs. In Germany, STADA faced such challenges in 2004 due to increases in mandatory discounts (see "Effects of the German health care reform ("GMG") on STADA" in the Management Report), the intense competitive environment, and in particular also in terms of discounts for sales to pharmacies. That not every challenge has to have negative effects was demonstrated in the example of Spain in 2004. In that country, STADA was able to not only compensate for the lower reference prices with volume increases, but in fact to generate significant growth.

Generally, STADA responds to challenges with its lean, market-oriented, and international corporate structure, which diversifies market risks and allows for quick, flexible responses by STADA's sales companies. In the Generics segment, STADA is responding to the margin pressure that is typical for the segment with, among other things, the "STADA – Fit for Future" cost optimization program introduced in 2004. As part of this program, the marketing and selling expenses in the Generics segment have also been reviewed and have been reduced in certain positions.

Optimistic outlook

On the whole, the Executive Board believes that despite the current challenges, the Generics segment will remain a growth market in the future due to its strong growth potential.

Branded Products

Strong STADA brands

Branded Products, STADA's second largest core segment, contributed 17.2% (previous year: 18.1%) to Group sales in 2004. STADA's branded products are the drugs or health care products that the Group offers under a product-specific brand name. In this core segment, too, STADA concentrates on multisource products that are accessible without own active ingredient research. In the Branded Products segment, the respective marketing and sales concepts are the main success factors. Among other things, the operating margins in this segment thus depend on the scope and success of the respective marketing and sales measures.

Originally, STADA was only active in the self-medication and wellness products sectors in Germany in the Branded Products core segment. STADA therefore has a number of strong, well-known, and leading brands in this area. In the past, the product portfolio was expanded with a number of acquisitions, in the prescription market in particular and at the same time was internationalized. Today the Branded Products portfolio includes both non-prescription over-the-counter or OTC products and prescription drugs where STADA concentrates on individual niches in the respective local markets.

Current challenges for STADA's branded products business

In 2004 STADA faced some unexpected challenges in the branded products business as well. In Germany for instance, the demand for OTX products, drugs that in the past were reimbursed by the public health insurance system if prescribed by a doctor, weakened as a result of the GMG (see "Effects of the German health care reform ("GMG") on STADA" in the Management Report). Aside from several generics, a significant number of STADA's branded products was also affected by the decline in demand for OTX products. A recovery in demand for these products has not materialized so far because doctors tend to ignore the exceptions list in effect since April 1, 2004 for OTX products that are still reimbursable, and because the volume of drugs on alternative private prescriptions or bought by patients themselves was lower than expected.

Looking back 2

In connection with the "STADA – Fit for Future" cost optimization program, the marketing and selling costs in the Branded Products segment were therefore also subject to a critical review in the second half of 2004 and in part were reduced.

In addition to the difficulties in Germany, the demand for some of the branded products in the Group's portfolio was weak in Italy and Spain as well in the period under review. In order to counter this development, STADA implemented structural measures in these two countries in the fourth quarter in order to strengthen the respective national businesses.

In Italy, STADA strengthened the Group's branded products business by acquiring a comprehensive package of branded products. The transaction involved the trademarks, approvals, and inventories of 68 branded products, several trademarks currently not marketed and ongoing approval projects (see "Acquisition Policy").[1)]

1) Consolidated in the STADA Group since November 2004.

In Spain, the local sales companies Bayvit S.A. (Generics) and Ciclum Farma S.L. (Branded Products) were merged to form Laboratorio STADA S.L. effective November 1, 2004. Local management in Spain expects to achieve a stronger market presence by better networking its market activities.

Expansion of branded products business through acquisitions

Significant growth for STADA's branded products business is stimulated by acquisitions, and this will continue to be the case in the future as well. At the end of 2004, for instance, STADA completed the largest acquisition in the Company's history when it concluded negotiations for the acquisition of the Russian pharmaceutical company Nizhpharm OJSC.[2)] Nizhpharm's product portfolio focuses on 40 branded products with off-patent active ingredients for various strategically selected indications. Through the acquisition, STADA expects that it will be able to participate in the growth projected for the Russian pharmaceutical market in the coming years (see "Acquisition Policy"); new products from Nizhpharm's existing product development and on the basis of STADA dossiers of products that are attractive for Nizhpharm should also contribute to this growth. In addition, the Group also intends to expand the product portfolio in other national markets through acquisitions.

2) Consolidated in the STADA Group since January 2005.

Special Pharmaceuticals

Current focus on oncology products

Special Pharmaceuticals is the third and currently smallest core segment of STADA. With a contribution to Group sales of 3.0% in 2004 (previous year: 2.9%), the segment is still in the process of expanding.

Special pharmaceuticals at STADA include products that are distinguished from the general pharmaceutical market by specific market entry barriers, indication areas, or market and sales requirements. In the Special Pharmaceuticals segment, too, STADA concentrates on products that are accessible for marketing without own active ingredient research.

STADA's Special Pharmaceuticals core segment currently consists of drugs for cancer therapy, so-called oncology products. The special character of this product category is associated with unique sales requirements. Extensive scientific support of sales activities is required in the clinical area for this niche segment since at least the initial therapeutic decision is often made in specialized hospitals.

STADA will be increasing the international position of its oncology business which is at present predominantly focused on Germany. In addition to the acquisition of several smaller oncology products with international sales in 2002, STADA is engaged in numerous approval processes for oncology products on a European level. The first international approvals were obtained in 2004. The product introductions based on these approvals are expected to take place in the individual national markets from 2005 onwards as soon as the product portfolio there is sufficiently large.

Development projects with potential

In 2004, STADA entered into a strategic partnership with LipoNova GmbH, which specializes in development projects in the field of tumor vaccination. In addition to acquiring a stake in this company, STADA also acquired the Europe-wide exclusive marketing rights for Reniale®, a LipoNova product that is currently in the approval process (see "Acquisition Policy").

In the Special Pharmaceuticals segment, STADA is also engaged in the development of biogenerics together with development partners using venture capital. Biogenerics are active ingredients that are produced biopharmaceutically by means of genetically modified cell lines (see "Product Development"). Like oncology products, biogenerics require specialized sales structures in marketing. STADA will therefore most likely include them in its Special Pharmaceuticals segment after their planned introduction in 2007.

From the present perspective, the current approval and development projects in particular offer STADA clear growth opportunities in the Special Pharmaceuticals segment also in the coming years.

Non-core activities

Contribution of non-core activities to Group sales remains low

STADA's non-core activities include in particular the Group's commercial business, which is conducted in response to special market structures in individual countries. The objective of this business is to support the Group's sales activities in the respective core segments through a network. An example is the STADA Group's Italian sales company NPA New Pharmajani S.p.A.,[1)] which specializes in the sale of drugs to pharmacies. Additionally, a notable portion of the Group's commercial business takes place in Denmark, the Netherlands, and several Asian markets.

1) Stake increased from 60% to 100% in second quarter of 2004.

The non-core activities that the Group is engaged in are continuously reviewed to confirm whether at least in the medium term they can be expected to generate a positive contribution to activities in the core segments. If not, they will be restructured, scaled down, or sold as applicable.

As in the past, non-core activities contributed only an insignificant proportion of Group sales in 2004 at 5.0% (previous year: 5.3%).

Red energy

Acquisition Policy

Successful acquisition policy

In accordance with Group strategy, STADA has been expanding its activities beyond organic growth by means of targeted acquisitions for many years. In doing so, the Group is able to take advantage of its longstanding experience in integrating acquired companies and products into its existing Group activities.

Successful conclusion of negotiations to acquire Nizhpharm, the Russian pharmaceutical company

On December 22, 2004, STADA concluded a purchase agreement for the acquisition of the Russian pharmaceutical company Nizhpharm OJSC, after having signed a Heads of Agreement on November 8, 2004. Pursuant to the agreement, STADA took over 97.47% of the shares for a purchase price of € 80.5 million. The sellers were the European Bank for Reconstruction and Development (EBRD, which held approx. 25% of the shares), the Nizhpharm management (approx. 36%) and other institutional and private investors (approx. 39%). The existing management at Nizhpharm will continue to run the Russian company. The acquisition took effect in January 2005 after receipt of the last required approval from the Russian authorities and conclusion of all contractual transactions. Nizhpharm has been accordingly consolidated in the Group accounts since January 1, 2005.

Nizhpharm is the fourth-largest local pharmaceutical company in Russia in terms of sales and is one of the fastest-growing suppliers in the Russian pharmaceutical market. In 2004, the Nizhpharm Group increased sales in local currency by 17% to RUB 1,626.7 million, or 13% in euros to € 45.4 million. Net income increased by 147% to € 3.8 million in the first half of 2004. Nizhpharm employed an average of 1,242 people in total in 2004, thereof 793 in its own production facilities. Nizhpharm's product portfolio focuses on 40 branded products with off-patent active ingredients. Approximately 76% of Nizhpharm's sales in 2004 were in non-prescription drugs. The Russian market accounts for the major share of Nizhpharm's business (87%). Outside of Russia, Nizhpharm's own local subsidiaries generate substantial sales in Ukraine and Kazakhstan.

Nizhpharm was founded in 1919. It was one of the first companies to be awarded Russian GMP certification (Good Manufacturing Practice, the international production standard in the pharmaceutical industry) and is aiming to attain GMP certification in accordance with EU standards in the foreseeable future.

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

Further strengthening of Italian branded products

In 2004, STADA was able to strengthen the Group's Branded Products business in Italy via product acquisitions.

On October 19, 2004, Crinos S.p.A., a STADA subsidiary in Italy, signed an agreement on the purchase of a range of Italian branded products and a stake increase. In a comprehensive transaction, these products, which have been consolidated in the STADA Group since November 2004, were acquired in part by taking over a company – Boniscontro & Gazzone S.r.l. – and in part by purchasing products directly.

The branded products acquired, which are positioned in various indication areas, generated total sales of € 13.8 million in the Italian market over a twelve-month period from July 2003 to June 2004. The total net purchase price for these products came to € 13.0 million (after deducting the acquired company's cash). The sellers were the private owners of Boniscontro & Gazzone S.r.l. and Pulitzer S.p.A.

The transaction comprised the trademarks, approvals and inventories of 68 branded products as well as some trademarks not marketed at present and ongoing approval projects. The products and projects acquired represent a good fit for STADA's Group strategy, as they all contain well-known, off-patent active ingredients and can be produced by contract manufacturers.

STADA's aim in acquiring these products was to strengthen its local Italian sales companies: Crinos S.p.A., which focuses on the Italian Branded Products business, and NPA New Pharmajani S.p.A., which specializes in pharmacy-based sales and in which STADA increased its stake from 60% to 100% in the second quarter of 2004. NPA supports the sale of acquired branded products to pharmacies. With respect to Crinos, the range of acquired products, which includes both prescription drugs, OTC medication and other healthcare products such as food supplements, complement the existing product portfolio in various indication areas. Crinos also supports sales activities with regard to the acquired branded products. In addition, the local sales representatives who marketed the acquired products prior to the acquisition are continuing to sell these products and now also offer Crinos products to their clients.

Moreover, the Italian branded products portfolio was supplemented by four additional product acquisitions in the course of 2004 (see “Fiscal 2004 – Regional sales development” in the Management Report).

Product purchases in the United Kingdom, Ireland and Spain

STADA also made a number of smaller product purchases in the UK, Ireland and Spain. These measures are intended to further expand the product portfolios of the national sales companies in each country (see “Fiscal 2004 – Regional sales development” in the Management Report).

First “early entry” in the Company’s history

Under an agreement signed on February 25, 2004 with N.V. Organon, STADA became the first generics company in Germany to launch film-coated tablets containing the active ingredient Mirtazapine, an antidepressant, as an “early entry” on the market. STADA purchased approvals issued for Mirtazapine film-coated tablets in all three usual strengths from N.V. Organon. The contracting parties kept the agreed purchase price confidential. Organon is the market supplier of self-dissolving tablets containing this active ingredient in three different strengths under the brand name of Remergil SolTab®.

The patent on Mirtazapine had already expired in Germany at the time of the acquisition. Another commercial property right – data exclusivity for the initial supplier's approval documentation, which in the case of other active ingredients usually ends long before patent expiration – expired for Mirtazapine at the end of March 2004. The acquisition of approvals granted for Mirtazapine effectively enabled STADA to achieve “early entry” on the market. STADA was able to sell the product “Mirtazapin STADA” early – as of the start of April 2004 – as the first generic drug containing this active ingredient in the German market. The first generic competitor products containing this active ingredient were not launched on the German market until August 2004.

This early entry allowed STADA to achieve sales in Germany of approx. € 13.7 million with “Mirtazapin STADA” in 2004. A high of 39 % was reached with respect to market share. Even after the introduction of competing products, the market share for the year as a whole was approx. 23 %,[1)] which is quite high for STADA.

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

Strategic partnership with LipoNova in the field of tumor vaccines

The acquisitions of fiscal 2004 also included the strategic partnership between STADA and LipoNova GmbH, Hanover, in the field of tumor vaccines. On February 26, 2004, STADA initially purchased a 16% stake in LipoNova, which specializes in developing tumor vaccines, for a purchase price of € 6.4 million as well as the exclusive Europe-wide distribution rights to the autologous tumor vaccine Reniale®, which is currently in the European approval process (for details on the product see "Product Development"). Once Reniale has been launched in the market, STADA will pay sales-related royalties to LipoNova. In addition, the contract stipulates that STADA will also further increase this stake in LipoNova by another 16% at a price of € 8 million when Reniale® is approved by the European Medicine Evaluation Agency (EMEA), the European agency responsible for drug approvals.

STADA aims to take advantage of this strategic partnership with LipoNova in order to add an innovative product to the Group's oncological business in the Special Pharmaceuticals core segment, without having to change its strategy by conducting basic research on a new active ingredient.

Continuation of STADA's active acquisition policy

STADA plans to continue its active acquisition policy of recent years in 2005 against the backdrop of a balance sheet structure which can sustain further acquisitions, with an equity-to-assets ratio of 62.6% (December 31, 2003: 64.3%). Expansion of STADA's international sales presence and its product portfolio in the core segments will continue to be the main goal of such acquisitions. Additional goals could be to acquire modern application technologies and to build up positions in related market segments in order to support the core segments. However, such acquisitions will only be undertaken if the acquisition targets suit STADA's corporate strategy and operational structure and if they can be purchased at a reasonable price.

Sales and Marketing

A factor in STADA's success: national sales companies

Drug sales are subject to basic structural conditions that vary worldwide. Against this backdrop, one of the central success factors is market proximity with the international network of local sales companies which STADA has built up steadily over the past few years. For only a local presence can meet the various national requirements by applying different sales concepts and reacting with relative flexibility to structural changes, thus taking optimum advantage of local market opportunities.

Also in 2004, STADA continued to expand its sales network via acquisitions in Italy and especially in Russia. The conclusion of negotiations on the acquisition of Nizhpharm, the fourth-largest national pharmaceutical company in Russia, gave STADA access to one of the most important pharmaceutical markets in Eastern Europe (see "Acquisition Policy").

As of the balance sheet date in 2004, STADA was represented in 18 countries with 29 sales companies. Special focus remains on the EU, where STADA is active in all significant national markets with its own subsidiaries. Today as in the past, Germany is STADA's largest national market. In the rest of Europe, STADA has sales companies in Switzerland as well as in Russia and the Ukraine following the conclusion of negotiations on the acquisition of Nizhpharm.

In the United States, STADA has had its own sales company since the beginning of 2002.

In the Asian market, the STADA Group has sales companies in China, the Philippines, Thailand, Vietnam and also in Kazakhstan following the conclusion of negotiations on the acquisition of Nizhpharm.

1) Unless indicated otherwise, the companies are wholly owned by the STADA Group.

2) Consolidated since start of 2005.

3) Consolidated since start of 2005.

4) Change of company name in 2004.

5) 60% stake increased to 100% in second quarter of 2004.

6) Consolidated since start of 2005.

7) Currently not consolidated.

8) Consolidated since start of 2005.
9) Legally independent permanent establishment of Nizhpharm OJSC, Nizhny Novgorod.

10) Consolidated at 50%.

11) Consolidated since start of 2005.
12) Legally independent permanent establishment of Nizhpharm OJSC, Nizhny Novgorod.

STADA sales structure (as of March 1, 2005)[1)]

Europe	Belgium	N.V. Eurogenerics S.A., Brussels
	Denmark	PharmaCoDane ApS, Copenhagen
	Germany	STADA Deutschland, Bad Vilbel (STADApharm GmbH, STADA GmbH, STADA Medical GmbH, Eurovax GmbH[2)]) ALIUD PHARMA GmbH & Co. KG, Laichingen cell pharm GmbH, Hanover
	France	EG Labo Laboratoires EuroGenerics S.A.S., Paris Eurovax S.A.S.[3)], Paris
	UK	Genus Pharmaceuticals Ltd.[4)], Newbury
	Ireland	Clonmel Healthcare Ltd., Clonmel
	Italy	EG S.p.A., Milan Crinos S.p.A., Milan NPA New Pharmajani S.p.A.[5)], Milan
	The Netherlands	Centrafarm B.V., Etten-Leur Healthypharm B.V., Etten-Leur Quatropharma B.V., Etten-Leur
	Austria	STADA Arzneimittel Ges.m.b.H., Vienna Bioline Ges.m.b.H., Vienna
	Russia	Nizhpharm OJSC[6)], Nizhny Novgorod (97.5%)
	Spain	Laboratorio STADA S.L., Barcelona
	Sweden	STADApharm AB[7)], Malmö
	Switzerland	Helvepharm AG, Frauenfeld (50%)
	Czech Republic	ALIUD PHARMA CZ s.r.o., Prague
	Ukraine	Nizhpharm-Ukraine[8) 9)], Kiev
The Americas	USA	STADA Pharmaceuticals Inc., Cranbury, New Jersey
Asia	China	Health Vision Enterprise Ltd., Hong Kong (51%[10)]) STADA Pharmaceuticals (Asia) Ltd., Hong Kong
	Kazakhstan	Nizhpharm-Kazakhstan[11) 12)], Almaty
	The Philippines	Croma Medic Ltd., Manila (60%)
	Thailand	STADA Asiatic Co. Ltd., Bangkok (60%)
	Vietnam	STADA Vietnam J.V. Ltd., Ho Chi Minh City (50%)
Export	to 30 countries	among others via STADA Pharma International GmbH, Berlin

In addition, STADA is active in the export business in a total of 33 countries in which the Group does not have its own local sales company.

These export activities are transacted primarily via STADA's subsidiary, STADA Pharma International, which has its own staffed offices in some of the countries. In fiscal 2004, such offices existed in Bosnia Herzegovina, Bulgaria, the Czech Republic, Egypt, Kazakhstan, Lithuania, Poland, Rumania, Russia, the Ukraine, Serbia, and Slovakia. If the local business reaches a certain level, STADA may also set up local sales companies.

Market orientation as operating premise

STADA's pronounced market orientation is an essential component of its strategy. Its individual sales companies are accordingly responsible for the operating business management, particularly sales and marketing, in their national markets as part of the agreed strategic and operating objectives.

The high value the Group places on sales and marketing is also evidenced by the number of employees in this area. In fiscal 2004, an average of 1,388 employees worked in sales and marketing. This corresponds to approx. 54% of all STADA employees (see "Employees").

Differentiated sales concepts for different target groups

Marketing and sales activities are oriented toward specific target groups in each of the national markets. Depending on market structure and the corresponding target group demand in the respective national market, these activities may be aimed at patients or consumers, doctors, doctors' cooperatives, single pharmacies, pharmacy cooperatives, pharmacy chains, hospitals, other health care providers, or wholesalers. Irrespective of these groups, STADA realizes sales primarily with wholesalers and in some cases with pharmacies or other buyers, such as hospitals.

Sometimes more than one sales company is active in a single national market at the same time. Taking into account the specific market conditions, they pursue coordinated and at times even operationally networked

sales strategies. The reasons for the differentiated market approaches can be found in the different requirements of the individual target groups that are reflected in varying sales concepts.

In the German market, for instance, there are currently six different STADA sales companies: STADApharm (prescription generics), STADA GmbH (branded products and non-prescription generics), STADA Medical[1)] (products for the treatment of diabetes and for integrated health care models), ALIUD Pharma (generics with a special sales concept: no sales force, only direct mailing), cell pharm (semi-generic, special oncology pharmaceuticals) and Eurovax[2)] (tumor vaccines). These six sales companies use the differentiated sales concepts of their individual market approaches to serve different target groups and/or different product assortments in various core segments.

1) STADA Medical was newly structured in the course of fiscal 2004 by including parts of product assortments from other sales companies that are suitable for supplying diabetics and for integrated models in STADA Medical. The goal is to intensify the sales presence in these health care areas.
2) Eurovax has been conducting pre-marketing activities for Reniale since the fourth quarter of 2004 (see "Product Development").

The STADA Group also has similar sales models in the Netherlands, Italy and France, involving target group-specific sales companies.

In spite of their individual market approaches, the Group sales companies work closely together to coordinate strategy and operations each in their national market. If market conditions change, product allocation and the market approach can be adjusted at short notice if necessary. This structure allows the Group to react flexibly to current market needs.

Further expansion of sales structures

In addition to the organic expansion of existing sales structures, STADA plans to take active advantage of growth opportunities via acquisitions in fiscal 2005 as well. In this context, the Group intends to continue to establish sales organizations in other countries that would represent a sensible addition to the existing sales network, if the opportunity arises.

Product Development

Development activities as a key success factor

Experienced product development is a key success factor for STADA's organic growth. In particular in the Generics segment, it is important in all national markets to introduce new products promptly after expiration of the patent or other relevant commercial property rights.

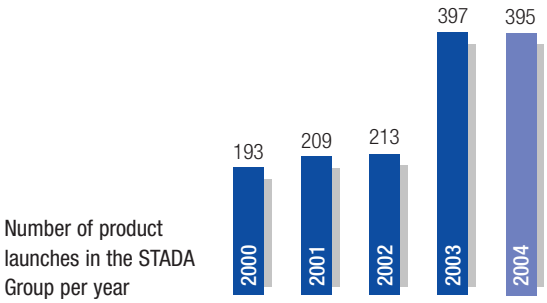
In line with Group strategy, STADA's product development concentrates on multisource products, or active ingredients that already are or will be coming off patent. The Group therefore consciously refrains from conducting its own research into new active ingredients. However, in connection with the corporate strategy, research activities in the field of modern application technologies for pharmaceuticals are conceivable. In this area, marketing and sales of current patented research results licensed in from third parties may be considered as well.

STADA's development activities continue to focus on the following key areas:

- Development of new generics promptly after expiration of the respective commercial property rights of the individual active ingredients
- Expansion of the existing product portfolio with additional products or dosage forms
- Internationalization of nationally successful products
- Optimization of products already introduced in order to reduce manufacturing costs or achieve better application potentials

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

In the Generics core segment, the objective of STADA's development activities is above all to provide the sales companies with a comprehensive and continuously updated product portfolio for all indication areas. As a rule, any new active ingredient becoming available for the Generics segment with sufficient sales expectations will become part of a Group-wide development project at STADA. Then, under consideration of the respective



national marketing strategy and local patent and approvals situation, a decision is made for each national market on which active ingredients from the Group portfolio will be included in the local portfolio and at what point in time.

In the Branded Products and Special Pharmaceuticals core segments, STADA continues to pursue a selective portfolio strategy. Development projects or new products are selected according to product and country-specific growth and/or earnings opportunities as well as compatibility with the existing product range and Group structures.

STADA places special importance on the international utility of development results. The Group therefore generally seeks approvals for various national markets for new products and in addition to national approval procedures takes advantage of the corresponding EU-wide EMEA approval processes (MR procedure and centralized procedure for biogenerics and tumor vaccines). From the time when it first became possible to obtain approval in conjunction with an MR procedure in 1995 to the end of fiscal year 2004, STADA received a total of more than 1,500 MR approvals for individual generics products.

The Group-wide, international utility of development results is highly important since STADA's existing international sales network gives it the ability to take advantage of economies of scale, particularly in the EU. Despite local market strategies and local product names, the dosage form of a product can be uniform if it is approved throughout the EU, which means it can be produced in larger batches.

395 products launched in 2004

STADA's development strength is demonstrated by the large number of products launched each year. In 2004, STADA was able to introduce a total of 395 products Group-wide. In the year before, 397 products had been introduced. In 2004, it was once again of decisive importance that numerous generics could be launched promptly after expiration of the patent or relevant commercial property rights.

In the reporting period, products STADA introduced to the German market included generics with the active ingredients Ramipril, Ramipril + HCT, Amlodipine, Carvedilol, Lisinopril + HCT, Quinapril, Pravastatin, Amisulpride, Pergolide, Enalapril + HCT, Xipamide, and Clarithromycin.[1)]

1) In addition, Mirtazapin STADA was launched in the German market as an "early entry" product (see "Acquisition Policy").

In fiscal year 2004, it was also possible to introduce Omeprazole, the best selling active ingredient in the STADA Group, in France. This was two years earlier than originally planned.

Well-filled product pipeline

STADA has a full product pipeline that is expected to generate numerous product launches over the next few years as well. This applies particularly to generics in the EU, which should be launched promptly after the expiration of commercial property rights of important, high-sales active ingredients in the national markets over the next few years (see “Group Segments: Generics”).

The large existing portfolio of approval dossiers for EU countries forms the basis for further international approval activities in the countries outside of the EU where STADA operates via subsidiaries or with exports.

In addition, STADA is increasingly broadening its development activities in consideration of the strategic premise of concentrating on off-patent active ingredients. Over the next few years, the capacity for own product developments is to be selectively expanded, and development projects will also be conducted for the U.S. market. This may also be accomplished in cooperation with partners with specific expertise in pharmaceutical technology. The target of these activities may go beyond seeking simple equivalence with initial supplier products.

Development projects for patches containing active ingredients

Thus, STADA is engaged in projects concerning the development of patches containing active ingredients which act transdermally, i.e. through the skin. A first such patch with the analgesic active ingredient Fentanyl will presumably be introduced in the course of 2005 in the USA. STADA has exclusive marketing rights for this Fentanyl patch in the USA. In 2004, sales volumes of patches containing Fentanyl sold by the initial supplier amounted to approx. € 1.2 billion in the USA.[1)]

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

STADA has largely completed the development of a Fentanyl patch for the European market and has filed several national approval applications, which will serve as the basis for a subsequent EU-wide MR procedure. STADA expects to receive drug approval of these applications for various national EU markets starting in 2006 at the latest. However, depending on the respective national patent situations, market launch may follow significantly later in some cases. In 2004, the initial supplier, which still has no competition, generated Europe-wide sales of approx. € 500 million from Fentanyl in this dosage form.[1)]

In addition, STADA is involved in the development of a generic transdermal patch containing Clonidine, an active ingredient that lowers blood pressure, for the US market. The market launch is planned for 2006. Sales from Clonidine patches in the USA are currently approx. € 170 million.[1)]

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

On the whole, STADA believes that patches containing active ingredients have the potential to contribute more than € 50 million per annum to Group sales over the medium term.

Development projects in the biogenerics sector

Since 2001, STADA and Bioceuticals Arzneimittel AG, a company initiated by STADA, have been conducting the development of three biogenerics containing the active ingredients Erythropoietin, Filgrastim, and Interferon beta 1A. This project is involving external development partners as well as significant funding by way of venture capital. STADA holds the exclusive global marketing rights to these development projects.

The possibility of obtaining approval for biogenerics in the EU, as STADA has always anticipated, was confirmed in November 2004 with the publication of a concept paper by the EMEA, the European drug approval authority. Among other things, the paper announced the drafting and publication of guidelines for Erythropoietin and Filgrastim.

Among the Bioceuticals projects, the development of a biogeneric for Erythropoietin is by far the most advanced. Clinical studies began in the first quarter of 2004 for this active ingredient. After agreeing on the necessary scope of the studies with approval experts, it is expected that a total of approx. 1,000 patients will be necessary. From today's perspective, the clinical studies should be completed in the second half of 2005, so that approval can be applied for in the first quarter of 2006 and be expected to be granted in 2007.

In consideration of the cumulated market potential of over € 2.4 billion[2)] for the three active ingredients Erythropoietin, Filgrastim, and Interferon beta 1A of the initial supplier – of which Erythropoietin alone is € 1.1 billion[2)] – STADA still expects, as when the project started four years ago, that as of the third full marketing year it will be able to achieve sales totaling at least € 100 million with all three biogenerics.

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

EMEA approval process for Reniale®, the autologous tumor vaccine

On February 26, 2004, STADA entered into a strategic partnership in the field of oncology with LipoNova GmbH, a company that carries out development projects involving tumor vaccines. In addition to a 16% stake in the company and agreements to increase this stake by another 16%, this partnership involves the exclusive European marketing rights to Reniale®, a LipoNova product currently in the approval process (see "Acquisitions" for additional details on the strategic partnership).

The autologous tumor vaccines offered by LipoNova involves removing cancer patients' own tumor cells to prepare "cell lysates" using a special process developed by LipoNova which is then injected back into the patients intradermally. This is intended to stimulate the body's own defenses and, consequently, its ability to fight the cancer.

The strategic partnership with LipoNova will for the first time give STADA the opportunity to offer an innovative cancer therapy product and to expand its oncology business without having to conduct any proprietary research into the active ingredient.

In December 2003, LipoNova applied for Europe-wide approval for Reniale®, the first product with this mode of action, from EMEA, the European agency responsible for approving innovative drugs. This first autologous tumor vaccine is aimed at the adjuvant treatment of certain stages of renal cell carcinoma. This type of cancer affects no more than approx. 70,000 patients per year in the EU. LipoNova has therefore already obtained the so-called "orphan drug" status for Reniale®. This status is given to drugs for the treatment of rare diseases. Approval for such drugs grants market exclusivity which, depending on the country, is valid for at least six years.

LipoNova clearly envisages the possibility of receiving Europe-wide approval for Reniale® in 2005. In the fourth quarter of 2004, the STADA sales companies in Germany and France therefore began setting up sales organizations for Reniale® under the label Eurovax.[1)]

1) The respective companies have been consolidated since the beginning of 2005.

Depending on the launch dates and especially on the reimbursement situation in the various national markets, STADA estimates that the annual sales potential for Reniale® in the European market could peak at over

€ 50 million. From today's perspective, however, it is impossible to make any definitive statements on this issue due to the innovative nature of the product and the fact that sales potential will largely depend on the drug's reimbursability.

Intensive development activities tap prospects for the future

All of the intensive development activities of the Group pursue the goal of making future structural potentials accessible to the Group. In addition to the classic generics developments related to the STADA business model, special product developments like biogenerics, tumor vaccines, and patches with active ingredients are intended to open up additional future potential. If additional opportunities for special product developments arise that are strategically in line with the Group's business, STADA will review them and may also pursue them.

Procurement and Production

The process of manufacturing a drug can basically be divided into three steps: the raw material production of active ingredients and auxiliary substances, pharmaceutical production, i.e. the conversion of pharmaceutical substances into a dosage form, and packaging.

Global procurement of active ingredients and auxiliary materials

Due to cost and flexibility considerations, STADA has up to now decided for strategic reasons against manufacturing the active ingredients and auxiliary materials necessary for pharmaceutical production in its own facilities. Instead, the Group has for years been utilizing a worldwide network of raw materials suppliers and also makes use of global procurement options to a significant extent, particularly in low-cost countries (so-called "low-cost sourcing options"), insofar as these countries are able to supply the required quality.

The fact that the cost of procuring raw and auxiliary materials for the products manufactured in the Group itself is approx. 45% of total production costs demonstrates the major significance of cost optimized procurement using these low-cost sourcing options.

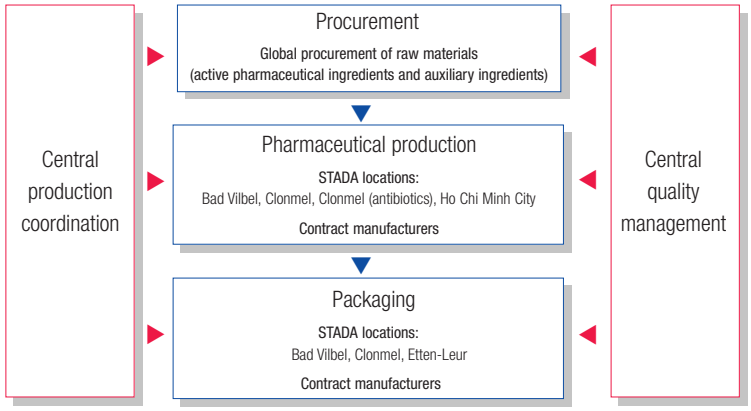
Group-owned production facilities for pharmaceutical production and packaging

Insofar as pharmaceutical production, i.e. the manufacture and packaging of the various dosage forms, took place in Group-owned facilities, four locations were available in the year under review: in Germany (Bad Vilbel: 48%[1)]), in the Netherlands (Etten-Leur: 34%[1)] – only packaging), in Ireland (Clonmel: 14%[1)]) and in Vietnam (Ho Chi Minh City: 4%[1)]). STADA has only been operating the production facilities in Vietnam since 2003 within the framework of a 50:50 joint venture with a local manufacturer. Originally conceived to meet only local demand in Asia, this production facility is gradually being integrated into STADA's production network.

1) Share in STADA's own production capacities.

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

STADA production network in 2004



Nizhpharm, the Russian pharmaceutical company acquired by STADA was one of the first companies to receive Russian GMP certification (Good Manufacturing Practice – the international production standard in the pharmaceutical industry). The company is striving for GMP certification in accordance with EU standards in the foreseeable future. In connection with the integration of Nizhpharm into the STADA Group, STADA is also reviewing the option of integrating Nizhpharm's production site into STADA's production network.

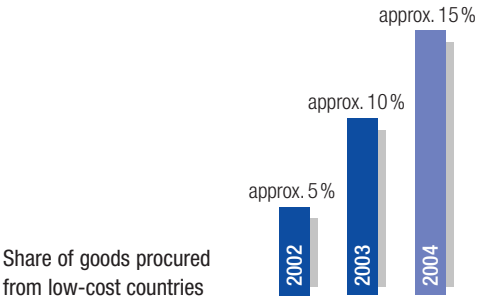
High level of outsourcing to international production network

In addition to Group production facilities, contract manufacturers produce and package numerous products on the basis of STADA's approvals. This applies above all to special dosage forms, e.g. ampoules or sterile drugs, which can be produced by specialists at substantially lower cost. In the case of high-volume standard dosage forms such as tablets, capsules and liquids which the Group manufactures at its own production sites, STADA reviews on an ongoing basis whether it would be of greater advantage to outsource production and packaging to external partners.

However, STADA always maintains a minimum number of its own production facilities for strategic reasons, particularly to avoid dependencies. In 2004, the share of the Group's own production was less than 30%. The year before, this figure was approx. 40%. The increase in outsourcing represents a deliberate strategic limitation of STADA's own production resources as regards flexibility, costs and capital commitment.

Active cost management for procurement and production

The cost of sales is the largest cost item on STADA's income statement. For this reason, active cost management has always focused on procurement and production. For example, the Group has for some time now been having suppliers of active ingredients and contract manufacturers participate in price developments of individual products and markets by utilizing price escalation clauses in advance or by means of retroactive price negotiations. In addition, the Group-wide share of goods procured from low-cost countries from 2002 to 2004 has roughly tripled from approx. 5% of Group purchases to approx. 15%.



The efforts to reduce the cost of sales will be continued over the next few years within the "STADA – Fit for Future" cost optimization program introduced in 2004.

One of STADA's goals is to further increase the share of raw materials procured from countries with low raw material prices, particularly Asia. For cost reasons, STADA will also increasingly resort to the "low-cost production countries" in the area of contract manufacturing for pharmaceutical production. The Group plans to award more contracts to external suppliers in low-cost countries, who will then manufacture the required products in accordance with the relevant STADA approvals. This will occur while maintaining a strategically minimum level of its own production capacities at proven STADA locations.

In addition, contracts with suppliers for the manufacture of high-volume STADA products will be expiring in 2007 and 2008. In this context, STADA hopes to also achieve significant cost savings through retroactive price negotiations or, if applicable, by changing suppliers.

On the whole, STADA's Executive Board will take the opportunity to further optimize the cost of sales by continuing to accelerate active procurement and production management.

Northern constellation

Quality Management

High quality standards

For a supplier in the health care market, product quality and product safety are essential conditions for business success.

As a staff department directly linked to the Executive Board, STADA Quality Management uses regular and comprehensive audits of the Group's own production sites as well as the facilities of suppliers and contract manufacturers to ensure the quality demanded by STADA throughout the entire procurement and production network of the Group.

It is an essential obligation for the Group to unconditionally meet all relevant regulatory standards in its business processes, in particular with respect to production. Moreover, to the extent that it makes sense for business processes, STADA seeks comprehensive certification under internationally recognized external quality management systems.

For instance, in pharmaceutical production, STADA complies with the relevant ISO standards and is certified under EN ISO 9001/2000 and EN ISO 13485/2000. In the interest of environmentally compatible production, STADA has been following the rules and regulations of the German Association of Chemical Industries (VCI) on environmentally sound practices for years.

STADA has remained committed over the years to the premise: "The highest responsibility of the STADA Group is toward patients, members of the health care professions, and everyone who makes use of the products and services of the Group. In order to properly meet this responsibility, all of the products and activities of the STADA Group must be of appropriate quality."

Green balance

Employees

An important success factor: STADA´s employees

STADA's employees are an important factor in its success. Their commitment, experience, and competence make it possible for the Group to continuously develop.

STADA utilizes the methods of modern personnel management in order to secure this success potential over the long term and further expand it. Personnel management consists of employee recruitment and selection as well as operational organization within the Company, which includes employee support and development. In addition, personnel management ensures that each employee is challenged and promoted according to his or her specific capabilities.

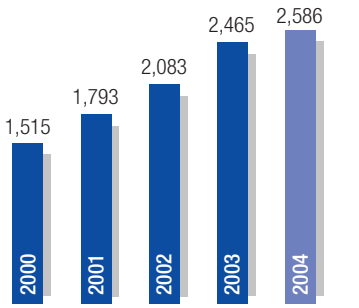
In keeping with STADA's focus on flexible and lean corporate structures, personnel management is largely decentralized; i.e. in accordance with the corporate guidelines, the international sales companies in particular are primarily autonomous in their human resources activities enabling them to better respond to local requirements. A detailed description of STADA's personnel policy for the Group companies located in Bad Vilbel is included each year in the personnel and social report published on the STADA website www.stada.com.

Number of employees continued to rise

In fiscal 2004, STADA employed an average of 2,586 employees worldwide (previous year: 2,465 employees). The rise from the previous year is a result of the continued expansion of the Group.

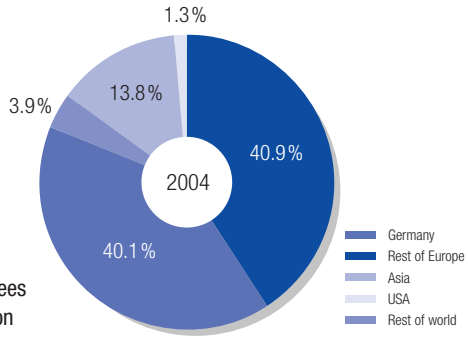
In Germany, STADA had an average of 1,036 employees during the period under review (previous year: 1,015 employees). In all other countries, the Group had a total of 1,550 employees (previous year: 1,450 employees). Also in 2004, the personnel structure in terms of functional area continued to reflect STADA's market and growth orientation as more than half of the employees – 54% – worked in Marketing and Sales. A total of 14% of STADA's employees worked in Administration and 7% in Development. In 2004, 20% worked in Production and 6% of employees worked in Logistics.

STADA average number of employees



Employees of companies consolidated at only 50% were considered according to their respective consolidation rate since fiscal 2003. The figures for the previous year were adjusted accordingly.

Employees by region



In 2005, the employee structure will change significantly as a result of the acquisition of Nizhpharm, adding an annual average of approx. 1,240 employees[1], including approx. 790 employees[1] in Production, to the STADA Group.

1) 2004 average

Average number of employees in 2004

	Total	Sales / Marketing	Production	Logistics	Development	Administration
Belgium	81	66			4	11
China	82	63		3	2	14
Denmark	15	3	5			7
Germany	1,036	490	190	91	97	168
France	71	48		4	9	10
UK	18	8			2	8
Ireland	242	25	160	12	27	18
Italy	210	188			4	18
The Netherlands	163	23	97	20	7	16
Austria	27	23				4
The Philippines	149	108		8	2	31
Switzerland	3	1			1	1
Spain	199	176			5	18
Thailand	37	21		9	1	6
Czech Republic	29	26				3
USA	34	15			8	11
Vietnam	88	2	71	4	5	6
Rest of world	102	102				
Total Group	**2,586**	**1,388**	**523**	**151**	**174**	**350**

STADA Share

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

Fluctuating share price in 2004

The operational challenges that STADA faced in fiscal 2004 led to a fluctuating development of the price of the STADA share in 2004. In the first months of the year 2004, STADA's share price declined, in particular after the forecast for the fiscal year was reduced in June 2004 (see "Overview" in the Management Report). The performance of the STADA share reached its low for the year on August 6, 2004 at € 13.52 (XETRA® closing price). The reason for the initially negative development of the share price was above all the shortsighted perspective of the capital market, which paid less attention to the fact that STADA's good growth opportunities remain unchanged and instead focused on the current health policy challenges.

During the course of the year, STADA's successful mastery of the difficult year of 2004 and the Executive Board's repeated emphasis of the Company's future prospects convinced investors again and led to a significant improvement in the share price.

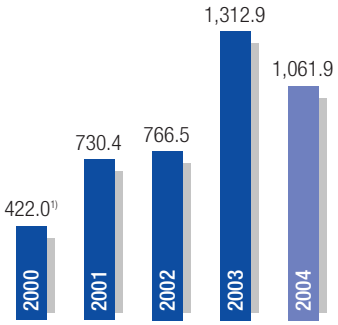
By the end of the year 2004, the STADA share was listed at € 19.89, a level that was approx. 19% lower than the comparable closing price in 2003, but 47% higher than the annual low for 2004. By February 28, 2005, the STADA share price had risen again to € 25.10.[1)]

1) XETRA® closing price.

Market capitalization surpasses € 1 billion again

At year-end 2004, STADA's market capitalization had reached € 1.062 billion (USD 1.444 billion), after having fallen below the one billion euro threshold in the months before. In comparison, STADA's corporate value at year-end 2003 was € 1.313 billion or USD 1.639 billion. As a result of the share price increase in the current fiscal year, market capitalization reached € 1.340 billion or USD 1.774 billion as of February 28, 2005.

STADA market capitalization
in € million at year-end



1) For common shares plus preferred shares.

STADA key share data	2004	2003
Number of shares (year-end)	53,390,820	53,390,580[1)]
Average number of shares	53,348,910[1)]	43,327,286[1)]
Year-end closing price (XETRA®) in €	19.89	24.59[2)]
High (XETRA® closing price) in €	26.75[2)]	27.69[2)]
Low (XETRA® closing price) in €	13.52	19.66[2)]
Market capitalization (XETRA®) in € million (year-end)	1,061.9	1,312.9
Basic earnings per share in €[3)]	0.91[1)]	1.01[1)]
Diluted earnings per share in €[4)]	0.88[1)]	0.95[1)]
Dividend per share in €	0.39[5)]	0.35[2)]
Dividend yield	2.0%[6)]	1.4%

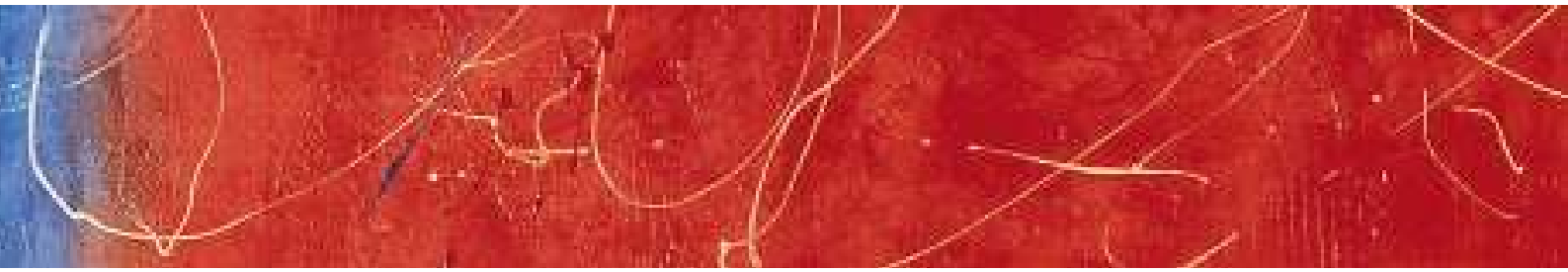
1) Pursuant to IAS 33.20 in conjunction with IAS 33.22, a capital increase from existing funds changes the average number of shares without any concomitant change in the level of resources. The number of common shares in issue prior to the capital increase is adjusted in accordance with the proportional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

According to the index system of the Deutsche Börse AG, which only takes free float into consideration, STADA's market capitalization on the MDAX was in position 16 in 2004 (previous year: position 8). In terms of trading volume, STADA remained in position 9 as in the previous year. The average trading volume of STADA shares on the XETRA® and on the Frankfurt Stock Exchange was € 7.9 million per day in 2004. This represents a 58% increase from the daily average in the year 2003 (€ 5.0 million).

De facto 1:1 stock split

On July 30, 2004, STADA carried out the de facto stock split in a ratio of 1 to 1 resolved by the Annual Shareholders' Meeting on June 15, 2004 after the close of trading.

STADA shareholders received one bonus share for every registered share of restricted transferability they already held. The capital stock issued by the Company thus doubled from € 69.4 million to € 138.8 million. A total of 26,695,290 bonus shares were issued. This capital measure also doubled the number of STADA shares in issue and arithmetically reduced its share price by half; this capital measure therefore constituted a de facto 1:1 stock split. The bonus shares from the securities accounts of STADA shareholders were automatically credited with a value date of August 2, 2004. The text of the official notification to shareholders can be found on STADA's website at www.stada.de.



Thus on the morning of the first trading day after the conversion, August 2, 2004, official trading in STADA's shares (ex scrip) commenced on the basis of half of the closing share price quoted on the last trading day prior to the conversion on July 30, 2004. The new shares were entitled to a share in profits as of the beginning of fiscal 2004.

With effect from August 2, 2004, the following adjustments were made to STADA's bearer warrants maturing in 2015 (ISIN DE0007251845) in accordance with § 7 (2) of the terms and conditions of the warrants:

- Each warrant now entitles the holder to subscribe for 20 STADA shares (instead of 10 previously). The option price remains unchanged at € 329.00 and the reduced price remains € 279.00.
- The threshold price for the reduced option price is now € 13.95 (previously € 27.90).

The other terms and conditions of the company's warrants remained unchanged. The full terms and conditions and the text of the official notification to warrant holders can be found on STADA's website at www.stada.de.

In the first half of fiscal 2004, 12 options were exercised, resulting in 120 new STADA common shares.

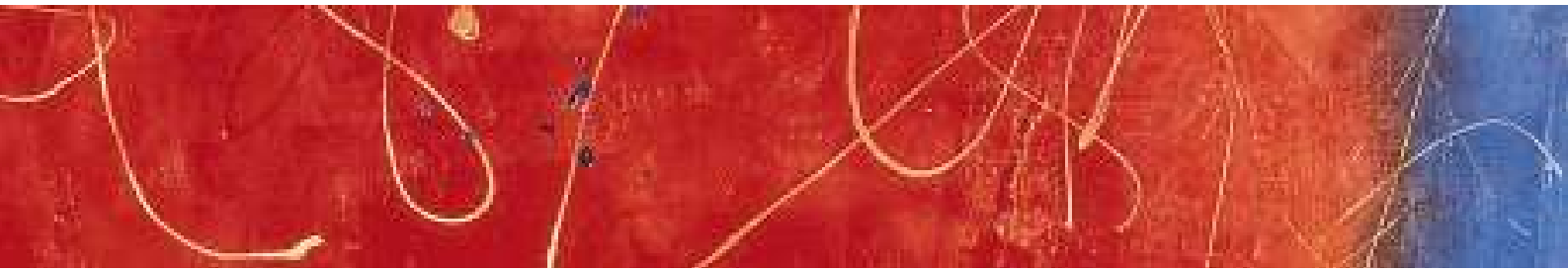
Equity structure of STADA Arzneimittel AG	Dec. 31, 2004	Aug. 2, 2004[1)]	Dec. 31, 2003
Number of restricted registered common shares	53,390,820	53,390,820	26,695,290
Number of warrants 2000/2015[2)]	449,970	449,970	449,982
Number of potential shares from warrants 2000/2015[2)]	8,999,400	8,999,400	4,499,820

1) First trading day following the de facto 1:1 stock split.

2) The legally binding option terms and conditions are published on the Company website www.stada.com.

New authorized capital

New authorized capital was created at the Annual Shareholders' Meeting on June 15, 2004 because the existing authorized capital had almost all 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 until 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.



Amendment of the articles of incorporation

In addition, the Annual Shareholders' Meeting on June 15, 2004 resolved on a comprehensive update of the articles of incorporation. In this connection, among other things the name of the Company was adapted to reflect the style of the name that has been used for some time[1)] and the necessary quorum for amending the purpose of the Company was stricken.

1) The Company was renamed from "STADA-ARZNEIMITTEL Aktiengesellschaft" to "STADA Arzneimittel Aktiengesellschaft."

Share buyback

Another resolution adopted by the Annual Shareholders' Meeting that is of relevance to the share was the authorization for the Company to buy back its own shares in accordance with § 71 (1) 8 of the German Stock Corporation Act (AktG). In this connection, the Executive Board of STADA decided on November 9, 2004 in view of the price level to buy back its shares at a volume of up to 10% of the share capital. The shares will be repurchased through the stock market. The authorization states that the price paid by the Company for each share must not be more than 10% above or below the price quoted for the shares in intraday XETRA® trading at 1 p.m. on the day in question. The repurchased shares are to be used for planned acquisitions and as part of the existing employee share ownership program.

As of the balance sheet date for 2004, STADA had acquired a total of 90,833 shares worth € 1.6 million and sold 5,034 shares worth € 0.1 million. This means that on December 31, 2004, STADA held 123,169 of its own shares. On December 31, 2003, STADA had held 18,685[2)] of its own shares.

2) Number of shares prior to de facto 1:1 stock split on July 30, 2004.

Shareholder structure still broadly based

As of December 31, 2004, STADA shares were held by a total of approx. 37,000 shareholders. According to STADA estimates on February 28, 2005, approx. 50% of the capital is held by institutional investors and approx. 20% is held by pharmacists and doctors.

The free float of STADA shares remains 100%. On the balance sheet date, no investor had reported holding more than 5% of STADA's capital stock. In the second quarter of 2004, Morgan Stanley briefly held more than 5% of STADA's shares. In the third quarter of 2004, DWS Investment fell below this legal threshold. In the first quarter of 2005, DWS once again held more than 5% of the shares in STADA Arzneimittel AG for several weeks.

STADA External corporate presentations in 2004

Month	Location	Host
January	Lyon	Crédit Lyonnais
February	Vienna	Merck Finck
February	New York	Merrill Lynch
March	Frankfurt am Main	Deutsche Bank
April	Kyoto, Tokyo, Hong Kong, Singapore	HSBC
April	Cologne, Düsseldorf, Brussels	Sal. Oppenheim
April	Stuttgart	BW-Bank
April	London, Edinburgh	Merrill Lynch
May	Copenhagen, Stockholm	Equinet
May	New York, Boston	West LB
May	Paris	Kepler Equities
May	Zurich	Equinet
June	Frankfurt am Main	Commerzbank
June	London	Deutsche Bank
June	Guernsey, Jersey	Merck Finck
July	's-Hertogenbosch, Arnhem	Bankges. Berlin/F. van Lanschot Bankiers
September	Hamburg	DZ Bank
September	Milan	BHF-Bank/ING Investment
September	London	Merrill Lynch
September	Munich	HVB
October	Boston, New York	Merrill Lynch
October	Copenhagen	Commerzbank
November	Frankfurt am Main	Deutsche Bank
November	Chicago, San Diego, San Francisco, Denver	MM Warburg/Auerbach Grayson
November	Zurich	HSBC
December	London	DZ Bank/Natexis Bleichroeder

Key factor: capital market communication

The communication with investors and analysts is very important to STADA. The Group places great value on a continuous and highly transparent dialogue with all capital market participants.

Investors are able to obtain extensive corporate information from the Investor Relations section of the Company's website at www.STADA.com where, for example, a current presentation of the Company is regularly published. In 2004, the website was also expanded to include additional information and services for shareholders, such as a peer group share price comparison. In addition, STADA's Corporate Communications department is available to respond to inquiries within the scope of legal regulations. Furthermore, the Annual Shareholders' Meeting represents an opportunity to obtain extensive information from STADA's Executive Board.

Beside the traditional press conferences and analysts' conferences to introduce annual and half-year results, STADA has also held numerous external corporate presentations and investor conferences to introduce itself to institutional investors in the most important capital market centers of Europe, the USA, and Asia.

Interview with the Chairman of STADA's Executive Board

Difficult and also successful – this is how you characterize fiscal 2004. Isn't that a contradiction?
By no means, because especially in difficult times it becomes apparent whether you are successful and able to master challenges. And that's exactly what STADA proved in 2004. STADA was extraordinarily affected by the changes to health care policy in 2004. In this unusual year more than € 21 million went to mandatory discounts; in relation to our EBT, this is 28 %. Given this difficult situation, I think we're all the more justified to speak of a successful 2004 because we did in fact achieve record results for the ninth year in a row.

STADA implemented a capital increase in fall 2003. Weren't the difficulties already foreseeable at that point?
Unfortunately not. The German law on modernizing the public health insurance system that came into effect on January 1, 2004 was, with respect to certain issues that were important to us, not implemented as originally announced and in the way we could have expected. Due to the delays in establishing new reference prices that should have replaced mandatory discounts in the course of 2004, we had to pay the mandatory discounts in full for the entire year 2004, which is why these costs were so exorbitantly high. And this was not yet foreseeable in fall 2003.

For some time now, there has been speculation that STADA could become a takeover target. What does the Executive Board say to this?
With our shareholder structure – 100 % free float – a takeover offer can never be completely ruled out. We would, of course, have to deal with this issue in a professional and open-minded manner, carefully weighing the position we should take to best represent the interests of shareholders and employees. But the Executive Board is convinced: STADA has excellent chances of growing successfully on its own and thus creating significant shareholder value. Therefore, we do not really need to be taken over.

Isn't it to be expected that in many countries health care policy will repeatedly be faced with the need to take measures to reduce costs? With this in mind, where at all do you see any growth opportunities for STADA?
Of course, health care cost reduction measures in individual national markets will always be necessary. But generics, which as you know are by far our largest core segment, are essentially the natural allies of all health care politicians seeking to reduce health care costs. It's true that this doesn't rule out the possibility of generics also being adversely affected by a health care reform in one country or another. But one thing seems clear in the view of STADA's Executive Board: Generics are one of the segments in the pharmaceutical market with the

"The year 2005 will demonstrate that the growth course of STADA remains unbroken."

greatest structural growth opportunities because they offer a competitive solution for the most critical problem of all national health care systems – cost pressure – without entailing any loss in quality.

You refer to structural growth opportunities. How exactly can STADA profit from them?
Take a look at the structural growth opportunities: In practically all markets there is a trend towards a continuous rise in generics penetration. Even in the developed generics markets like Germany, there is significant volume for additional savings due to increased generic prescriptions. This is all the more the case for emerging generics countries like France and Spain. In addition, there are additional structural growth opportunities for generics when the commercial property rights of initial supplier products expire. What other markets offer such an automatic expansion of the market year after year? What really counts, then, is for a company to have structures in place to transform the growth opportunities in the individual national markets into its own growth. And this is something we feel STADA does especially well. On the one hand, we have the necessary strong development resources to develop the products promptly after expiration of the commercial property rights. On the other, we also have the international sales network to market these products worldwide. So STADA is really in a good position to take advantage of structural growth opportunities, especially in the generics market.

Why don't you concentrate entirely on generics? Why do you need branded products and special pharmaceuticals?
All three core segments have the following in common: We concentrate on known active ingredients that do not require risky and expensive research. When products with tried and proven active ingredients like these are not only marketable as generics, but also have market potential with other forms of sales positioning such as branded products or special pharmaceuticals, we don't want to ignore those potentials.

So all in all, you are optimistic about the future?
Absolutely. Not only because a CEO has to have that kind of attitude, but also out of personal conviction. I believe the year 2005 will demonstrate that the growth course of STADA remains unbroken.

Management Report of the Executive Board

Overview

STADA consistently pursues a growth strategy in the health care market and in particular the pharmaceutical market. In connection with the strategic positioning "STADA – The Health Company," STADA focuses on products with off-patent active ingredients ("multisource products") in the three core segments of Generics, Branded Products, and Special Pharmaceuticals. The emphasis of business activities is thus on the international marketing of proven active ingredients in comparable, innovative, or optimized dosage forms, without restriction to individual indication areas. Since the development costs required for such products are significantly lower than the research costs that would arise in the search for new active ingredients, STADA is able to offer a considerable proportion of its product range at affordable prices. The Group benefits from this above all in the case of generics, which is by far the largest core segment at STADA.

Fiscal 2004 was the most difficult year for STADA in a long time, especially due to severe burdens associated with health policy regulations, but in part also as a result of unexpected developments in individual national markets. Despite all of the challenges, however, STADA was able to increase Group sales by 9% to € 813.5 million and net income by 11% to € 48.5 million in 2004. This made 2004 the 9th record year in a row for STADA. The Executive Board views this as a sign that in particular under these challenging conditions STADA's long-term strategic positioning has proven to be both correct and sustainable.

The severe health policy burdens that affected STADA were especially significant in 2004, in particular in the important German market as a result of the German law on modernizing the public health insurance system ("GKV-Modernisierungsgesetz" or "GMG") that took effect on January 1, 2004.[1)] The Group was especially hard hit by this law in 2004 because individual regulations of the GMG that would have relieved the strain on STADA were only implemented with delay. Therefore STADA was subject to significantly more GMG-related mandatory discounts in 2004 than originally expected. These mandatory discounts had an extraordinarily strong impact on the Group's EBT in 2004 at a total of € 21.4 million, or 28% of EBT.

In the first quarter of 2004, the Group was able to cope with these adverse effects of the GMG without lowering its original forecast of growth in sales and earnings in the double-digit percentage range.

1) Because of the special significance of the GMG for the development of business in 2004, the regulations relevant for STADA are presented in detail in a separate chapter in this Management Report (see "Effects of the German health care reform ("GMG") on STADA").

However, there were a number of additional adverse factors in some national markets during the first half of 2004, some of them unforeseen. For instance, in the German generics market there was a temporary discount battle in the pharmacy distribution channel, and in Italy and Spain demand was weak for certain products from the Group's Branded Products segment.

Against this backdrop, STADA's Executive Board adjusted the forecast for the year in mid-June 2004 to reflect the weaker development of business. According to this forecast, sales were expected to continue to grow – possibly even in the double-digit percentage range. Net income was projected to only reach the level of the previous year. As the 2004 results confirm, STADA was able to meet and exceed the revised targets.

The STADA share price, which because of the challenges in 2004 was initially marked by strong declines, recovered significantly by year-end. On the balance sheet date, market capitalization again exceeded the billion-euro threshold at € 1.062 billion. By February 28, 2005 market capitalization had further increased to € 1.340 billion.

STADA will face significant challenges in the future as well. In many countries, health policy makers will repeatedly seek to cut costs, and these cost cuts could also have an adverse affect on STADA's business. The markets in which STADA is active will continue to be characterized by high price sensitivity and intense competitive pressure. However, the sustained strategic positioning with an emphasis on generics continues to give STADA the opportunity to profit from structural growth potential in the global health care market.

STADA created additional growth potential through acquisitions in 2004 once again. With the conclusion of negotiations for the acquisition of the Russian pharmaceutical company Nizhpharm in December 2004, STADA also succeeded in entering one of the most important pharmaceutical markets in Eastern Europe.[1)] In addition, the Group acquired products in the United Kingdom, Ireland, Italy, and Spain in 2004, as well as approvals for an "early entry" with generics containing the active ingredient Mirtazapine in the German market. Furthermore, in connection with a strategic partnership, STADA acquired shares in LipoNova GmbH and distribution rights for its product Reniale®, an autologous tumor vaccine currently in the approval process in Europe.

1) The acquisition became legally effective upon completion of the transfer of shares in January 2005. Accordingly, Nizhpharm has been consolidated within the STADA Group since January 1, 2005.

On the whole, from today's perspective business prospects for STADA have improved considerably again after the difficult year of 2004.

STADA's positioning enables it to grow by taking advantage of structural growth potential. For example, in 2005 and in the coming years, a steady stream of new products is again expected to benefit the internationally aligned sales companies in their national markets. In addition, the "STADA – Fit for Future" cost optimization program initiated in 2004 will continue to influence the increase of profitability in the coming years as well. Furthermore, unless German health policy makers unexpectedly introduce new regulatory measures, the extraordinary reduction in earnings arising from the GMG in 2004 should not be repeated to the same degree for STADA in 2005.

The Executive Board therefore expects that STADA will in 2005 once again achieve growth in sales and earnings in the double-digit percentage range usual for STADA. This is also indicated by the 17% growth in sales achieved in the first two months of the current fiscal year of 2005. From today's perspective, an increase in net income to more than € 60 million is expected for the current fiscal year of 2005.

Fiscal Year 2004

Sales

Despite severe burdens related to health policy regulations and market conditions, STADA was again able to increase Group sales considerably in fiscal 2004, with 9% growth to € 813.5 million (previous year: € 745.2 million). Without the mandatory discounts in the German market, sales would have risen by 11% in fiscal year 2004.

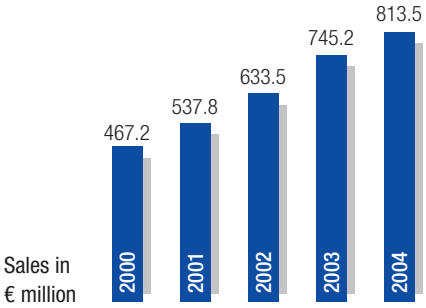
Initially consolidated sales from acquisitions in 2004 amounted to € 10.6 million, representing one percentage point of Group sales. Organic growth of Group sales was therefore 8%. The objective of the acquisitions made in 2004 was both to enter new markets and to strengthen the market position and product portfolio of individual STADA sales companies. In the three core segments of Generics, Branded Products, and Special Pharmaceuticals, sales increased by a total of 9% to € 772.6 million (previous year: € 705.9 million). Accordingly, the core segments achieved 95.0% of Group sales (previous year: 94.7%).

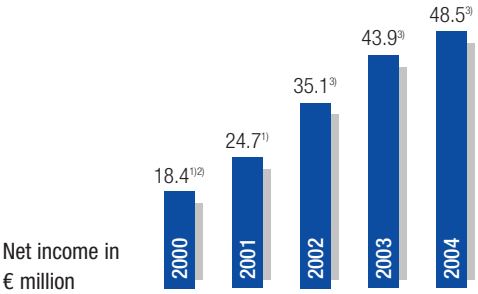
Earnings

The development of earnings should also be viewed against the backdrop of the severe burdens that affected STADA in fiscal 2004. Nonetheless, net income was increased by 11% to € 48.5 million (previous year: € 43.9 million) while the Group's earnings before taxes (EBT) increased by 8% to € 77.6 million in 2004.

The mandatory discounts in the German market having a direct effect on EBT in 2004 amounted to € 21.4 million (previous year: € 7.9 million). In other words, they accounted for 28% (previous year: 11%) of the pretax profit. After making adjustments for the strong rise in mandatory discounts, earnings before taxes would have risen by 24% in 2004.

Earnings before interest and taxes (EBIT) amounted to € 88.2 million in 2004. This represents an increase of 3% compared to 2003 (previous year: € 85.7 million). The operating result rose by 3% to € 87.8 million in 2004 (previous year: € 85.6 million). Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased by 5% to € 122.7 million (previous year: € 116.8 million). This figure includes depreciation and amortization in the amount of € 34.5 million in fiscal 2004 (previous year: € 31.1 million).





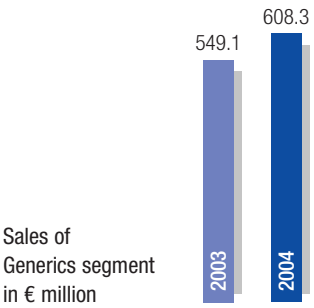
1) According to HGB. 2) Prior to deduction of extraordinary expenses for capital measures in the amount of € 3.571 million and taking into consideration German tax rates.
3) According to IFRS.

With respect to amortization, it should be taken into account that for the first time in fiscal 2004 STADA discontinued the scheduled amortization of goodwill and intangible assets with indefinite useful lives. In 2003, these items had reduced Group earnings by € 6.0 million before taxes. According to IFRS 3 (Business Combinations) and the revised IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), such scheduled amortization of goodwill and intangible assets with indefinite useful lives is no longer allowed since January 1, 2005. Voluntary application of this standard was possible as of the first quarter of 2004. STADA opted for the early implementation of this new IFRS measurement rule because the amortization of goodwill has already not been possible for several years for competitors in the capital market who follow U.S. accounting regulations (U.S. GAAP). By already discontinuing scheduled goodwill amortization in 2004 in accordance with IFRS, STADA neutralized a competitive disadvantage relative to those companies whose financial statements are prepared according to U.S. GAAP. Under the revised IFRS rules, scheduled amortization of goodwill is replaced by impairment tests.

Earnings for fiscal 2004 also include the following one-time special effects:

- Impairment of other intangible assets amounting to a total of € 8.7 million.
- Compensation payments in the amount of € 3.8 million that STADA had to pay in connection with the launch of Mirtazapine.
- Severance payments made to former members of Group management and management of various sales companies amounting to approx. € 3.2 million.
- Release of provisions totaling € 6.8 million for patent disputes related to Group products with the active ingredients Omeprazole and Epirubicin.
- Book profits from the sale of non-current assets (primarily approvals without sales and smaller products[1)]) in the amount of € 4.5 million.

1) The associated sales volume amounted to € 0.1 million in 2004.



These one-time special effects reduced EBT by a total of € 4.4 million in 2004.

When calculating the profit per share, the de facto 1:1 stock split carried out on July 30, 2004 had to be taken into consideration.[1)] Thus for 2004, the earnings per share (EPS) – calculated in accordance with IAS 33.10[2)] at an annual average of 53,348,910 shares (previous year: 43,327,286 shares) – amounted to € 0.91 (previous year: € 1.01 after making adjustments for the de facto 1:1 stock split on July 30, 2004). When making comparisons to the corresponding period in the previous year, another factor that needed to be taken into consideration in addition to the de facto 1:1 stock split was the fact that in fiscal 2004 – because of the capital increase in the fourth quarter of 2003 – the number of shares used in the calculation was approx. 23% higher than in 2003. EPS diluted – calculated in accordance with IAS 33.24[2)] and also dependent on the share price – amounted to € 0.88 in 2004 (previous year: € 0.95 after making adjustments for the de facto 1:1 stock split of July 30, 2004).

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

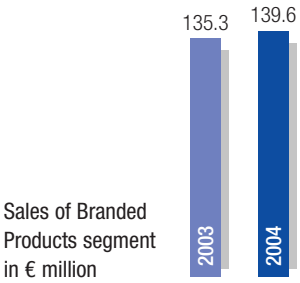
Segment development

In fiscal year 2004, STADA continued its strategic focus on the three core segments of Generics, Branded Products, and Special Pharmaceuticals.

Development of sales in the core segments

STADA's largest core segment, **Generics**, recorded 11% growth in sales in fiscal 2004 to € 608.3 million (previous year: € 549.1 million). This means that Generics generated 74.8% of Group sales in the reporting period (previous year: 73.7%). The weaker sales growth in this segment in 2004 in comparison to earlier years is above all a result of the weakness of the German market in response to the severe effects of the GMG (see "Effects of the German health care reform ("GMG") on STADA" in the Management Report).

STADA's five best-selling generic active ingredients generated a total of 15.0% of Group sales in 2004. This makes it clear that because of its broad range of generics STADA is relatively independent of the market fluctuations of individual active ingredients.



Sales of Branded Products segment in € million

Omeprazole is still STADA's best-selling active ingredient, both in the Generics segment and in the Group as a whole. The STADA products with this active ingredient realized € 54.4 million in sales in 2004 (previous year € 49.6 million) and hence generated 8.9% of segment sales (previous year: 9.0%) and 6.7% of Group sales (previous year: 6.7%). In the reporting period, STADA was also able to introduce generics with the active ingredient Omeprazole in the rapidly growing French market after expiration of the relevant commercial property rights. Due to ongoing protection under patents or other relevant commercial property rights, Omeprazole has not yet been launched in all EU markets by the respective STADA subsidiaries.

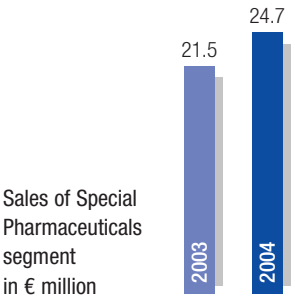
Top 5 generic active ingredients in the Group in 2004

Active ingredient	Indication	2004 sales in € million	Change from previous year
Omeprazole	Stomach medicine	54.4	+10%
Simvastatin	Cholesterol lowerer	26.0	+44%
Mirtazapine	Antidepressant	14.4	new product[1)]
Enalapril	ACE inhibitor	13.6	-17%
Penicillin	Antibiotic	13.0	+1%
Total		121.4	

1) PharmaCoDane ApS, Denmark, has been selling generics containing the active ingredient Mirtazapine since December 2003 and achieved sales of € 0.1 million with these generics in 2003.

In the **Branded Products** core segment, STADA increased its sales by 3% to € 139.6 million (previous year: € 135.3 million). This figure includes a total of € 9.8 million or 7.0% in sales from acquired companies and products consolidated for the first time. The largest proportion of acquired sales was related to the acquisition of an extensive range of branded products in Italy in 2004.

In 2004, the business development of the Branded Products core segment was influenced by weak demand for some of the Group's products from this segment in Germany, among other things as a result of the effects of the GMG (see "Effects of the German health care reform ("GMG") on STADA" in the Management Report), as well as in Italy and Spain. Branded Products still represent the second largest core segment of STADA with a 17.2% share in sales (previous year: 18.1%). In 2005, this segment will be further strengthened by the acquisition of Nizhpharm.



Top 5 brands in the Group in 2004

Brand	Indication	2004 sales in € million	Change from previous year
Grippostad®	Cold medicine	15.7	-5%
Ladival®	Sunscreen	9.2	+3%
Kamistad®	Mouth sore treatment	5.9	-9%
Magnetrans®	Magnesium preparation	5.3	-22%
Prociclide®	Thrombosis prevention/vascular protection	5.1	-12%
Total		41.2	

The five best-selling branded products generated a total of 5.1% of Group sales in the period under review (previous year: 6.0%). The best-selling branded product in the broadly diversified product portfolio continues to be Grippostad®, which in 2004 realized sales of € 15.7 million (previous year: € 16.6 million). This represents 11.2% of STADA's sales from branded products (previous year: 12.3%), or 1.9% of Group sales (previous year: 2.2%).

Sales of **Special Pharmaceuticals**, the third core segment of STADA, increased by 15% to € 24.7 million in the reporting period (previous year: € 21.5 million) generating 3.0% of Group sales (previous year: 2.9%). This core segment currently encompasses only the Group's business with oncology products.

Sales from STADA's non-core activities include sales from its **commercial business** as well as other sales that can neither be attributed to the core segments nor to commercial business. STADA realized € 32.0 million in sales from commercial business in 2004 (previous year: € 34.0 million). This area thus generated 3.9% of Group sales (previous year: 4.6%). The remaining sales, for instance from the sale of approvals, are reported under **Group holdings/other** and in 2004 amounted to € 8.9 million (previous year: € 5.3 million).

Earnings growth in core segments

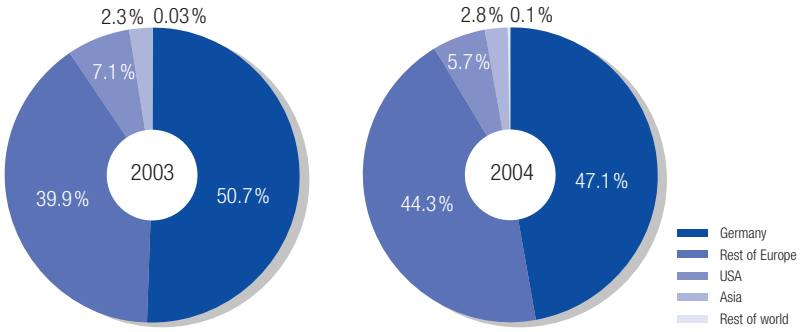
The segment-related earnings also reflect the difficult environment of fiscal 2004.

A review of the earnings of the individual segments shows that operating profits for **Generics** – primarily as a result of mandatory discounts in Germany – declined by 9% to € 60.0 million in 2004 (previous year: € 66.2 million). Operating profits for **Branded Products** – due to special effects, among other things – increased by 47% to € 18.2 million (previous year: € 12.4 million), and operating profits for **Special Pharmaceuticals** by 26% to € 6.5 million (previous year: € 5.2 million). In this context, it should again be taken into account that internal royalty payments resulted in an increased profit allocation in the Group holdings.

In the Generics segment, the operating margin was thus 9.9% (previous year: 12.1%). Excluding the effects of mandatory discounts in Germany, this segment would have shown an operating margin of 12.9% (previous year, adjusted for mandatory discounts: 13.2%) in 2004. In the Branded Products segment, the 2004 operating margin came to 13.0% (previous year: 9.2%), while the Special Pharmaceuticals segment achieved an operating margin of 26.4% (previous year: 24.0%).

The operating profit from **commercial business** decreased by 10.8% to € 1.7 million in 2004 (previous year: € 1.9 million). The operating profit margin was thus 5.3% (previous year: 5.6%). The operating profit of the segment **Group holdings/other** improved by € 1.4 million in 2004 (previous year: € -0.1 million), among other things due to allocation effects.

International sales of the STADA Group



Regional sales development

Sales by region and segment in € million[1)]

	Generics	Branded Products	Special Pharma-ceuticals	Commercial business	Group holdings/ other	Total sales 2004	Total sales 2003	±% in Euro	±% Currency adjusted[2)]
Belgium	63.4	1.4	0.4		0.0	65.2	49.9	+31%	
China	2.3	0.8		3.5		6.6	5.1	+29%	+43%
Denmark	2.7			6.4		9.1	9.9	-8%	-8%
Germany	287.7	71.5	18.0	1.5	4.4	383.1	378.0	+1%	
France	48.3	3.9	1.7			53.9	37.8	+43%	
UK	30.3	0.0	0.7		0.1	31.1	21.9	+42%	+39%
Ireland	10.0	2.2		1.5		13.7	12.5	+10%	
Italy	30.9	32.5	2.2	8.7		74.3	60.7	+22%	
The Netherlands	28.1	9.1	0.0	2.5		39.7	42.8	-7%	
Austria	5.3	2.3	0.6			8.2	7.9	+4%	
The Philippines	0.5			4.4		4.9	3.8	+29%	+48%
Switzerland	0.9	0.1	0.2		4.2	5.4	3.8	+42%	+44%
Spain	35.6	8.1	0.6		0.1	44.4	38.3	+16%	
Thailand	1.0	0.1		1.6		2.7	3.0	-10%	-5%
Czech Republic	4.9	0.5				5.4	4.4	+23%	+23%
USA	45.5	0.5				46.0	52.5	-12%	-5%
Vietnam	2.0	1.3		1.9		5.2	2.9	+79%	+92%
Other countries	8.9	5.3	0.3	0.0	0.1	14.6	10.0	+46%	

1) Sales below € 0.05 million were rounded to € 0.0 million.
2) In some cases, figures were converted into local currency since the invoicing company's reporting currency was euros.

As in the previous years, the growth of the STADA Group in 2004 was a result of rising sales in numerous individual national markets. In the regional sales breakdown, STADA presents Group sales according to this regional classification, i.e. depending on where the sales were achieved. This means that the legal headquarters of the applicable sales company is not of relevance; sales of national sales companies can therefore, in certain cases, differ substantially from the sales generated in the national markets.

According to this classification, the share of STADA Group sales for 2004 in Europe was 91.4% (previous year: 90.6%), in the USA 5.7% (previous year: 7.1%), in Asia 2.8% (previous year: 2.3%), and in the rest of the world 0.1% (previous year: 0.03%).

In **Germany**, which continues to be the largest national market for the Group with a sales share of 47.1% (previous year 50.7%), STADA increased sales in 2004 by 1% to € 383.1 million (previous year: € 378.0 million). Sales performance in Germany in 2004 was adversely impacted to a great degree by the German law on modernizing the public health insurance system ("GKV-Modernisierungsgesetz" or "GMG") that took effect on January 1, 2004 (see "Effects of the German health care reform ("GMG") on STADA" in the Management Report).

Thus in 2004, the Group had to grant mandatory discounts in the amount of € 21.4 million in Germany (previous year: € 7.9 million). Without these mandatory discounts, sales in Germany would have risen by 5% in fiscal 2004. Furthermore, as a result of the GMG, the demand for OTX products is likely to be permanently reduced. OTX products are OTC drugs that in the past were reimbursed by the public health insurance system if prescribed by a doctor. In addition, competition relating to discount conditions concerning sales to pharmacies was at times extraordinarily intense in 2004. In the second quarter of 2004 in particular, STADA had to grant especially high customer discounts in its direct business with pharmacies in response to competition.

However, the market share of the STADA Group in the German pharmaceutical market as a whole continued to rise in 2004 in spite of the difficult year. The total market share for 2004 was 2.3% (previous year: 2.2%). This means that in terms of sales, the Group is in position 13 in the German pharmaceutical market. In terms of unit sales, the STADA Group has achieved position 4[1)] in the German pharmaceutical market with approx. 75 million packages distributed.

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

In the largest core segment, Generics, sales in Germany in 2004 rose by 2.0% to € 287.7 million (previous year: € 282.0 million). German sales of generics under the STADA label rose by 4% to € 205.0 million in 2004 (previous year: € 197.6 million), while sales of generics under the AL label – the Group's second generics label – decreased slightly by 2% to € 82.7 million (previous year: € 84.4 million). ALIUD Pharma, which sells its AL label by direct mail only and, due to the company's concept, does not have its own sales force, has been more strongly affected by the decline in demand for OTX products. Without a sales force it is more difficult to successfully implement pharmacy-related sales and marketing activities to support recommendations for AL products and to encourage purchases of OTX products by patients themselves.

In 2004, the introduction of numerous products promptly after expiration of the respective patents or other commercial property rights contributed to sales growth of the German generics business. Of particular importance in this context is Mirtazapin STADA, introduced at the beginning of April 2004 as an "early entry" product, which added € 13.7 million to generics sales in Germany in 2004.[1)] Moreover, generics containing the active ingredients Ramipril and Amlodipine, used for treating cardiovascular diseases, were introduced in the period under review.

1) See "Acquisition Policy".

The STADA Group remains the third largest player in the German generics market, which in terms of size and generics market penetration continues to be Europe's most important national generics market. In the German generics market, STADA, via its sales companies, was able to increase market share for the entire fiscal year of 2004 to approx. 8.7% (previous year: approx. 8.3%).[2)]

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

The Branded Products core segment was also severely affected by the regulatory changes in the German health care market in 2004 (see "Effects of the German health care reform ("GMG") on STADA" in the Management Report). Sales generated in this segment in Germany declined by 5.7% to € 71.5 million (previous year: € 75.8 million). However, important Group brands remain market leaders in their respective segments, e.g. Grippostad® C (approx. 68% market share in 2004 in the market for solid oral flu drugs[2)]), Ladival® (approx. 34% market share in 2004 in the market for sunscreens sold in pharmacies[2)]), Kamistad® (approx. 37% market share in 2004 in the market for topical stomatoligical products[2)]), and Hoggar® (approx. 34% market share in 2004 in the market for chemically defined sleep aids[2)]).

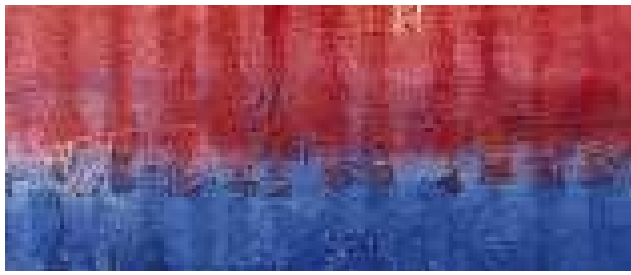
The Special Pharmaceuticals core segment increased sales of drugs for the treatment of cancer, known as oncology products, by 7% to € 18.0 million in Germany in 2004 (previous year: € 16.9 million).

In the current fiscal year of 2005, the charges affecting STADA in the German market will be significantly reduced in the Generics core segment as a result of the introduction of new reference prices for top-selling active ingredients and the simultaneous abolition of the relevant mandatory discounts. In addition, the reduction of the mandatory discount from 16% to 6% that has been in effect since January 1, 2005 will lead to a further reduction of charges in fiscal 2005; the scope of reduction will depend on the development of health care policy in the course of the current fiscal year (see "Effects of the German health care reform ("GMG") on STADA" in the Management Report).

In **Italy**, sales increased by 22% to € 74.3 million in the period under review (previous year: € 60.7 million) despite unexpectedly weak local demand increasing competition, and at times especially strong price competition in fiscal 2004. The price competition particularly affected the STADA generics line. For 2004 as a whole, STADA's Italian generics business achieved a market share of approx. 14%, equivalent to position 2 in the Italian market.[1)]

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

The positive overall development of business in Italy was also supported by the strengthening of national business as a result of the implementation of structural measures. For instance, the local sales company Crinos acquired a total of 68 branded products in the fourth quarter of 2004 as well as several trademarks currently not marketed and ongoing approval projects with an annual sales volume of approx. € 13.8 million (see "Fiscal Year 2004 – Development of the Balance Sheet" in the Management Report). These acquired products have contributed € 5.9 million in 2004 to Italian sales since initial consolidation in November 2004. Four additional branded products were included in the scope of consolidation in the course of 2004: Viapress® (calcium antagonist for the regulation of blood pressure, acquired annual sales volume approx. € 0.9 million, contribution to Group sales in 2004 since initial consolidation in February 2004: € 2.3 million), Megestil® (hormone for palliative treatment of breast and endometrial cancer, acquired annual sales volume approx. € 0.7 million, contribution to Group sales in 2004 since initial consolidation in February 2004: € 0.7 million), Initiss (ACE inhibitor, acquired annual sales volume approx. € 1.2 million, contribution to Group sales in 2004 since initial consolidation in November 2004: € 0.4 million), and Noravid® (anti-thromboticum, acquired annual sales volume



approx. € 1.6 million, contribution to Group sales in 2004 since initial consolidation in August 2004: € 0.5 million). Moreover, STADA increased its share in the Italian distribution specialist NPA New Pharmajani S.p.A. from 60% to 100% with effect from April 24, 2004 (see "Fiscal Year 2004 – Development of the balance sheet" in the Management Report).

STADA assumes that in 2005 as a whole its Italian sales companies will continue to be exposed to intense competition but that the Group can continue to grow significantly in Italy.

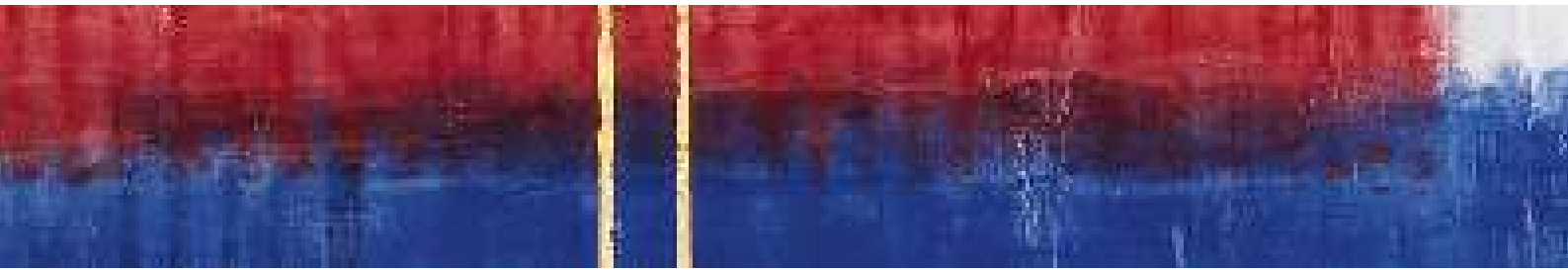
In **Belgium** STADA was able to continue the dynamic development of growth of the previous year in 2004 – despite new legislation and the accompanying statutory price reductions effective March 1, 2004 – since the structural demand for generics is still strong in Belgium and the portfolio of the local sales company has been strengthened with important new products. The increase in sales was once again clearly in the double-digit percentage range in 2004, rising by 31% to € 65.2 million (previous year: € 49.9 million). The local sales company N.V. Eurogenerics S.A. clearly remains number one in the Belgian generics market with a market share of approx. 41% in 2004.[1)]

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

From today's perspective, the health care reform planned for mid-2005 in Belgium will have both negative and stimulating effects. On the one hand, STADA expects the reform to lead to more intense competition and margin pressure. On the other hand, due to higher percentages of patient co-payment for some products, the reform could lead to stronger demand for generics.

In **France**, the many years of intensive sales and marketing investments resulted in strong growth of 43% to € 53.9 million in 2004 (previous year: € 37.8 million). The Group's local subsidiary introduced generics of Omeprazole, the best-selling active ingredient of the STADA Group, for the first time in the second quarter of 2004. As in the past, sales increased due to the strong organic growth achieved by STADA's French generics line. STADA's French generics business grows at a faster rate than the market on the whole and achieved a generics market share of approx. 6% in 2004, representing position 5 in the French generics market.[1)]

STADA hopes the local market share in the dynamically growing generics market will continue to rise in 2005. The continuous expansion of the product portfolio and stronger partnerships with local wholesalers should help to achieve this goal.



As expected, STADA's generics business in **Spain** was temporarily affected in 2004 by the reference prices introduced at the beginning of the year. However, in the course of the year this burden was offset more rapidly than originally expected due to volume increases. As a result, the Spanish generics business increased by 25% in 2004. STADA is currently in position 4 in the Spanish generics market with a market share of approx. 9.7%.[1)]

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

Due to weakness in demand, however, the Spanish branded products business declined by 12% in 2004 despite a local product acquisition (Kefloridina®, a product to treat respiratory infections, acquired sales volume approx. € 0.7 million, contribution to Group sales in 2004 since initial consolidation in November 2004: € 0.1 million). Overall STADA was able to increase sales in Spain by 16% to € 44.4 million (previous year: € 38.3 million) despite the difficult market conditions.

As of November 1, 2004, the local sales companies Bayvit S.A. (generics) and Ciclum Farma S.L. (branded products) were merged to form Laboratorio STADA S.L. in order to strengthen the national Spanish business of the Group. Different target-group-specific marketing concepts still apply to generics and branded products in Spain, but these can now be better coordinated as a result of the joint management. STADA therefore expects to continue to expand its business in Spain in 2005, despite additional health care policy measures.

In the **Netherlands**, sales in the core segments decreased by a total of 0.4% to € 37.2 million in the period under review (previous year: € 37.3 million) as a result of government-induced price controls on generics. While the Dutch generics market declined by 17%, STADA's sales company in the Netherlands posted a generics sales decrease of only 4%. Including commercial sales, which continued to be considerably reduced as planned, sales declined to a total of € 39.7 million (previous year: € 42.8 million). For 2005, STADA expects intense competition and high margin pressure in this national generics market.

In the **United Kingdom** STADA achieved an increase in sales of 39% in local currency or 42% in euros to € 31.1 million in 2004 (previous year: € 21.9 million). This pleasing development is partially a result of the 2003 acquisition of the generic drug company Schein Pharmaceuticals Holdings UK Ltd. and its operating subsidiary Schein Pharmaceuticals UK Ltd., which has since been renamed Genus Pharmaceuticals Ltd. The acquisition of the branded product Hexopal® (drug to increase peripheral blood circulation) (acquired sales

volume in the UK approx. € 1.2 million, contribution to Group sales in 2004 since initial consolidation in December 2004: € 0.02 million) also contributed to this increase. Given the intense local competition, Genus Pharmaceuticals has focused in particular on generic niche products that promise sufficient earnings. Genus Pharmaceuticals will continue this strategy in 2005.

Sales in **Ireland** rose by 10% to € 13.7 million in 2004 (previous year: € 12.5 million). This increase was among other things due to the acquisitions in March 2004 and December 2004 of the branded products Calvepen® (respiratory antibiotic) and Hexopal® (drug to increase peripheral blood circulation) (total acquired sales volume in Ireland approx. € 0.9 million, contribution to Group sales since initial consolidation in March 2004 and December 2004: € 0.6 million). With a market share of approx. 21.8%, STADA remains the market leader of the local Irish generics market. When the reimbursement regulation currently in effect expires in Ireland in August 2005, the new regulation that replaces it may lead to greater margin pressure but may also stimulate the volume of generics.

In the smaller European STADA markets too, sales performance was mainly positive in fiscal 2004. However, in **Denmark** sales decreased slightly by 8% in local currency – also 8% in euros – to € 9.1 million in 2004 (previous year: € 9.9 million). This was a result of local price pressure as well as a decline in sales in commercial business.

Sales in **Austria** rose by 4% to € 8.2 million in 2004 (previous year: € 7.9 million). In the fourth quarter of 2004, the local sales company STADA GmbH launched a special marketing campaign to encourage the switch to STADA generics. This campaign had a high public impact in Austria. At the present time, it remains unclear whether the increase in public awareness will also lead to a significant rise in sales in 2005.

In the **Czech Republic**, sales rose by 23% in local currency – likewise 23% in euros – to € 5.4 million in 2004 (previous year: € 4.4 million). In **Switzerland**, sales rose by 44% in local currency or 42% in euros to € 5.4 million.

In the **USA**, STADA's performance in 2004 was above all characterized by intense price and margin pressure. Temporary delivery problems with presuppliers also had an adverse effect on business in the first half of 2004.

In addition, there was poor sales development in the fourth quarter; as a result, sales in local currency declined by 5% to USD 57.0 million in 2004 (previous year: USD 59.8 million). In euro terms, sales decreased by 12% to € 46.0 million (previous year: € 52.5 million).

STADA expects that the introduction of a Fentanyl patch in the course of 2005 will strengthen the business in the USA. STADA hopes to achieve the target of USD 100 million in US sales per annum in the short term with the introduction of additional new product launches and also with possible acquisitions.

In **Asia** STADA increased sales, in part including an appreciable proportion of commercial business, by a total of 29% to € 22.5 million in 2004 (previous year: € 17.4 million). In **China** (including Hong Kong) sales rose by 43% in local currency or 29% in euros to € 6.6 million. In **Vietnam** STADA recorded strong sales growth of 92% in local currency. In euros, sales increased by 79% to € 5.2 million (previous year: € 2.9 million). Together with a local joint venture partner, STADA has introduced measures to expand local production capacities in Vietnam. In the **Philippines** sales rose by 48% in local currency or 29% in euros to € 4.9 million (previous year: € 3.8 million). In **Thailand** sales declined by 5% in local currency or 10% in euros to € 2.7 million (previous year: € 3.0 million).

Global Group **export sales** to a further 33 countries increased by 46% to € 14.6 million in 2004 (previous year: € 10.0 million). These export sales are primarily generated by the sales company STADA Pharma International GmbH. The regional breakdown of STADA Group export sales is as follows: exports to European countries € 10.2 million (previous year: € 7.2 million), exports to Asian countries € 3.1 million (previous year: € 2.5 million), exports to American countries € 0.06 million (previous year: € 0.06 million) and exports to the rest of the world € 1.3 million (previous year: € 0.2 million).

Effects of the German health care reform ("GMG") on STADA

Regulatory influences on STADA

STADA's business activities are influenced to a great extent by government regulations pertaining to the public health care system in individual countries and by the resulting market structures. For instance, the success of the most important core segment, Generics, is also based on regulatory incentives stimulating the use of generics. The business success of the two other core segments, Branded Products and Special Pharmaceuticals, is also dependent to a significant degree on the regulatory environment, such as on the question of whether and to what extent the respective products are reimbursed by health insurance companies or the public health care system.

Changes to structural conditions as a result of government health care regulations, which are generally prompted by the need to further contain costs, are associated with both opportunities and risks for STADA. For instance, if the use of generics is stimulated in order to contain costs, the influence on STADA's business model is positive. If the focus of the regulation is on volume and/or price-reduction measures or exclusions from mandatory reimbursement, it will have negative effects on STADA.

The respective changes to basic regulatory conditions in a fiscal year can therefore have a significant influence on current business success, especially since adaptation measures that the Group implements generally require some time to take effect.

The structure of STADA is organized in such a way that the Company can respond quickly and flexibly to regulatory conditions. In previous fiscal years, it was therefore possible to counterbalance adverse regulatory changes on a national level, often even without any slowdown in growth, or at least internally within the Group.

To a certain extent, this was the case in fiscal 2004 as well. For instance, despite severe reductions in reference prices, the Group's Spanish generics business recorded 25% growth in 2004, which was significantly stronger than originally anticipated.

Looking back 1

However, in Germany in particular, STADA was negatively affected by government regulation in 2004 to such a large extent that a significant slowdown in growth was temporarily unavoidable even on a Group level in the course of the fiscal year.

The influence of the German health care reform on fiscal 2004

The severe government regulations in Germany relate to the German law on modernizing the public health insurance system ("GKV-Modernisierungsgesetz" or "GMG"), which took effect on January 1, 2004. Because of their tremendous significance for the Company's business in Germany, STADA had already – from the Group's perspective – addressed in detail in the 2003 annual report the new regulations of the GMG or regulations still to be adopted that are relevant to the pharmaceutical market. At the time, however, the magnitude of the effects on the structures of the German health care market and on STADA were not yet entirely foreseeable since important detailed regulations still had to be implemented and the medium- and long-term reactions of the market participants (manufacturers, wholesalers, doctors, pharmacies, patients, consumers, health insurance companies) could not yet be accurately predicted.

This is partly still the case today, more than a year after the law came into effect. But based on the experiences in 2004, the conclusions listed below can be drawn from STADA's perspective in the meantime.

Expansion and increase of the mandatory discounts and introduction of jumbo reference price groups

Current situation: *In principle, the GMG extended the mandatory discount, which pharmaceutical manufacturers are required to apply to their ex-factory prices for drugs prescribed under the public health care system, to all drugs not covered by reference prices; this discount was, at the same time, temporarily increased to 16% for 2004 only. Since the beginning of 2005, the original mandatory discount of 6% has been in effect again.*

New regulations of the GMG on reference prices are closely related to the regulations on mandatory discounts. According to these provisions, mandatory discounts only have to be paid as long as the respective products are not subject to reference prices. As soon as a reference price enters into effect for an active ingredient, the mandatory discounts for products with this active ingredient cease entirely.

STADA's assessment from the present perspective: Due to intensive health policy lobbying discussions, the introduction of new reference prices in accordance with the GMG has been significantly delayed, which was a

development that STADA was not able to anticipate. Since no reference prices were introduced in 2004 at all, STADA was affected by the mandatory discounts for the entire calendar year 2004. At a total of € 21.4 million – or 28% of EBT – they represented a severe burden for the Group in fiscal 2004.

According to the GMG, new reference prices are also to be established to cover similar active ingredients from initial suppliers that are still under patent protection (so-called "jumbo" group prices). Based on the usual procedure for establishing reference prices, these jumbo groups will likely entail moderate reference prices.

From today´s perspective, a significant reduction in charges is likely in 2005 for STADA since for the two generic active ingredients with the strongest sales in the German market, Omeprazole[1)] and Simvastatin[2)], jumbo group reference prices have been in effect since January 1, 2005 at the expected moderate price level. The impact on EBT that STADA endured for these two active ingredients in 2004 due to mandatory discounts in the amount of € 10.5 million will therefore not recur in 2005, and from the present perspective it appears that this change will be permanent.

1) A stomach drug (active ingredient class: proton pump inhibitor or PPI).
2) An active ingredient for normalizing lipids (active ingredient class: statins).

For the additional active ingredients of STADA that to date are not yet subject to the reference prices, it remains open in each case whether reference prices will replace the mandatory discounts, and if so how high they will be. Basically, there are three possible scenarios:

- Additional jumbo reference price groups will be formed for certain active ingredients affected by the mandatory discounts. Currently six groups are anticipated, of which three groups – Marcolides, Fluorochinolones and systemic antimycotics – would affect STADA products. As soon as the relevant reference prices are established for these groups, the mandatory discounts of currently 6% would be eliminated for the products in question.
- "Classic" reference price groups will be formed for certain active ingredients affected by the mandatory discounts, specifically when there are no similar active ingredients of initial suppliers that are still protected by patents. In this case, STADA would presumably only be affected by necessary price reductions; it is not foreseeable whether the simultaneous elimination of the mandatory discounts of currently 6% would compensate for these price reductions. Currently 20 groups are in the clinical trial process. Here as well, as soon as the relevant reference prices are established, the mandatory discounts of currently 6% would be eliminated for the products in question.

- For some of the active ingredients affected by the mandatory discount, no new reference price groups will be formed for the time being. Compared to 2004, the reduction of the mandatory discount for these active ingredients from 16% to currently 6% represents a significant relief for STADA, providing the mandatory discount is not increased again in the course of health policy discussions during 2005.

From today's perspective, STADA does not anticipate any adverse effects based on the proposed new reference prices published on March 11, 2005, given that savings due to the mandatory discounts would, presumably, at least compensate for any necessary price reductions of the products concerned.

Exclusion of non-prescription drugs from reimbursement

Current situation: *According to the GMG, non-prescription drugs have been excluded from reimbursement by the public health care system unless they are prescribed for children until the age of 12 or for adolescents until the age of 18 with development disorders. An indication-related list of exceptions was published on March 16, 2004. It includes non-prescription drugs that, for certain indications, doctors can still prescribe for patients even over the age of 12 and that are reimbursed by the public health care system.*

STADA's assessment from the present perspective: These so-called OTX products, or products that under the GMG can no longer be prescribed by doctors for reimbursement by the public health care system, experienced significantly weaker demand in 2004; counter to STADA's original expectations, the situation has proven to be persistent. The anticipated recovery in sales in this area did not materialize since doctors tend to ignore the exceptions list of OTX products that are still reimbursable. In addition, the volume of drugs on alternative private prescriptions or those bought by patients themselves was lower than anticipated. From the present perspective, STADA therefore expects that the decline in demand for OTX products as a result of the regulation will be persistent.

Introduction of doctor's office visit fee

Current situation: *For each initial general practitioner's visit by patients covered by public health insurance in addition to each visit to a specialist without referral by the general practitioner, a co-payment, the so-called 'doctor's office visit fee' of € 10.00 is due each quarter except in cases of hardship.*

1) Source: Kassenärztliche Vereinigung.
2) Source: IMS Health.

STADA's assessment from the present perspective: In 2004, the regulation led to a significant decline in visits to doctors' offices by approx. 9 %[1] and hence also caused a decline of approx. 14 %[2] in prescriptions in the German market. As with any regulatory measure that decreases volume, the STADA sales companies are also affected by this development, but the exact extent cannot be quantified.

Promotion of integrated health care models

Current situation: *Integrated health care models (associations of different health care providers) with specific compensation structures for participating providers can be further developed under the GMG.*

STADA's assessment from the present perspective: The integrated health care models that are pending or have been implemented to date still have a primarily local focus. However, in the current fiscal year of 2005, the first Germany-wide model of integrated health care is in the process of being implemented. So far, no pharmaceutical companies are involved to a significant degree. From the present perspective, it remains open whether integrated health care models will be accepted by doctors and patients to such an appreciable degree that they have an influence relevant to the market.

Modification of the regulations on substitution

Current situation: *The conditions under which a pharmacist may substitute a drug with an identical active ingredient for a drug prescribed by the doctor (substitution or aut idem ruling) have been modified by the GMG. Doctors can still prohibit substitution with a notation to that effect on the prescription. If they do not select this option, the modalities of substitution, and in particular the price-oriented selection of the product to be dispensed, are newly regulated by a Germany-wide framework agreement between the federal organization of public health insurance and pharmacists that entered into effect on the basis of the GMG on June 1, 2004. According to this agreement, substitution is no longer mandatory – rather, pharmacists can in each case also dispense the drug prescribed. If the pharmacist decides to substitute, or if a generic active ingredient has been prescribed without indicating a specific supplier, the pharmacist must make a selection among the three lowest-cost products having the identical composition of active ingredients and identical approval indication as the original prescription or the prescribed active ingredient.*

STADA's assessment from the present perspective: From STADA's perspective, the new aut idem regulations have not led to any structural changes in the German market so far. In STADA's estimation, the significantly higher level of discounts in the pharmacy distribution channel in the first half of 2004 was above all a result of competitive activities and was not an effect of the new aut idem regulations. The reduction in pharmacy discounts that has lasted since the second half of 2004 appears to confirm this assessment. However, it cannot be predicted at this time whether and which new framework agreements between individual health care insurers and other health care providers or integrated health care models, which make supplementary aut idem regulations possible and could be implemented for the first time in the current fiscal year 2005, could achieve market relevance. Such framework agreements may contain, among other clauses, provisions permitting pharmaceutical companies to sign discount agreements with health care insurers, and may also allow existing aut idem regulations to be extended by specific clauses which benefit products of these companies. STADA is currently negotiating such regulations, as are STADA´s competitors.

New drug price structures

Current situation: *The drug price regulation has been comprehensively overhauled for prescription drugs and has been eliminated for non-prescription drugs that are not subject to reimbursement by the public health care system. Since January 1, 2004, pharmacies receive a 3% fee on their purchase price for prescription drugs in addition to a fixed fee of € 8.10. When dispensing drugs on behalf of the public health care system, the pharmacy is required by law to provide a pharmacy discount of currently € 2.00 per prescription drug. The GMG stipulates various adjustment mechanisms both for the fixed fee and the pharmacy discount, but these mechanisms have not yet been implemented in accordance with the regulation. The old drug price regulation in force as of December 31, 2003 still applies to non-prescription drugs reimbursed by the public health care system.*

STADA's assessment from the present perspective: From STADA's present perspective, the effect of the new drug price regulation can be referred to as neutral for the Group because it has not yet led to any significant changes in market behavior. It is true that this government regulation has decreased the difference in prices between initial supplier products and generics in the prescription market segment. However, generics in the pharmacy sector that have nearly the same gross profit as initial supplier products should have achieved full acceptance by now. In the OTC market, manufacturers have not experienced any additional discount or

price pressure to date since – despite the decontrol of prices – the price level of pharmacy-only OTC products has hardly changed throughout Germany.

New sales structures in the pharmacy sector

Current situation: *The GMG has made some new structures possible in the pharmacy sector. For instance, mail order drug sales are now permitted in Germany also under strictly regulated conditions. The prohibition against multiple ownership of pharmacies has also been rescinded in part. This means a pharmacist can own up to four pharmacies provided specific regulations are complied with.*

STADA's assessment from the present perspective: From STADA's perspective, this regulation has not led to any significant changes in the German market. At the end of September 2004, approx. 1,000[1)] mail order pharmacies were licensed in Germany. But most of these pharmacies largely do business on a local scale. The few mail order pharmacies operating on a Germany-wide level that exist to date – some of them based outside of Germany – had an estimated market share of approx. 1 %[2)] at year-end 2004 and have not yet been able to establish a market relevance having an effect on demand. The same applies to the still limited number of only approx. 500[1)] affiliated pharmacies (at the end of September 2004).

1) Source: Bundesverband der Arzneimittelhersteller (BAH).

2) Source: Press release from Bundesverband Deutscher Versandapotheker/-innen (BVDVA) dated February 24, 2005.

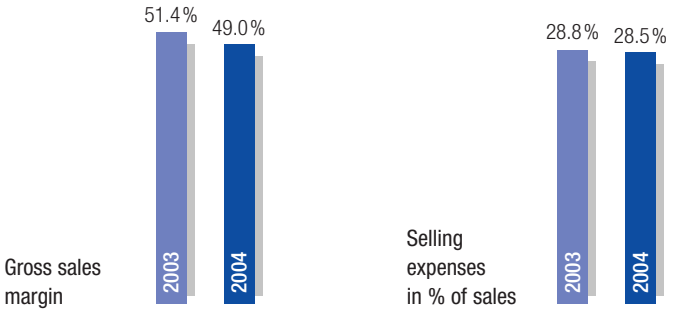
Percentage-based patient co-payment

Current situation: *Patient co-payments, which in the past were based on package size, have been replaced by a ten-percent co-payment based on the package price under the GMG (with a minimum co-payment of € 5.00 and maximum payment of € 10.00 and taking into consideration applicable hardship provisions).*

STADA's assessment from the present perspective: In principle, the package-price-based co-payment regulation should increase demand for generics, since they allow direct savings for the patient due to their price advantage over initial supplier products. However, due to the upper and lower limits of the percentage co-payment, the effect is limited. At present, for example, only approx. 23 % of the sales of prescription generics of STADA´s German sales companies are affected by the percentage-based co-payment.

Summary: 2004 likely to have been the peak year for burdens related to the GMG

On the whole, many structural changes were initiated based on the regulations of German health care reform ("GMG"). At this time, however, it still remains open with respect to many of these provisions how extensive these changes could become or whether changes that have already taken place will be lasting. This means that the long-term effects of these regulations cannot yet be conclusively assessed from the current perspective. But 2004 should most likely have been the year in which the burdens related to the GMG reached their peak. On the one hand, the Group has initiated countermeasures, particularly in sales. On the other hand, STADA expects that the extraordinarily adverse effects on the Group resulting from the GMG will be offset by at least € 10 million in 2005 due to the anticipated reduction in mandatory discounts.



Cost development

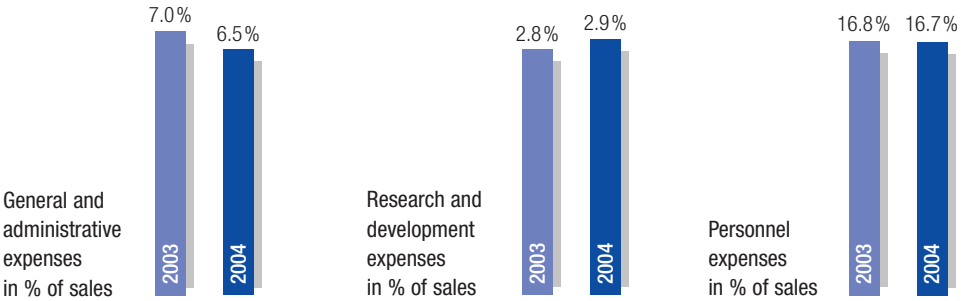
STADA cost structure in € million	2004	in % of sales	2003
Cost of sales	415.0	51%	361.8
Selling expenses	232.1	29%	214.6
General and administrative expenses	53.2	7%	52.4
Research and development expenses	23.3	3%	20.8
Other operating expenses	22.4	3%	19.9
Interest expense	12.7	2%	14.9
Income taxes	29.0	4%	28.0

The **cost of sales** increased by € 53.2 million in fiscal 2004 (previous year: € 51.0 million) and hence reached 51.0% of Group sales (previous year: 48.6%). The **gross profit**, or net sales minus the cost of sales, therefore rose to € 398.5 million (previous year: € 383.4 million).

The gross margin in proportion to sales, which reflects both the development of the cost of sales of each individual product as well as segment influences, regional structures, and price effects, declined to 49.0% in 2004 (previous year: 51.4%). The reason for the decline was particularly the development of the German market, where the increased cost of sales as a result of high discounts in kind in the first half of 2004 and the burdens on sales and earnings resulting from the GMG-related mandatory discounts had a significant impact on the gross margin. Without these mandatory discounts, the gross margin in the Group would have been approx. 50.3% in 2004, or significantly closer to last year´s figure.

Selling expenses, which contain both the costs related to the sales force and sales departments as well as product-related marketing expenses for the Group, rose by 8.2% to € 232.1 million in 2004 (previous year: € 214.6 million). Selling expenses amounted to 28.5% of sales (previous year: 28.8%).

The still-high selling expenses as a percentage of sales reflects the continuation of the expansion of the Group's sales. Because of the heterogeneous structures of the respective national health care markets, an



international sales network with national sales companies is essential for STADA's success. With this in mind, the Group will continue to invest in local markets with growth potential and in the expansion of marketing and sales in the future.

General and administrative expenses for fiscal year 2004 were € 53.2 million (previous year: € 52.5 million). As a percentage of sales, the general and administrative expenses ratio was still only 6.5% (previous year: 7.0%), confirming STADA's lean structure.

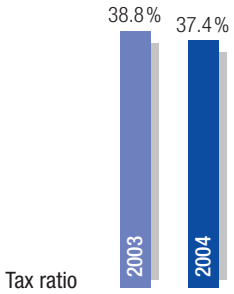
The rise in **research and development expenses** underscores the fact that effective product development is a central success factor. In 2004, STADA was able to introduce a total of 395 products to the market promptly after expiration of the patent or commercial property rights (previous year: 397 products). The corresponding expenses for investments in product development rose significantly once again, increasing by 12.3% to € 23.3 million in 2004 (previous year: € 20.8 million).[1)]

1) In addition, development expenses in the amount of € 2.8 million were capitalized in 2004 in accordance with IFRS.

As part of its strategic positioning, STADA does not conduct any research of its own into new active ingredients. Accordingly, no research costs arose in fiscal 2004 either. The research and development expenses itemized in the income statement in accordance with IFRS therefore consist exclusively of development expenses.

STADA had an average of 2,586 employees in 2004 (previous year: 2,465), and its **personnel expenses** totaled € 136.0 million (previous year: € 125.5 million). The ratio of personnel expenses to sales was thus 16.7% in 2004 (previous year: 16.8%).

In accordance with IFRS regulations, since January 1, 2004 **other operating expenses** no longer include the scheduled amortization of goodwill (see "Fiscal Year 2004 – Earnings" in the Management Report). Other operating expenses totaled € 22.4 million in 2004 (previous year: € 19.9 million). In 2003, this item had still included the scheduled amortization of goodwill in the amount of € 6.0 million. In fiscal year 2004, other operating expenses included compensation payments in the amount of € 3.8 million in connection with the "early entry" of the product Mirtazapin STADA and severance payments made to former employees in the amount of € 3.2 million.



The Group's **interest expense** was € 12.7 million in 2004 (previous year: € 14.9 million). The decrease is predominantly based on the repayment of borrowed funds after the capital increase in the fourth quarter of 2003. In 2005 the interest expense will be more than € 3 million lower than in the previous year because a bond with 7.5% interest will mature in mid-year. From today's perspective, STADA expects that it will be possible to refinance under considerably better terms than the original bond since the Group is currently able to refinance at rates ranging between 1.8% and 4.8%, depending on the maturity. Apart from this factor, the interest expense is expected to rise on the whole for the current fiscal year of 2005 because the volume of borrowed funds has already increased solely as a result of the acquisition of Nizhpharm in the current first quarter of 2005.

Income taxes on earnings before taxes amounted to € 29.0 million in 2004 (previous year: € 28.0 million). This meant the tax rate was 37.4% (previous year: 38.8%). Because of the elimination of the scheduled amortization of goodwill since January 1, 2004, the tax rate was no longer affected by this item in the reporting period. The reduction of the tax rate is also a result of the increasing internationalization of STADA and the reduced earnings from Germany due to regulatory burdens in 2004. This means that in 2004 more earnings were generated in countries with national tax rates that are significantly lower than the tax rate prevailing in the STADA Group in the past.

Development of the balance sheet

The development of the balance sheet[1)] for the year ended December 31, 2004 reflected the continued expansion of STADA's operating business. Accordingly, **total assets** also rose again in fiscal 2004, reaching € 1,020.4 million on the balance sheet date (previous year: € 955.1 million).

Intangible assets increased to € 447.6 million as of December 31, 2004 (previous year: € 395.8 million). This increase is again a result of the active acquisition policy that STADA has pursued for years and continued to pursue in 2004, with corresponding investments in new products, brands, licenses, product developments, and companies.

1) In accordance with IAS 1 (revised 2003), STADA's balance sheet for the year ended December 31, 2004 was for the first time specifically structured according to the maturity of the items in question. In order to establish comparability with the previous year's values, the consolidated balance sheet for the year ended December 31, 2003 was adapted to the new structure. Items were reported as non-current assets, non-current liabilities, or non-current provisions whenever the term to maturity was more than one year.

For instance, under an agreement signed with N.V. Organon on February 25, 2004, STADA launched Mirtazapine, an antidepressant drug, as the first generic supplier of film-coated tablets on the German market on April 1, 2004. STADA acquired the company's approvals for film-coated Mirtazapine tablets in all three strengths. The early introduction of Mirtazapin STADA was the first time STADA took advantage of the "early entry" option. However, since the development activities for Mirtazapine became redundant due to the use of the acquired initial supplier approvals, STADA had to pay the original development partner compensation in the amount of € 3.8 million.

STADA was able to further strengthen its business with branded products in Italy via several product acquisitions in 2004. STADA's Italian subsidiary Crinos S.p.A. concluded an agreement on October 19, 2004 for the acquisition of a range of Italian branded products. In connection with a comprehensive transaction, these products were partly acquired by taking over a company – Boniscontro & Gazzone S.r.l. – and partly by purchasing products directly. The total net purchase price was € 13.0 million (after deducting the acquired company's cash and cash equivalents). The sellers were the private owners of Boniscontro & Gazzone S.r.l. and Pulitzer S.p.A. The transaction encompassed the trademarks, approvals, and inventory of 68 branded products as well as several trademarks not currently marketed and ongoing approval projects.

In addition, STADA acquired two branded products – Calvepen® and Hexopal® – in Ireland in 2004. The Group purchased the branded product Hexopal® in the United Kingdom also. In Spain, STADA bought the branded product Kefloridina in the reporting period (see "Regional sales development" in the Management Report).

In contrast, there were disposals of intangible assets in the amount of € 2.3 million related mainly to the divestment of approvals without sales and smaller products. The associated sales volume in 2004 was only € 0.1 million.

At € 60.7 million as of the reporting date for 2004, the value of **property, plant, and equipment** remained largely unchanged in comparison with the previous year (€ 61.9 million).

The increase in **financial assets** to € 16.1 million (previous year: € 12.9 million) was primarily based on the acquisition of shares in LipoNova GmbH. On February 26, 2004, STADA acquired 16% of the shares in

LipoNova for approx. € 6.4 million and now has exclusive marketing rights Europe-wide for the tumor vaccine Reniale®, which is currently in the approval process. After the targeted EMEA approval for Reniale® is granted, STADA will acquire a further approx. 16% of the shares in LipoNova at a price of approx. € 8 million. LipoNova clearly envisages the possibility of receiving Europe-wide approval for Reniale® in 2005. In the fourth quarter of 2004, the STADA sales company Eurovax started initial pre-marketing activities of Reniale®.

Non-current trade accounts receivable included receivables from long-term loans to companies and shareholdings consolidated on a pro rata basis. They amounted to € 4.9 million in 2004 (previous year: € 1.0 million). **Current trade accounts receivable** increased to € 159.1 million (previous year: € 134.4 million). **Inventories** increased to € 206.0 million as of December 31, 2004 (previous year: € 166.7 million). The increase of these balance sheet items is predominantly a result of the expansion of operations. These two balance sheet items have a substantial influence on the Group's cash flow development and were subject to active receivables and stock management. The Group's default risk did not increase significantly as a result of the rise in receivables. In fiscal 2004, the **provision for bad debts** remained very low at 1.4% (previous year: 1.2%).

The value of **current securities** was € 2.8 million on the balance sheet date (previous year: € 0.6 million).

Cash and cash equivalents declined significantly by € 64.0 million to € 75.8 million (previous year: € 139.7 million), primarily because the prior-year figure had been unusually high due to the capital increase carried out in the fourth quarter of 2003. In the course of the year, the cash and cash equivalents on hand at the beginning of the year were used for acquisitions, the payment of liabilities, and general business purposes as planned.

On December 31, 2004, with an **equity-to-assets ratio** of 62.6% (previous year: 64.3%), shareholders' equity was € 639.0 million (previous year: € 614.5 million). The equity-to-assets ratio, which in the view of the Executive Board is high, enables STADA to continue the active acquisition policy of the past few years in 2005.

After the close of trading on July 30, 2004, STADA executed the **de facto stock split** in a ratio of 1 to 1 resolved by the Annual Shareholders' Meeting on June 15, 2004 by doubling the capital stock.

New authorized capital was also created at the Annual Shareholders' Meeting on June 15, 2004 because the existing authorized capital had almost all been utilized. This advance resolution authorizes the Executive Board – under certain conditions and 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.

Another resolution adopted at the Annual Shareholders' Meeting that is relevant to the Company's shares was the authorization permitting the Company – under certain conditions – a **share buy back**. In this connection, the Executive Board of STADA had decided on November 9, 2004 in view of the attractive price level to buy back its stock in a volume of up to 10 % of the capital stock. The repurchased shares are to be used for planned acquisitions and as part of the existing employee share ownership program.

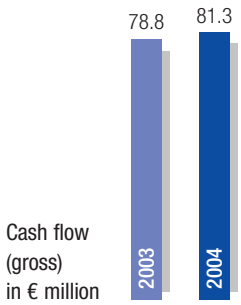
STADA acquired a total of 90,833 shares valued at € 1.6 million in 2004 and sold 5,034 shares valued at € 0.1 million. This means that on December 31, 2004, STADA held 123,169 of its own shares. On December 31, 2003, STADA had held 18,685[1)] of its own shares.

1) Number of shares prior to de facto 1:1 stock split on July 30, 2004

Non-current financial liabilities declined to € 103.1 million as of December 31, 2004 (previous year: € 169.6 million). In contrast, **current financial liabilities** rose to € 79.1 million (previous year: € 9.0 million).

Total liabilities and provisions amounted to € 381.4 million in the reporting period (previous year: € 340.6 million). The rise was predominantly a result of STADA's internal and external growth.

Current provisions declined to € 3.2 million (previous year: 8.0 million) as of December 31, 2004. The decline primarily reflects the release of provisions for patent disputes related to products with the active ingredient Omeprazole after a final judgment in favor of STADA in a lawsuit (€ 5.2 million) and products with the active ingredient Epirubicin after a favorable legal opinion concerning a lawsuit that is still pending (€ 1.6 million).



Net debt – the balance of financial liabilities, cash and cash equivalents, and securities – increased from € 38.2 million to € 103.6 million in fiscal 2004. The rise was predominantly a result of the expansion of operations through internal and external growth and the associated decline in cash and cash equivalents. In the opinion of the Executive Board, the amount of net debt will allow STADA to continue to pursue its active acquisition policy since the Group has access to significantly higher credit lines.

Cash flow

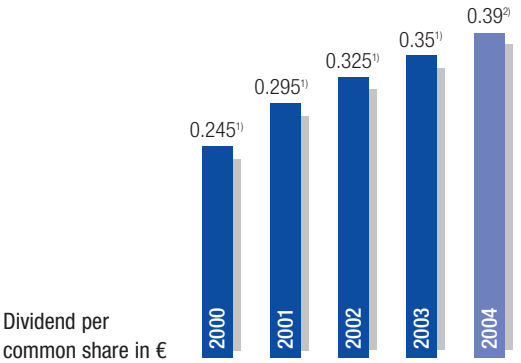
In 2004, the development of cash flow in the STADA Group was characterized by organic growth and growth through acquisitions as well as by the extraordinary challenges of the fiscal year.

Gross cash flow improved slightly by 3.1% in the reporting period to € 81.3 million (previous year: € 78.8 million).

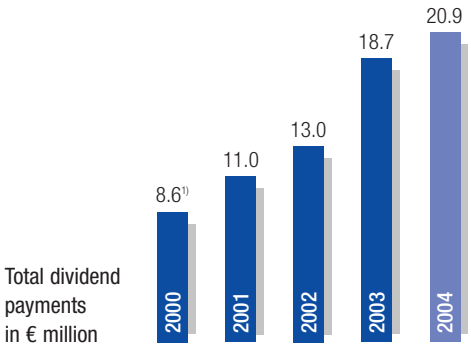
Cash flow from operating activities increased by 62.4% to € 38.0 million (previous year: € 23.4 million). It was also primarily influenced by the expansion-related changes to working capital in 2004. In the course of fiscal 2004, STADA strengthened its active cash management for inventories and trade accounts receivable. The first positive effects were already noticeable in the fourth quarter of 2004. There was no increase in the total cash requirements for these two positions.

Cash flow from investing activities showed cash outflows totaling € 80.0 million in 2004. A total of approx. € 42.6 million was used for significant acquisitions (previous year: approx. € 56.8 million).

Significant acquisition-related investments in € million	2004
in consolidated companies	approx. 9.0
in intangible assets	approx. 26.8
in financial assets	approx. 6.8
Total	approx. 42.6



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



1) Common and preferred shares in total.

Of this total, approx. € 9.0 million related to investments for the acquisition of consolidated companies (previous year: approx. € 32.2 million). In addition, approx. € 26.8 million (previous year: approx. € 24.6 million) was invested in intangible assets for the acquisition of products and product packages introduced to the market and for the "early entry" of Mirtazapine. Finally, approx. € 6.8 million (previous year: € 0.0 million) were spent on financial assets in connection with the strategic partnership with LipoNova.

In contrast, income from the disposal of financial assets amounted to € 8.7 million (previous year: € 13.7 million).

Cash flow from financing activities amounted to € -17.2 million in 2004 (previous year: € 164.3 million). In the previous year, the capital increase in the fourth quarter of 2003 led to a positive cash flow from financing activities.

The net change in cash and cash equivalents thus translates into a **net cash flow for fiscal 2004** of € -64.0 million (previous year: € 107.1 million). When comparing this figure with that of the previous year, it should be kept in mind that the previous year's figure included a net cash inflow of € 256.4 million as a result of the capital increase.

Dividends and dividend payments

Dividend increased

The Executive Board and Supervisory Board of STADA will propose at the next Annual Shareholders' Meeting of the Company on June 14, 2005 to distribute a dividend of € 0.39 per common share for fiscal 2004. This represents an 11% increase compared to the previous year. The proposed total dividend payments thus total € 20.9 million. The total dividends paid in the previous year totaled € 18.7 million.

With this proposal, the Executive Board and Supervisory Board intend to underscore the fact that in their opinion, even though fiscal year 2004 was characterized by non-recurring charges, STADA's long-term growth trend remains unbroken.

Floating

Risk Report

Risk management system

Every business is exposed to general risks and may also be exposed to additional, more specific risks. In order to identify and limit these risks, STADA has implemented a risk management system. The system aims to reduce any risk to an appropriate amount considering the expected benefit of the activity involved.

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

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

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

Regulatory risks

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

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

Often such measures also directly or indirectly regulate drug prices (e.g. with reference prices or mandatory discounts). Should STADA therefore be compelled to reduce prices, this will impact STADA's earnings position directly, unless such measures also serve to stimulate sales or to lower costs. This also applies in the event that drugs are classified as non-reimbursable under the respective national social security systems. Regulatory intervention that directly or indirectly gives increased purchasing power to individual customers or customer groups (such as health insurance organizations and pharmacy chains) could also have adverse effects on STADA.

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

Current product portfolio risks

For drugs, new scientific discoveries may lead to a more unfavorable risk-benefit analysis. This may even apply to drugs long present on the market. Measures that may be taken by the authorities in such cases extend from recalling specific batches from the market to restricting or withdrawing relevant approvals.

Medical products, cosmetics, and other health care items that do not require prior approval may also be affected by subsequent risks or quality defects, which could lead to a restriction or prohibition of further sales or to withdrawals.

As is the case with other pharmaceutical companies in Germany, STADA also markets drugs that are in circulation on the basis of transitional regulations ("Alt-Arzneimittel") and for which the subsequent approval ("Nachzulassungen") processes have not been finalized. In the event that specific subsequent approvals are not granted, STADA would need to find an alternative solution for this case (e.g. converting the product to one of similar composition for which approval exists) in order to continue marketing the product in Germany.

Product portfolio expansion risks

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

Meticulous observance of relevant legislation, particularly commercial property rights (patents, SPCs, and "data exclusivity"), is extremely important in the approval process, especially for generics and special pharmaceuticals. If individual legislative requirements are violated during development or during the approval process, the result may be a delay or even prevention of the launch of a new product due to legal steps taken by competitors or rejection by the approval authorities (see "Legal risks").

The expansion of the product portfolio into biogenerics, a field that STADA has pursued for some time now, is especially subject to development, approval, and patent risks. Biogeneric development is therefore conducted by Bioceuticals Arzneimittel AG, in which STADA has a 10% minority stake (the majority is held by venture capital investors). In addition, STADA Arzneimittel AG has issued a capital guarantee/financial guarantee of up to € 25 million. At present, the activities of Bioceuticals Arzneimittel AG are geared toward three biogeneric drugs to which STADA or its subsidiaries hold exclusive global marketing rights. Particular focus is being placed on the Erythropoietin generics project which is currently the most advanced. Since biogenerics represent a new product category with specific production and quality requirements, they involve higher risk than development projects for ordinary generics. On the one hand, development and approval processes for biogenerics may fail entirely or partially or be substantially delayed. On the other hand, competitors may take action to prevent the market launch due to alleged infringement of commercial property rights or may enter the market earlier than STADA or with more effective products than STADA. The planned expansion of the STADA portfolio with biogenerics could therefore fail or be significantly impaired.

Competitive risks

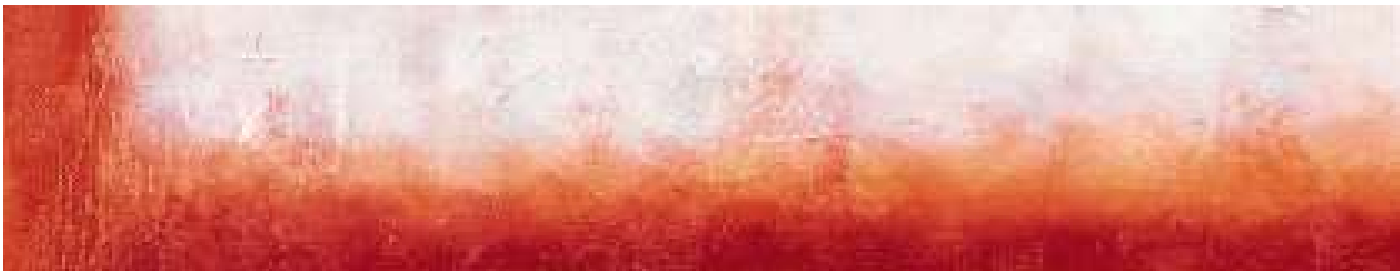
The health care and pharmaceutical markets in which STADA operates are highly competitive. Some of STADA's competitors possess considerably higher financial and organizational resources, production capabilities, sales strengths, and/or market power than STADA. New competitors are likely to appear in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

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

Risks associated with growth

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

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



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

Legal risks

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

If there is a serious risk of future damage claims, STADA creates product-specific provisions considered to be commensurate with potential damage claims; these provisions amounted to € 1.0 million for the Group as of December 31, 2004 (€ 6.3 million as of December 31, 2003). In principle, STADA cannot guarantee that such provisions will be sufficient for individual instances or in total.

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

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

Risks associated with internationalization of business

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

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

STADA also conducts business outside of the euro zone. A portion of both procurement and invoicing is undertaken in currencies other than the euro. Exchange rate fluctuations between euro and non-euro currencies may impact the Group's earnings. The Group employs derivatives, particularly foreign exchange contracts, to hedge assets, liabilities, and anticipated future funds flows denominated in foreign currency.

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

Economic risks

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

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

Additional risks associated with overall business processes

External suppliers, contract manufacturers, and other contractors have been integrated into STADA's business processes to a considerable extent, particularly in the areas of development, procurement, pharmaceutical production, and packaging, though also to an increasing degree in other areas. Furthermore, the Group is taking increasing advantage of the opportunity of having essential Group services performed by third parties, with whom alliances are formed. In addition, as of December 31, 2004, STADA had specifically licensed 15,608 German pharmacies to undertake the final packaging of partially packed products delivered by STADA in their own pharmacies. This license currently applies to seven branded products.

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

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

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

STADA is in possession of a number of business and trade secrets that must be treated with confidentiality. STADA makes use of confidentiality agreements with employees, external alliance partners, and service providers as well as with certain other contractual partners in order to safeguard these business and trade secrets.

There is no guarantee that these agreements and other protective measures taken to ensure business and trade secrecy actually represent effective protection or that they will not be violated. There is also no assurance that business and trade secrets will not become known to competitors by other means. This may have material adverse effects on STADA.

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

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

The impact of risks

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

Outlook

Worldwide pharmaceutical market and especially generics remain on growth course

STADA continues to expect that the global pharmaceutical market and the most important national pharmaceutical markets will grow further in the coming years. Due to global cost pressure in health care and the continuous flow of active ingredients with expiring commercial property rights, the Executive Board at STADA believes that above all providers of low-cost generics will be able to benefit from the expected growth rates. This assessment is confirmed by corresponding growth forecasts of independent market research institutes.

Challenges posed by government regulation and competition

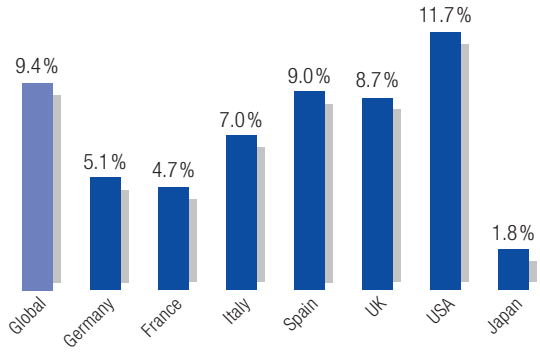
Due to national circumstances, however, individual markets can diverge from the global growth trend. The Executive Board anticipates such divergences above all as a result of government regulation. Depending on the nature of such circumstances, these market regulations can have either adverse or stimulating effects on the sales companies involved. In principle, such market interventions can occur at short notice in any national market. From today's perspective, regulatory measures are anticipated in 2005, e.g. in Belgium, Ireland, Spain, and possibly in Germany. Even though STADA presently believes that its growth forecasts for 2005 will not be affected by these measures, this cannot be entirely ruled out at this time since the final details of these government regulations are still unknown.

On the whole, STADA will therefore continue to face structural challenges in individual national markets in the future as well. In addition, the markets in which STADA is active will continue to be characterized by high price sensitivity and intense competitive pressure.

Executive Board believes that opportunities outweigh recognizable risks

Despite these challenges, STADA believes that the opportunities and potentials of the Group more than compensate for the risks arising from these factors. Due to the strategic focus on multisource products in selected segments of the pharmaceutical market with an emphasis on generics, STADA is well positioned for its successful development to continue. The Group will continue to benefit from its full product pipeline and its international sales network in the future. In the area of production, the use of cost-saving outsourcing solutions is to be further expanded. To this end, STADA will also increasingly draw on resources in countries with low raw material prices and low labor costs for its production activities. Furthermore, STADA anticipates that as a result of the cost optimization program introduced in 2004 it will be able to realize considerable cost savings in the coming years as well.

Anticipated compound annual growth rates (CAGR) for important pharmaceuticals markets, 2004 – 2008



Source: IMS Health

Burdens in Germany expected to decline significantly in 2005

In addition, fiscal 2005 will likely bring significant financial relief in Germany for STADA. On the one hand, the state has reduced the legal basis for calculating the mandatory discounts from 16% to 6%. On the other hand, moderate new reference prices apply to the Group's two active ingredients with the strongest sales. This means that since the beginning of the year the mandatory discounts have been entirely eliminated for products with these active ingredients. From today's perspective, it appears likely that as a result of both measures, STADA´s charges against EBT could be reduced by a total of at least approx. € 10 million in 2005. Unless unexpected regulatory measures are introduced in Germany, the extraordinary charges on earnings experienced in 2004 in connection with the GMG should not recur in the current fiscal year. However, there is still some uncertainty with respect to the regulation of reference prices for the other active ingredients of STADA that are currently not subject to reference prices (see "Effects of the German health care reform ("GMG") on STADA" in the Management Report).

Executive Board confident about 2005

On the whole, the Executive Board of STADA is confident that the Company will be able to continue its long-standing growth course in the current year and accelerate it considerably from 2004. For instance, sales and earnings are expected to again reach the usual growth rate in the double-digit percentage range in 2005. According to preliminary figures, Group sales increased by 17% in the first two months of 2005 compared to the previous year. From today's perspective, an increase in net income to more than € 60 million is expected for the current fiscal year 2005.

Bad Vilbel, March 14, 2005

H. Retzlaff | W. Jeblonski | Dr. K.-P. Reich

STADA 2004 Consolidated Financial Statements

Consolidated Income Statement

Consolidated Income Statement for the period from Jan.1 to Dec. 31

in € 000s	2004	Previous year	Notes IFRS
01. Sales	813,519	745,209	2.1.
02. Cost of sales	415,029	361,811	2.2.
03. Gross profit	**398,490**	**383,398**	2.3.
04. Other operating income	20,330	9,849	2.4.
05. Selling expenses	232,107	214,592	2.5.
06. General and administrative expenses	53,202	52,450	2.6.
07. Research and development expenses	23,314	20,768	2.7.
08. Other operating expenses	22,358	19,870	2.8.
09. Operating profit	**87,839**	**85,567**	2.9.
10. Investment income	401	138	2.10.
11. Interest result	-10,690	-13,598	2.11.
12. Financial result	**-10,289**	**-13,460**	2.12.
13. Earnings before taxes	**77,550**	**72,107**	2.13.
14. Taxes on income	29,024	28,013	2.14.
15. Net income	**48,526**	**44,094**	2.15.
• thereof net income distributable to shareholders of STADA Arzneimittel AG	48,484	43,869	2.16.
• thereof net income relating to minority interest	42	225	2.17.
16. Earnings per share in € (according to IAS 33.10)	0.91[1)]	1.01[1)]	2.18.
17. Earnings per share in € (diluted) (according to IAS 33.24)	0.88[1)]	0.95[1)]	2.19.

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

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

Consolidated Balance Sheet

The consolidated balance sheet as of December 31, 2004, was structured in accordance with the current/non-current distinction as defined in IAS 1 (2003 version). Minority interests are presented under shareholders' equity. For the sake of comparability, the previous year's consolidated balance sheet as of December 31, 2003 was restructured accordingly.

Consolidated Balance Sheet as of Dec. 31 in € 000s	2004	Previous year	Notes IFRS
Assets			
A. Non-current assets	**551,850**	**489,957**	
1. Intangible assets	447,577	395,832	3.1.
2. Property, plant and equipment	60,663	61,865	3.2.
3. Financial assets	16,063	12,864	3.3.
4. Non-current trade accounts receivable	4,934	1,004	3.4.
5. Other non-current assets	12,944	8,714	3.5.
6. Deferred tax assets	9,669	9,678	3.6.
B. Current assets	**468,584**	**465,155**	
1. Inventories	206,012	166,650	3.7.
2. Current trade accounts receivable	159,090	134,352	3.8.
3. Other current assets	24,918	23,790	3.9.
4. Current securities	2,789	614	3.10.
5. Cash and cash equivalents	75,775	139,749	3.11.
Total assets	**1,020,434**	**955,112**	
Equity and Liabilities			
A. Shareholders' equity	**638,995**	**614,498**	
1. Share capital	138,816	69,408	3.12.
2. Reserves and unappropriated retained earnings	500,082	543,903	3.13.
3. Minority interests	97	1,187	3.14.
B. Non-current liabilities and provisions	**141,070**	**194,628**	
1. Non-current provisions	13,377	12,472	3.15.
2. Non-current financial liabilities	103,109	169,580	3.16.
3. Non-current trade accounts payable	879	0	3.17.
4. Other non-current liabilities	2,322	230	3.18.
5. Deferred tax liabilities	21,383	12,346	3.19.
C. Current liabilities and provisions	**240,369**	**145,986**	
1. Current provisions	3,183	8,401	3.20.
2. Current financial liabilities	79,064	9,016	3.21.
3. Current trade accounts payable	86,211	77,793	3.22.
4. Other current liabilities	71,911	50,776	3.23.
Total equity and liabilities	**1,020,434**	**955,112**	

Consolidated Cash Flow Statement

Consolidated Cash Flow Statement in € 000s	2004	Previous year	Notes IFRS
01. Net income for the period	48,526	44,094	
02. Depreciation and amortization (+) / write-ups (-) of non-current assets	34,488	31,085	
03. Increase (+) / decrease (-) in non-current provisions	905	2,784	
04. Interest accrued on bond with warrants	1,781	1,634	
05. Gains (-) / losses (+) on disposals of non-current assets	-4,429	-771	
06. Cash flow (gross)	**81,271**	**78,826**	4.1.
07. Increase (-) / decrease (+) in inventories	-39,339	-22,651	
07. Increase (-) / decrease (+) in trade receivables	-28,599	-18,647	
07. Increase (-) / decrease (+) in other receivables / prepaid expenses	-5,345	-8,142	
07. Increase (-) / decrease (+) in current securities	-2,037	-1	
07. Increase (-) / decrease (+) in deferred tax assets	8	-140	
07. Sub-total	-75,312	-49,581	
08. Increase (+) / decrease (-) in current provisions	-5,218	2,126	
08. Increase (+) / decrease (-) in trade payables	9,221	-964	
08. Increase (+) / decrease (-) in other liabilities / deferred income	23,198	-8,304	
08. Increase (+) / decrease (-) in deferred tax liabilities	4,881	1,294	
08. Sub-total	32,082	-5,848	
09. Cash provided by operating activities	**38,041**	**23,397**	4.2.
10. Proceeds (+) from the disposal of property, plant and equipment	246	621	
11. Payments (-) for purchases of property, plant and equipment	-7,025	-11,170	
12. Proceeds (+) from the disposal of intangible non-current assets	2,121	743	
13. Payments (-) for purchases of intangible non-current assets	-67,582	-51,708	
14. Proceeds (+) from the disposal of financial assets	8,708	13,674	
15. Payments (-) for purchases of financial assets	-7,488	-470	
16. Proceeds (+) from the sale of consolidated companies	0	0	
17. Payments (-) for the acquisition of consolidated companies	-9,015	-32,199	
18. Proceeds (+) relating to the investment of financial resources / short-term treasury management	0	0	
19. Payments (-) relating to the investment of financial resources / short-term treasury management	0	0	
20. Cash used for investing activities	**-80,035**	**-80,509**	4.3.
21. Proceeds (+) from additions to shareholders' equity / share capital of STADA AG	0	17,375	
21. Proceeds (+) from additions to shareholders' equity / capital reserve of STADA AG	5	248,449	
21. Netting of transaction costs related to the capital increase 2003	-206	-5,698	
22. Payments (-) to shareholders (dividend distribution)	-18,822	-12,995	
23. Proceeds (+) from the issue of bonds and finance facilities	1,797	67,354	
24. Payments (-) for the redemption of bonds and finance facilities	0	-150,157	
25. Cash flow used for / provided by financing activities	**-17,226**	**164,328**	4.4.
26. Changes in cash and cash equivalents	**-59,220**	**107,216**	
27. Other changes in shareholders' equity / currency translation	-4,754	-158	
28. Net cash flow for the period	**-63,974**	**107,058**	4.5.
29. Net cash at beginning of period	139,749	32,691	
30. Net cash at end of period	75,775	139,749	

Consolidated Statement of Changes in Shareholders' Equity

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

	Number of preferred shares
Balance as of Jan. 1, 2003	5,070
Conversion of 5,070 preferred shares to common shares as resolved by the Annual Shareholders' Meeting of June 24, 2003	-5,070
ALIUD Pharma GmbH & Co. KG reinvestment	
Capital increase from 2000/2015 warrants (STADA Arzneimittel AG)	
Capital increase 2003 (first tranche)	
Capital increase 2003 (second tranche)	
Inclusion of minority interests of NPA New Pharmajani S.p.A.	
Netting of transaction costs related to the 2003 capital increase according to IAS/SIC 17	
Consolidation-related reclassifications	
Dividend payment of STADA Arzneimittel AG	
Net income	
Currency translation adjustments	
Minority shares in net income 2003	
Balance as of Dec. 31, 2003	0
Balance as of Jan. 1, 2004	0
Dividend payment of STADA Arzneimittel AG	
Capital increase from authorized capital (STADA AG)	
Capital increase from 2000/2015 warrants (STADA Arzneimittel AG)	
Changes in retained earnings (treasury shares of STADA AG)	
ALIUD Pharma GmbH & Co. KG reinvestment	
Netting of transaction costs related to the 2003 capital increase according to IAS/SIC 17	
Dividend payment of NPA New Pharmajani S.p.A. to former minority shareholders	
Reclassification of minority interests in the profit brought forward by NPA New Pharmajani S.p.A.	
Reclassification of minority interests in the equity of NPA New Pharmajani S.p.A.	
Changes due to consolidation	
Net income	
Valuation of cash flow hedges (effect on equity)	
Minority interests in net income 2004	
Currency translation differences	
Balance as of Dec. 31, 2004	0

Number of common shares	Share capital	Capital reserve	Revenue reserve	Unappro-priated retained earnings	Currency translation differences	Provision for cash flow hedges	Minority interests	Total shareholders' equity
20,007,780	**52,033**	**190,718**	**34,616**	**46,928**	**-168**	**0**	**62**	**324,189**
5,070								
			6,000	-6,000				0
180	1	5						6
4,941,317[1)]	12,847	172,452						185,299
1,740,943[1)]	4,527	75,992						80,519
							900	900
		-5,698						-5,698
		750		-750				0
				-12,995				-12,995
				44,094				44,094
				-1,877	61			-1,816
				-225			225	0
26,695,290	**69,408**	**434,219**	**40,616**	**69,175**	**-107**	**0**	**1,187**	**614,498**
26,695,290	**69,408**	**434,219**	**40,616**	**69,175**	**-107**	**0**	**1,187**	**614,498**
				-18,675				-18,675
26,695,410	69,408	-43,931	-25,477					0
120	0	5						5
				-1,547				-1,547
			26,000	-26,000				0
		-206						-206
				-147				-147
				193			-193	0
							-900	-900
			905	-905				0
				48,526				48,526
						-1,676		-1,676
				-42			42	0
				-1,062	218		-39	-883
53,390,820	**138,816**	**390,087**	**42,044**	**69,516**	**111**	**-1,676**	**97**	**638,995**

1) 58,683 shares from the first tranche of the 2003 capital increase were accounted for as part of the second tranche.

Notes

1. General

1.1. Basis of presentation

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

STADA Arzneimittel AG's consolidated financial statements are prepared in accordance with the accounting standards promulgated by the International Accounting Standards Board (IASB) known as the International Financial Reporting Standards (IFRS). The IFRS to be applied as of December 31, 2004 and the corresponding interpretations of the Standing Interpretations Committee (SIC) were observed.

The voluntary early application of IAS 1, IFRS 3 as well as IAS 36 and IAS 38 resulted in changes in accounting policies specified as follows:

- As a result of the early application of IAS 1, minority interests have been reported under shareholders' equity and the balance sheet has been structured in accordance with the current/non-current distinction.
- The early application of IFRS 3, IAS 36 and IAS 38 primarily affected goodwill accounting. Until December 31, 2003, goodwill was amortized on a straight-line basis over 20 years. Starting on January 1, 2004, scheduled amortization was discontinued in conformance with IFRS 3. Instead, a review to assess impairment losses is carried out at least once per year. Additional impairment tests are performed if there are any indications that an asset may be impaired. Scheduled amortization of goodwill amounted to € 6.0 million in the previous year.

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

The consolidated financial statements of STADA Arzneimittel AG conform with EEC Directive 83/349.

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

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

1.2. Scope of consolidation

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

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

The consolidated financial statements of STADA Arzneimittel AG as of December 31, 2004 include the following subsidiaries (wholly-owned unless otherwise specified):

- AAXL Pharma S.A., Brussels, Belgium
- ALIUD PHARMA CZ s.r.o., Prague, Czech Republic
- ALIUD PHARMA GmbH & Co. KG, Laichingen
- ALIUD PHARMA Verwaltungs-GmbH, Laichingen
- ALIUD PHARMA GmbH & Co. KEG, Vienna, Austria
- ALIUD PHARMA Verwaltungs-Ges.m.b.H., Vienna, Austria
- BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel
- Bioline Naturmedizin Ges.m.b.H., Vienna, Austria
- cell pharm Gesellschaft für pharmazeutische and diagnostische Präparate mbH, Hanover
- Centrafarm Nederland B.V., Etten-Leur, The Netherlands
- Clonmel Healthcare Ltd., Clonmel, Ireland
- Crinos S.p.A., Milan, Italy
- Croma Medic Inc., Manila, Philippines (60% stake)
- Crosspharma Ltd. Belfast, United Kingdom
- EG Labo Laboratoires EuroGenerics S.A., Paris, France
- EG S.p.A., Milan, Italy
- Genus Pharmaceuticals Ltd., Newbury, United Kingdom[1)]
- Genus Pharmaceuticals Holdings Ltd., Newbury, United Kingdom[2)]
- Health Vision Enterprise Ltd., Hong Kong, China (51% stake)[3)]
- Helvepharm AG, Frauenfeld, Switzerland (50% stake)
- Healthypharm B.V., Etten-Leur, The Netherlands
- Laboratorio STADA SL, Barcelona, Spain[4)]
- LIFE TRANS Pharma Vertriebs GmbH, Bad Vilbel
- NPA New Pharmajani S.p.A., Milan, Italy[5)]
- N.V. Eurogenerics S.A., Brussels, Belgium
- PharmaCoDane Aps, Copenhagen, Denmark
- Quatropharma Groothandel B.V., Etten-Leur, The Netherlands
- SFS International Ltd., Clonmel, Ireland

1) Schein Pharmaceuticals Holdings UK Ltd. was accordingly renamed in the year under review, 2004.
2) Schein Pharmaceuticals UK Ltd. was accordingly renamed in the year under review, 2004.
3) Only 50 % of Health Vision was consolidated by STADA due to the preferred and agreed incorporation of senior executives on an equal footing in the operational management of Health Vision.
4) On November 1, 2004, Bayvit S.A., Barcelona, Spain, and Ciclum Farma S.L., Madrid, Spain, were merged and the legal entity was renamed Laboratorio STADA S.L.
5) In fiscal 2004 the stake was raised from 60% to 100%.

- STADA Arzneimittel Ges.m.b.H., Vienna, Austria
- STADA Asiatic Ltd., Bangkok, Thailand (60% stake)
- STADA GmbH, Bad Vilbel
- STADA Import/Export Ltd., Tortola, British Virgin Islands (50% stake)
- STADA Medical GmbH, Bad Vilbel
- STADA Research und Development GmbH, Bad Vilbel
- STADApharm GmbH, Bad Vilbel
- STADA Pharmaceuticals (Asia) Ltd., Hong Kong, China
- STADA Inc., Cranbury, New Jersey, USA
- STADA Pharmaceuticals Inc., Cranbury, New Jersey, USA
- STADA Pharma International GmbH, Berlin
- STADA Service Holding B.V., Etten-Leur, The Netherlands
- STADA Vietnam J.V. Ltd., Ho Chi Minh City, Vietnam (50% stake)
- Taxon GmbH, Hanover
- UZARA-WERK GmbH, Bad Vilbel

Included for the first time:

- STADA Financial Investments Ltd., Clonmel, Ireland
- Boniscontro & Gazzone S.r.l., Rome, Italy

Croma Pharma AG i.L., Frauenfeld, Switzerland, was no longer included in the scope of consolidation in fiscal 2004 once the liquidation process was completed.

In the second quarter of 2004, STADA Arzneimittel AG raised its stake in NPA New Pharmajani S.p.A. from 60% to 100% against a consideration of € 2.0 million.

Effective November 1, Crinos S.p.A. acquired a 100% stake in Boniscontro & Gazzone S.r.l., Rome as well as branded products. Prior to purchase price allocation, significant assets consisted of intangible assets of € 315 thousand and current assets of € 2,727 thousand. Within the scope of initial consolidation, hidden reserves amounting to approximately € 4,437 thousand (gross) were disclosed at Boniscontro & Gazzone S.r.l.

Acquisition costs, including transaction costs, to be capitalized of approx. € 11.5 million were incurred upon acquisition of Boniscontro & Gazzone S.r.l.

The branded products package also acquired from the previous shareholders of Boniscontro & Gazzone S.r.l., was valued at € 7,400 thousand (gross). After determining the market value of the individual products, unallocable goodwill of € 870 thousand remained.

The transaction was aimed at strengthening STADA's local Italian sales companies, Crinos S.p.A. and NPA New Pharmajani S.p.A.

In January 2005, STADA Arzneimittel AG acquired approx. 97.5% of the shares in the Russian pharmaceuticals company, Nizhpharm OJSC, Nizhny Novgorod. Approximately 74.1% of the shares were acquired directly and approx. 22.9% were acquired indirectly by means of a complete takeover of an interim holding company. Another approx. 0.5% of Nizhpharm shares are held by the Nizhpharm company itself. The total purchase price was € 80.5 million. The final opening balance sheet was not yet available at the time this annual report was prepared. Hidden reserves of approx. € 30 million (predominantly company-developed trademarks) are expected to be disclosed in the initial consolidation. This acquisition represents an important step for STADA in expanding its Group activities.

The consolidated balance sheet was impacted in the reporting year 2004 by changes in the scope of consolidation as follows:

in € 000s	Initial consolidation
Intangible assets	12,923[1]
Property, plant and equipment	–
Current assets	2,815[2]
Liabilities / provisions	4,261[2]

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

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

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

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

1.3. Principles of consolidation

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

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

Equity is consolidated in accordance with IFRS 3 using the purchase method. Under this method, acquisition costs of the investment are offset against the acquired equity portion at the time of acquisition. For subsidiaries that are consolidated for the first time during the year under review, the carrying amounts at the time of acquisition were adopted based on the relevant interim financial statements. Differences arising subsequently are allocated to assets and liabilities insofar as fair values differ from amounts recognized in the financial

statements. Any remaining difference is reported as goodwill under non-current assets. Until December 31, 2003, this goodwill was amortized using the straight-line method in accordance with IAS 22 over a period of useful life that is uniform throughout the Group. Since fiscal year 2004, goodwill is longer amortized on a straight-line basis over the period of useful life. Instead, an impairment test is performed at least once per year; this may result in the need to recognize an impairment loss (impairment only approach). For the process adopted in the impairment tests, please refer to the notes on intangible assets under note 3.1.

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

1.4. Currency translation

The consolidated financial statements of STADA Arzneimittel AG are expressed in thousands of euro unless otherwise stated. In the separate financial statements of subsidiaries, foreign currency transactions are translated at the exchange rate applicable at the time of the transactions. Monetary assets and liabilities stated in foreign currency are translated at the closing rate. Exchange gains and losses are recognized in "Other operating income" or "Other operating expenses".

	Middle rate on Dec. 31 in €		Average rate for the calendar year in €	
Exchange rate to the euro	2004	2003	2004	2003
US dollar	0.73889	0.79359	0.80311	0.87817
Hong Kong dollar	0.09400	0.10221	0.10302	0.11278
Czech crown	0.03291	0.03093	0.03136	0.03138
Danish crown	0.13444	0.13430	0.13444	0.13459
Swiss franc	0.64704	0.64132	0.64794	0.65674
Philippine peso	0.01315	0.01430	0.01432	0.01619
Thai baht	0.01899	0.02004	0.01995	0.02120
Pound sterling	1.41563	1.41718	1.47135	1.43282
Vietnamese dong	0.00005	0.00005	0.00005	0.00006

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

Annual financial statements of subsidiaries prepared in foreign currencies are translated in accordance with IAS 21 (The Effects of Changes in Foreign Exchange Rates) using the functional currency method. Foreign subsidiaries in the STADA Group are regarded as commercially independent sub-units. Balance sheet items are generally translated at closing rates with the exception of shareholders' equity and, if applicable, the carrying amounts of equity holdings of consolidated subsidiaries. These are based on the separate financial statements

of the respective subsidiaries and are translated at historical rates. Income and expense items are converted at annual average rates with the exception of write-downs on goodwill, which are converted at historical rates in accordance with IAS 21.31. Currency translation differences arising from the use of different exchange rates for items in the balance sheet and the income statement are netted in shareholders' equity with no effect on income.

1.5. Use of estimates

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

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

Consolidated income statement structure

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

2.1 Sales

in € 000s	2004	Previous year
Sales	813,519	745,209

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

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

2.2. Cost of sales

in € 000s	2004	Previous year
Cost of sales	415,029	361,811

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

2.3. Gross profit

in € 000s	2004	Previous year
Gross profit	398,490	383,398

Mandatory discounts in the amount of € 21.4 million, levied as part of the introduction of the German law on modernizing the public health insurance system ("GKV-Modernisierungsgesetz" or "GMG") in 2004, have been charged against the gross profit.

2.4. Other operating income

in € 000s	2004	Previous year
Income from reductions of valuation allowances and similar income	46	101
Income from disposal of non-current assets	4,471	1,452
Income from the valuation of short-term securities and financial assets	126	495
Currency translation gains	454	1,271
Revenues from reinsurance	908	1,182
Income from the reversal of provisions	6,862	0
Commission earnings	0	587
Remaining other operating income	7,463	4,761
Total	**20,330**	**9,849**

The remaining other operating income includes such items as income from insurance compensation, compensation claims and other income not directly associated with functional costs.

2.5. Selling expenses

in € 000s	2004	Previous year
Selling expenses	232,107	214,592

Reported selling expenses include advertising and marketing costs in addition to costs pertaining to the sales and marketing departments and the sales force.

2.6. General and administrative expenses

in € 000s	2004	Previous year
General and administrative expenses	53,202	52,450

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

2.7. Research and development expenses

in € 000s	2004	Previous year
Research and development expenses	23,314	20,768

Research expenses are the costs of an independent, planned quest for new scientific or technical discoveries. The product portfolio of the STADA Group continues to focus on products that do not require the Group to conduct its own research. Just as in the previous year, no research expenses have been incurred within the STADA Group in the 2004 reporting year. Development expenses basically consist of expenses involved in the technical and commercial implementation of theoretical discoveries.

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

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

Research and development costs reflect, among other items, non-capitalizable development expenses of STADA Research and Development GmbH (€ 11,052 thousand; previous year: € 8,650 thousand) and of STADA Arzneimittel AG (€ 1,592 thousand; previous year: € 2,700 thousand).

2.8. Other operating expenses

in € 000s	2004	Previous year
Goodwill write-downs/amortization	85	6,032
Value adjustment of accounts receivable and similar expenses	1,037	1,416
Losses on the disposal of non-current assets	42	681
Currency translation expenses	893	1,482
Special write-offs in non-current assets	8,658	2,733
Mirtazapine compensation payments	3,800	0
Remaining other operating expenses	7,843	7,526
Total	**22,358**	**19,870**

Goodwill write-downs for the reporting year reflect impairment losses. The remaining other operating expenses contain non-recurring personnel expenses of € 3,225 thousand (previous year € 1,738 thousand).

2.9. Operating profit

in € 000s	2004	Previous year
Operating profit	87,839	85,567

Operating profit includes depreciation and amortization of € 34,488 thousand (previous year: € 31,085 thousand) and € 136,026 thousand in personnel expenses (previous year: € 125,476 thousand).

2.10. Investment income

in € 000s	2004	Previous year
Investment income	401	138

This relates to profit distributions from unconsolidated equity holdings.

2.11. Interest result

in € 000s	2004	Previous year
Other interest and similar income	2,004	1,289
Interest and similar expenses	12,694	14,887
Interest result	**-10,690**	**-13,598**

Interest and similar expenses include interest on the convertible bond in the amount of € 7,406 thousand (previous year: € 7,259 thousand), of which € 1,781 thousand relates to the non-cash premium (previous year: € 1,634 thousand).

2.12. Financial result

in € 000s	2004	Previous year
Investment income	401	138
Interest result	-10,690	-13,598
Financial result	**-10,289**	**-13,460**

2.13. Earnings before taxes

in € 000s	2004	Previous year
Earnings before taxes	77,550	72,107

Earnings before taxes were charged – analogous to gross profit – with mandatory discounts of € 21.4 million, which the Group's German sales companies had to grant in 2004 as a result of the German law on modernizing the public health insurance system (“GKV-Modernisierungsgesetz” or “GMG”).

2.14. Taxes on income

in € 000s	2004	Previous year
Income taxes	29,024	28,013

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

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

in € 000s	2004	Previous year
Taxes within the accounting period	30,082	27,705
Taxes outside of the accounting period, net	-1,058	308
Total	**29,024**	**28,013**
Taxation ratio	**37.4%**	**38.8%**

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

Loss carryforwards are only capitalized if a future utilization of these claims is sufficiently likely to happen. Tax loss carryforwards capitalized as of the December 31, 2004 reporting date amount to € 4,636 thousand. Deferred taxes in the amount of approx. € 24.8 million were not capitalized on loss carryforwards of subsidiaries, since the prospect of future utilization is not sufficiently likely from today´s perspective. IAS 12.81 requires the actual tax charge to be compared with what would theoretically have resulted if the appropriate tax rates were applied to consolidated pre-tax income reported. This is done for all domestic and foreign companies using the national tax rates applicable to their various legal forms.

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

in € 000s	Dec. 31, 2004 Deferred tax assets	Dec. 31, 2004 Deferred tax liabilities	Dec. 31, 2003 Deferred tax assets	Dec. 31, 2003 Deferred tax liabilities
Intangible assets	1,161	20,663	55	11,791
Property, plant and equipment	21	402	23	508
Inventories	3,840	0	4,081	0
Receivables	3	584	65	485
Other assets	129	283	35	240
Pension provisions	1,100	0	896	0
Other provisions	0	676	145	96
Liabilities	6	2	62	686
Tax loss carryforwards	4,636	0	5,776	0
Offsetting	-1,227	-1,227	-1,460	-1,460
Total deferred taxes	**9,669**	**21,383**	**9,678**	**12,346**

As the following reconciliation shows, the actual Group tax charge for fiscal 2004 was greater than the tax charge calculated solely by applying the appropriate tax rates to domestic and foreign Group companies:

in € million	2004	Previous year
Earnings before taxes	77.6	72.1
Tax rate for all domestic and international companies based on the respective tax rates	34.0%	32.4%
Theoretical tax expense	26.4	23.4
Tax effects due to non-deductible amortization of goodwill	0.0	1.1
Tax effects due to application of IAS 12.34	1.3	2.8
Taxes outside of the accounting period	-1.0	0.3
Tax effects due to non-deductible expenses and other items	2.3	0.4
Actual tax expense shown on the income statement	29.0	28.0
Actual taxation ratio	37.4%	38.8%

2.15. Net income

in € 000s	2004	Previous year
Net income for the period	48,526	44,094

2.16. Net income distributable to shareholders of STADA Arzneimittel AG

in € 000s	2004	Previous year
Net income distributable to shareholders of STADA Arzneimittel AG	48,484	43,869

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

2.17. Net income relating to minority interests

in € 000s	2004	Previous year
Net income relating to minority interests	42	225

Minority interests reflect the shares of other partners in the companies STADA Asiatic and Croma Medic. In the previous year, this item also included NPA New Pharmajani.

2.18. Earnings per share

Earnings per share	2004	Previous year
Net income distributable to shareholders of STADA Arzneimittel AG in € 000s	48,484	43,869
Average number of shares	53,348,910[1)2)]	43,327,286[1)2)]
Earnings per share in €	0.91[2)]	1.01[2)]

1) Please refer to the notes on shareholders' equity (see note 3.12) regarding the change in the number of shares.
2) Pursuant to IAS 33.20 in conjunction with IAS 33.22, a capital increase from existing funds changes the average number of shares without any concomitant change in the level of resources. The number of common shares in issue prior to the capital increase is adjusted in accordance with the proportional change in the number of outstanding common shares after the share issue as if the event (the de facto 1:1 stock split) had occurred at the beginning of the period under review. For the purposes of historical comparison, the historical figure for the average number of shares in each fiscal year ending prior to the conversion date will be doubled to adjust for the stock split when calculating the earnings per share.

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

2.19. Diluted earnings per share

Diluted earnings per share	2004	Previous year
Net income distributable to shareholders of STADA Arzneimittel AG in € 000s	48,484	43,869
Average number of shares outstanding	53,348,910[1)2)]	43,327,286[1)2)]
Potentially diluting shares from 2000/2015 warrant (ISIN DE0007251845)	1,556,457[1)2)]	2,979,141[1)2)]
Average number of shares (incl. potentially diluting shares from 2000/2015 warrant)	54,905,367[1)2)]	46,306,427[1)2)]
Diluted earnings per share in €	0.88[2)]	0.95[2)]

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

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

Change in balance sheet structure

The consolidated balance sheet as of December 31, 2004, was structured in accordance with the current/non-current distinction as defined in IAS 1 (amended 2003). For the sake of comparability, the previous year's consolidated balance sheet as of December 31, 2003 was restructured accordingly.

An asset, liability or provision is recorded as non-current, if a remaining term of more than a year applies.

In addition, the consolidated balance sheet as of December 31, 2004 presents minority interests under shareholders' equity. The consolidated balance sheet from the previous year was adapted accordingly for purposes of comparability.

3.1. Intangible assets

Intangible assets in € 000s	Concessions, patents, licenses and similar rights	Goodwill	Advance payments	Total
Accumulated cost as of Jan. 1, 2004	**319,008**	**124,156**	**43,278**	**486,442**
Currency translation difference	-8	-195		-203
Changes in the scope of consolidation	13,247	870		14,117
Additions	41,638	968	24,975	67,581
Disposals	1,992		337	2,329
Reclassifications	9,336	-1,847	-7,507	-18
Accumulated cost as of Dec. 31, 2004	**381,229**	**123,952**	**60,409**	**565,590**
Accumulated amortization as of Jan. 1, 2004	**70,144**	**18,474**	**1,992**	**90,610**
Currency translation difference	-39	-2		-41
Changes in the scope of consolidation	1,084			1,084
Additions	19,948	85	6,535	26,568
Disposals	208			208
Reclassifications	198	-198		0
Accumulated amortization as of Dec. 31, 2004	**91,127**	**18,359**	**8,527**	**118,013**
Net book value as of Dec. 31, 2004	**290,102**	**105,593**	**51,882**	**447,577**

Intangible assets acquired are recognized at cost less straight-line amortization. The useful life of concessions, copyrights, trademarks, medical dossiers, regulatory drug approvals and software is between 3 and 20 years. Impairment losses are recognized pursuant to IAS 36 wherever indicated by impairment tests. During the period under review, impairment losses on drug approvals and brands in the amount of € 8,658 thousand were recorded.

Goodwill reported under "intangible assets" in the consolidated financial statements amounting to € 105,593 thousand predominantly reflects goodwill arising from the consolidation of equity. These amounts stem from the initial consolidation of subsidiaries included in fiscal years since 1996.

Goodwill has been amortized over a maximum useful life of 20 years up to and including 2003. Starting in fiscal 2004 goodwill and intangible assets with indeterminate useful lives are no longer amortized on a straight-line basis. Instead, they are regularly tested for impairment once a year in the fourth quarter. Additional reviews take place if indications of impairment become apparent. In order to assess recoverability, the carrying amount of each cash-generating unit is determined by ascertaining assets, liabilities and provisions as well as corresponding goodwill. If the recoverable amount of a cash-generating unit is lower than the carrying amount, an impairment loss results. The recoverable amount is defined as the higher of the fair value less costs to sell (IAS prior to 2004: "net selling price") and the value in use (i.e. the present value of estimated future cash flows from the cash-generating unit). The discounted cash flow method is used to determine anticipated cash flows, applying a uniform pre-tax rate of 11.9% throughout the Group and a planning horizon of three years. An inflation-adjusted growth rate of 1.5% has been assumed throughout the Group for the period after the planning horizon elapses.

Impairment tests performed in fiscal 2004 caused goodwill write-downs amounting to approx. € 85 thousand. In all other cases the recoverability of goodwill reported in the consolidated balance sheet could be corroborated by the impairment tests conducted.

Goodwill amortization and write-downs is reported in the income statement under "Other operating expenses."

Development costs of € 2,774 thousand were capitalized in fiscal 2004 (previous year: € 1,685 thousand). Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs and external services, together with a portion of directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life, generally 20 years.

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

3.2. Property, plant and equipment

Property, plant and equipment in € 000s	Land, leasehold rights and buildings including buildings on third-party land	Plant and machinery	Other fixtures and fittings, tools and equipment	Advance payments and construction in progress	Total
Accumulated cost as of Jan. 1, 2004	**45,396**	**35,000**	**32,267**	**306**	**112,969**
Currency translation difference	-16	-54	-44	-1	-115
Additions	1,799	1,566	3,485	175	7,025
Disposals	117	1,239	1,099	67	2,522
Reclassifications		187	34	-203	18
Accumulated cost as of Dec. 31, 2004	**47,062**	**35,460**	**34,643**	**210**	**117,375**
Accumulated depreciation as of Jan. 1, 2004	**12,476**	**22,030**	**16,598**	**0**	**51,104**
Currency translation difference	-1	-10	-25		-36
Additions	1,660	2,630	3,630		7,920
Disposals	112	1,203	961		2,276
Reclassifications					
Accumulated depreciation as of Dec. 31, 2004	**14,023**	**23,447**	**19,242**	**0**	**56,712**
Net book value as of Dec. 31, 2004	**33,039**	**12,013**	**15,401**	**210**	**60,663**

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

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

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

3.3. Financial assets

Financial assets in € 000s	Equity investments available-for-sale	Loans against remaining investments	Other loans	Total
Accumulated cost as of Jan. 1, 2004	16,399	0	51	16,450
Additions	7,474		14	7,488
Disposals	7,839			7,839
Accumulated cost as of Dec. 31, 2004	16,034	0	65	16,099
Accumulated amortization as of Jan. 1, 2004	3,586	0	0	3,586
Additions	0			0
Disposals	3,550			3,550
Accumulated amortization as of Dec. 31, 2004	36	0	0	36
Net book value as of Dec. 31, 2004	15,998	0	65	16,063

Financial assets available for sale are generally reported at market value. Changes in market value attributable to normal share-price volatility are reported under shareholders' equity with no effect on income. In case of permanent reductions in value, an impairment test in accordance with IAS 39 is applied. If the market value of the asset cannot be reliably established, it is measured at acquisition cost less value adjustments. On this basis, equity investments were assigned a carrying amount of € 15,998 thousand as of December 31, 2004. All remaining financial assets (total carrying amount: € 65 thousand; previous year: € 51 thousand) are also recorded at acquisition cost.

The additions during the fiscal 2004 refer to holdings in LipoNova GmbH acquired as part of a strategic partnership in the amount of € 6,776 thousand.

3.4. Non-current trade accounts receivable

in € 000s	Dec. 31, 2004	Previous year
Trade accounts receivable from third parties	923	1,009
Trade accounts receivable from non-consolidated Group companies	4,011	0
Value adjustments vis-à-vis third parties	0	-5
Total	4,934	1,004

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

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

in € 000s	Dec. 31, 2004	Previous year
Receivables due from the tax authorities	37	0
Other	12,907	8,714
Total	**12,944**	**8,714**

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

3.6. Deferred tax assets

in € 000s	Dec. 31, 2004	Previous year
Deferred tax assets	5,033	3,902
Deferred tax assets in accordance with IAS 12.34	4,636	5,776
Total	**9,669**	**9,678**

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

3.7. Inventories

in € 000s	Dec. 31, 2004	Previous year
Raw and auxiliary materials and manufacturing supplies	13,779	18,488
Work in progress	8,927	4,979
Finished goods	182,889	142,435
Advance payments to suppliers	417	748
Total	**206,012**	**166,650**

Inventories are measured at cost. As required by IAS 2, the cost of conversion includes both costs that are directly incurred in production and overheads that can be allocated to the production process, including reasonable depreciation on production facilities. Financing costs are not included. If required, the lower net realizable value is recorded. The carrying amount of inventories recorded at net realizable value is € 24,760 thousand (previous year € 11,460 thousand). Inventory costs are calculated based on weighted average costs. Write-downs on inventories at the balance sheet date amount to € 6,519 thousand (previous year: € 6,621 thousand) and are already reflected in the carrying amount of € 206,012 thousand.

3.8. Current trade accounts receivable

in € 000s	Dec. 31, 2004	Previous year
Trade accounts receivable from third parties	158,680	135,164
Trade accounts receivable from non-consolidated Group companies	2,630	769
Value adjustments vis-à-vis third parties	-2,220	-1,581
Total	**159,090**	**134,352**

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

3.9. Other current assets and prepaid expenses/deferred charges

in € 000s	Dec. 31, 2004	Previous year
Receivables due from the tax authorities	9,401	12,738
Prepaid expenses and deferred charges	3,940	3,317
Other	11,577	7,735
Total	**24,918**	**23,790**

3.10. Current securities

in € 000s	Dec. 31, 2004	Previous year
Securities classified as “held-to-maturity”	6	0
Securities classified as “available-for-sale”	2,783	614
Total	**2,789**	**614**

There were no noteworthy gains or losses from the sale of securities in the 2004 reporting year. Securities classified as available-for-sale relate to shares in two subsidiaries.

3.11. Cash and cash equivalents

in € 000s	Dec. 31, 2004	Previous year
Checks, cash and bank balances	75,775	139,749

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

3.12. Share capital

As of the balance sheet date, share capital consisted of 53,390,820 common shares, each with an arithmetical par value of € 2.60 (prior year: 26,695,290).

The increase in the number of shares in 2004 is almost entirely due to the de facto 1:1 stock split that took place in the year under review and only to a very small extent due to the increase in shares resulting from the initial exercise of options from STADA warrants 2000/2015. STADA executed the de facto 1:1 stock split resolved by the Annual Shareholders' Meeting on June 15, 2004 after close of trading on Friday, July 30, 2004, once the capital measure had been entered into the commercial register.

STADA shareholders received one bonus share for every registered bearer share of restricted transferability they already held (ISIN DE0007251803, WKN 725180). The Company's share capital thereby increased to € 138,816,132.00. As a total of 26,695,410 bonus shares were issued, the number of STADA shares also doubled, arithmetically reducing its share price by half. This capital measure therefore constitutes a de facto 1:1 stock split. The bonus shares created by this capital increase from the Company's own funds were automatically credited to STADA shareholders' custody accounts with a value date of August 2, 2004. Shareholders holding their own shares were requested to effect the credit of the bonus shares to which they were entitled via a bank by submitting profit participation certificate no. 11 as proof of entitlement. The text of the official notification to shareholders was also published on STADA's website, www.stada.de.

On the morning of the first trading day after the conversion – Monday, August 2, 2004 – official trading in STADA's shares (ex scrip) commenced on the basis of half of the closing share price quoted on the last trading day prior to the conversion (Friday, July 30, 2004). The new shares arising from this capital measure carried dividend rights from the beginning of fiscal 2004. The Company assumed responsibility for any payments due to custodian banks.

With effect from August 2, 2004, the following adjustments were made to STADA's bearer warrants maturing in 2015 (ISIN DE0007251845, WKN 725184) in accordance with § 7 (2) of the terms and conditions of the warrants:

1. Each warrant now entitles the holder to subscribe for 20 STADA shares (formerly 10 STADA shares). The option price remains unchanged at € 329.00. The reduced option price remains at € 279.00 for each 20 restricted registered common STADA shares, provided the arithmetic mean of the price of STADA registered shares on the German stock exchange established during the intra-day auction at 1 p.m. in the XETRA® electronic trading system has fallen below the threshold price on the 20 trading days prior to June 26, 2005.
2. The definitive threshold price for the reduced option price is now € 13.95 (previously € 27.90).

Other terms and conditions governing the Company's warrants remain unchanged. The complete and sole legally binding warrant conditions are published on the STADA website www.stada.de.

In the year under review (2004), 12 options were exercised. Since they were exercised in the first quarter of 2004, i.e. prior to the de facto 1:1 stock split, 120 new STADA shares resulted from the warrant conditions applicable at the time and were entered into the register court on July 28, 2004. This means that another 449,970 warrants for the subscription of 8,999,400 in STADA common shares are still outstanding as of the balance sheet date.

Another 34 warrants have been exercised during the first quarter of the current fiscal year, 2005. The number of shares has thereby risen by 680 to 53,391,500 and share capital increased by € 1,768 to € 138,817,900. This means that as of March 1, 2005, 449,936 warrants for the subscription of 8,998,720 in STADA common shares are still outstanding.

In addition, the Annual Shareholders' Meeting on June 15, 2004 authorized the Executive Board to raise new authorized capital and to amend the articles of incorporation accordingly, because almost all of the existing authorized capital has 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. The shareholders' statutory subscription rights may be set aside (a) for fractional amounts as well as (b) in the case of capital increases against cash contributions of up to 10% of the Company's issued capital stock, provided the issue price of the new shares is not lower than the stock exchange price of those shares already quoted on the exchange with the same conditions pursuant to § 203 (1) 1 as well as § 186 (3) 4 of the German Stock Corporation Act (AktG). The Executive Board has not made use of this authorization to date.

The Annual Shareholders Meeting of June 15, 2004, also passed an additional resolution authorizing the Company to purchase treasury shares. STADA made use of this authorization to acquire treasury shares according to § 71 (1) 8 of the German Stock Corporation Act upon the resolution of the Executive Board on November 9, 2004. The shares will be repurchased through the stock market. The authorization states that the price paid by the Company for each share must not be more than 10% above or below the price quoted for the shares in intraday XETRA trading at around 1 p.m. on the trading day in question. Repurchased shares will in future be used for planned acquisitions and as part of the existing employee share ownership program.

As of the reporting date, the Company held 123,169 treasury shares, each with an arithmetical par value of € 2.60. This was equivalent to 0.2% of the share capital. As of December 31, 2003, the Company held 18,685[1)] treasury shares. In 2004, 90,833 shares, each with an arithmetical par value of € 2.60, were purchased (at a cost of € 1,634,044.00) and 5,034 sold (selling price € 87,144.63).

1) Number of shares prior to de facto 1:1 stock split on July 30, 2004.

3.13. Reserves and unappropriated retained earnings

Changes in the capital reserve are shown in the statement of changes in shareholders' equity and include the capital reserve of STADA Arzneimittel AG in accordance with HGB. An equity-to-assets ratio of 62.6% existed at the balance sheet date, December 31, 2004 (previous year: 64.3%).

3.14. Minority interests

Minority interests are reported for the first time as part of shareholders' equity in accordance with the revised version of IAS 1. The previous year's report was adapted accordingly.

3.15. Non-current provisions

Provisions for pensions and similar obligations

in € 000s	Dec. 31, 2004	Previous year
Pension provisions[1)]	12,625	12,126
Provisions for pensions and similar obligations	752	346
Total	13,377	12,472

1) In addition to the above items, a partial amount of € 384 thousand (previous year: € 350 thousand) was recorded in short-term provisions.

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

According to IAS 19, this procedure for determining the net present value of future entitlements requires future salary and pension increases to be included in the calculation, as well as known pensions and entitlements.

Pension provisions refer to individual entitlements for employees of STADA Arzneimittel AG and ALIUD GmbH & Co. KG. Future benefits depend on the duration of employment and amount of pensionable remuneration. Future pension benefits are also subject to individual pension agreements. Percentages contained in individual pension agreements may vary.

in € 000s	Dec. 31, 2004	Previous year
Change in projected benefit obligations		
Balance as of Jan. 1	12,476	9,595
Service cost	488	330
Interest cost	767	588
Actuarial gain (-) / loss (+)	-353	2,328
Benefits paid	-369	-365
Balance as of Dec. 31	**13,009**	**12,476**
Plan assets		
Balance as of Jan. 1	0	0
Balance as of Dec. 31	**0**	**0**
Funded status		
Pension obligations not covered by plan assets as of Dec. 31	13,009	12,476
Unrealized gains / losses	0	0
Net amount recognized at Dec. 31	**13,009**[1)]	**12,476**[2)]

1) Thereof € 12,625 thousand long-term and € 384 thousand short-term.
2) Thereof € 12,126 thousand long-term and € 350 thousand short-term.

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

in € 000s	Dec. 31, 2004	Previous year
Weighted-average assumptions for pension plans		
Discount rate	5.5%	6.0%
Expected return on plan assets	0	0
Rate of compensation increase	2.5%	3.0%
Rate of pension increase	1.25%	2.0%

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

in € 000s	Dec. 31, 2004	Previous year
Service cost	488	330
Interest cost	767	588
Expected return on plan assets	0	0
Actuarial gain (-) / loss (+)	-353	2,328
Net periodic pension cost	**902**	**3,246**

3.16. Non-current financial obligations

in € 000s	Dec. 31, 2004	Previous year
Convertible bonds[1)]	0	73,219
Amounts due to banks	103,109	96,361
Total	**103,109**	**169,580**

1) Since the remaining term of the shares was less than a year as of December 31, 2004, they were reclassified as current financial obligations.

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

3.17. Non-current trade accounts payable

in € 000s	Dec. 31, 2004	Previous year
Trade accounts payable to third parties	879	0

3.18. Other non-current liabilities

in € 000s	Dec. 31, 2004	Previous year
Tax liabilities	19	0
Personnel related liabilities	2,095	0
Other liabilities	208	230
Total	**2,322**	**230**

3.19. Deferred tax liabilities

in € 000s	Dec. 31, 2004	Previous year
Deferred tax liabilities	21,383	12,346

Deferred taxes are the result of accounting differences in the Group's financial statements for management vs. tax purposes, as well as consolidation measures, provided these differences offset each other over time. Deferred taxes are accounted for according to IAS 12 (amended 2000). Under the "liability method" those tax rates will be used that are applicable at the balance sheet date or that have already been resolved and communicated for the future. Further clarification of deferred tax liabilities is contained in note 2.14., "Taxes on income."

3.20. Current provisions

in € 000s	Dec. 31, 2004	Previous year
Provisions for pensions	384	350
Other provisions	2,799	8,051
Total	**3,183**	**8,401**

Other provisions

in € 000s	Dec. 31, 2004	Previous year
Provisions set aside for damages		
Opening balance	**6,349**	**4,190**
Utilized	105	0
Released	6,756	0
Added	1,472	2,159
Currency translation differences	-7	0
Closing balance	**953**	**6,349**
Warranty		
Opening balance	**1,702**	**1,736**
Utilized	1,702	1,719
Released	0	17
Added	1,846	1,702
Closing balance	**1,846**	**1,702**

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

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

3.21. Current financial obligations

in € 000s	Dec. 31, 2004	Previous year
Convertible bonds	75,000	0
Amounts due to banks	4,064	9,016
Total	**79,064**	**9,016**

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

On June 14, 2000, the Company issued a bond with warrants with a nominal value of € 75,000 thousand. The bond is divided into 75,000 bearer bonds at a nominal value of € 1 thousand each. Each individual bond carries six bearer warrants, each with an entitlement to subscribe to one no-par registered common share in STADA Arzneimittel AG.

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

In accordance with IAS 32, the bond issued in 2000 with a nominal value of € 75,000 thousand was divided into shareholders' equity and debt components. Interest on the debt component accrues at the rate of 9%.

Since the remaining term of the shares was less than a year as of December 31, 2004, they were reclassified as current financial obligations.

3.22. Current trade accounts payable

in € 000s	Dec. 31, 2004	Previous year
Trade accounts payable to third parties	72,912	65,217
Trade accounts payable to non-consolidated Group companies	0	35
Advances received on orders from third parties	723	851
Liabilities from outstanding charges	12,576	11,690
Total	**86,211**	**77,793**

3.23. Other current liabilities

in € 000s	Dec. 31, 2004	Previous year
Tax liabilities	17,241	10,258
Personnel related liabilities	12,685	13,700
Other liabilities	41,985	26,818
Total	**71,911**	**50,776**

3.24. Other financial obligations

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

in € 000s	Dec. 31, 2004	Previous year
Rental agreements and leases	47,154	46,033
Other obligations	109,796	54,207
Currency forward hedges	80,516	2,459
Total	**237,466**	**102,699**

Other obligations include a capital guarantee/financial guarantee provided by STADA Arzneimittel AG obligating STADA Arzneimittel AG to provide Bioceuticals AG with sufficient capital to avoid negative share capital and an excessive debt burden. This capital guarantee/financial guarantee is limited to € 25.0 million. The capital guarantee/financial guarantee may also be fulfilled by STADA Arzneimittel AG issuing guarantee bonds in favor of the banks that finance Bioceuticals AG.[1)]

1) As of the balance sheet date, the guarantee was utilized with a bank guarantee of € 5 million.

4. Notes to the Consolidated Cash Flow Statement

4.1. Cash flow (gross)

(Gross) cash flow increased by 3.1% as a result of higher depreciation/amortization (see cash flow statement).

4.2. Cash flow from operating activities

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

Cash flow from operating activities continued to be affected chiefly also in 2004 by expansion-related changes in working capital, climbing by 62.6% to € 38.0 million.

4.3. Cash flow from investing activities

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

In the cash flow statement, the item “Payments for the acquisition of consolidated companies” (€ -9,015 thousand) is the net amount derived from the sum of all consolidated assets of the companies acquired minus their relevant liabilities. The net cash outflow presented reflects the initial consolidation of assets and liabilities of acquired companies. In this context, the term acquisition refers to the purchase of new legal entities or the transition from partial consolidation to full consolidation.

A total of approx. € 42.6 million was used for significant acquisitions (previous year: approx. € 56.8 million). Of this total, approx. € 9.0 million related to investments for the acquisition of consolidated companies (previous year: approx. € 32.2 million). In addition, approx. € 26.8 million (previous year: approx. € 24.6 million) were invested in intangible assets for the acquisition of products and product packages on the market and for the early entry of Mirtazapine. Finally, approx. € 6.8 million (previous year: € 0.0 million) were spent on financial assets in connection with the strategic partnership with LipoNova.

4.4. Cash flow from financing activities

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

Proceeds from capital increases in fiscal 2004 lead to cash inflows of € 5 thousand. Total cash flow from financing activities amounted to € -17,226 thousand.

4.5. Net cash flow for the period

Cash flow for the period – the balance of cash inflows and outflows from operating activities, financing activities and investing activities, as well as from other changes in shareholders’ equity and from currency translation – changed by € 63,974 thousand and resulted in cash and cash equivalents of € 75,775 thousand at December 31, 2004.

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

Payments of income taxes and interest in the 2004 reporting period totaled € 12,452 thousand and € 10,719 thousand, respectively. Receipts from interest-bearing transactions amounted to € 1,417 thousand. The amount of dividends paid during the period under review for the previous year – 2003 – can be seen in the statement of changes in shareholders' equity as of December 31, 2004.

5. Segment Reporting

Segment Reporting (primary) in € 000s

	Core segment Generics		Core segment Branded Products		Core segment Special Pharmaceuticals	
	2004	2003	2004	2003	2004	2003
Income and expenses						
External sales[1)]	608,255	549,149	139,607	135,277	24,742	21,472
Segment earnings / operating profit	59,999	66,240	18,197	12,384	6,525	5,160
Investment income	0	0	0	0	0	0
Interest payments	3,862	3,988	1,544	1,297	107	68
Interest income	1,586	1,515	121	44	10	11
Earnings before taxes	57,723	63,767	16,774	11,131	6,428	5,103
Taxes on income	22,349	26,045	7,343	4,450	2,385	1,972
Net income	35,374	37,722	9,431	6,681	4,043	3,131
Other information						
Segment assets	356,188	331,912[2)]	111,129	103,160[2)]	68,609	68,301[2)]
Liabilities	95,442	81,467	15,045	18,299	20,339	3,190
Capital expenditure	22,771	26,224	7,867	27,319	62	114
Depreciation / amortization	7,747	12,186	4,373	4,063	598	861
Other non-cash expenses	2,976	2,536	98	102	0	0

1) Sales were generated from transactions with other segments for the segments of Generics (€ 26,303 thousand), Branded Products (€ 0 thousand), Special Pharmaceuticals (€ 29 thousand), Commercial Business (€ 108 thousand), and Group holding company / other (€ 217,885 thousand).
2) The comparable amounts for the previous year were adjusted to reflect the inclusion of minority interests in shareholders' equity.

	Commercial business		Group holdings / other		Eliminations within segments		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	32,046	33,990	8,869	5,321	0	0	813,519	745,209
	1,700	1,906	1,423	-115	-5	-8	87,839	85,567
	0	0	401	138	0	0	401	138
	267	363	18,722	18,915	-11,808	-9,744	12,694	14,887
	67	78	12,023	9,377	-11,803	-9,736	2,004	1,289
	1,500	1,621	-4,875	-9,515	0	0	77,550	72,107
	432	670	-3,485	-5,124	0	0	29,024	28,013
	1,068	951	-1,390	-4,391	0	0	48,526	44,094
	3,329	3,370[2)]	90,071	98,077[2)]	0	0	629,326	604,820[2)]
	8,383	6,881	204,287	197,558	0	0	343,496	307,395
	285	941	51,109	21,903	0	0	82,094	76,501
	111	683	21,659	13,292	0	0	34,488	31,085
	193	196	5,378	9,932	0	0	8,645	12,766

Segment Reporting (secondary) in € 000s

Segment information	Sales		Segment assets		Capital expenditure	
	2004	2003	2004	2003	2004	2003
Europe	**743,588**	**675,058**	**575,228**	**547,804**	**76,804**	**76,338**
Belgium	65,221	49,927	50,454	40,579	1,182	677
Denmark	9,054	9,901	7,004	8,047	0	1
Germany	383,074	378,005	296,338	307,234	49,468	34,071
France	53,883	37,777	41,683	30,704	3,234	8,820
UK	31,114	21,891	24,069	17,792	1,903	32
Ireland	13,702	12,496	10,600	10,156	6,781	26,232
Italy	74,276	60,742	57,459	49,369	10,467	2,922
The Netherlands	39,738	42,779	30,741	34,770	716	1,852
Austria	8,189	7,925	6,335	6,441	152	98
Switzerland	5,368	3,792	4,153	3,082	143	77
Spain	44,388	38,289	34,338	31,120	2,659	1,531
Czech Republic	5,394	4,377	4,173	3,558	99	25
Rest of Europe	10,187	7,157	7,881	4,952	0	0
The Americas	**46,086**	**52,561**	**35,651**	**42,720**	**4,786**	**118**
USA	46,028	52,499	35,606	42,670	4,786	118
Rest of the Americas	58	62	45	50	0	0
Asia	**22,522**	**17,356**	**17,423**	**14,106**	**504**	**45**
China	6,644	5,093	5,140	4,139	233	26
The Philippines	4,906	3,760	3,795	3,056	64	14
Thailand	2,698	3,003	2,087	2,441	57	4
Vietnam	5,180	2,951	4,008	2,398	150	1
Rest of Asia	3,094	2,549	2,393	2,072	0	0
Rest of world	**1,323**	**234**	**1,024**	**190**	**0**	**0**

In accordance with the “management approach” of IAS 14, reporting is based on the internal organizational and reporting structure of the STADA Group. The STADA Group’s product portfolio continues to focus primarily on products in the three core segments of Generics, Branded Products and Special Pharmaceuticals that are available without the need for the Group to conduct its own research into new active ingredients.

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

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

Assets and liabilities items are allocated to individual segments by objective criteria. Assets that cannot be allocated are reported in the Group holding company/other segment. In secondary reporting (geographical segments), net sales to third parties made by Group companies in the various national markets are reported for the following regions: Europe, America, Asia and Rest of the world.

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

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

6. Other disclosures

6.1. Events after the balance sheet date

Significant business events that occurred between the end of the fiscal year and the preparation of the financial statements are disclosed in context in the Management Report or the Notes, as appropriate.

6.2. Headcount

Average number of employees in the STADA Group

	Sales / Marketing	Production	Logistics	Development	Administration	Total
2003	1,307	534	159	154	311	2,465
2004	1,388	523	151	174	350	2,586

6.3. Notes to financial instruments

Currency risk – currency futures

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

The hedge transaction conducted as a result of the acquisition of Nizhpharm is recognized as of Dec. 31, 2004 in shareholders' equity as a provision for cash flow hedges in the amount of € -1.7 million.

On behalf of the STADA Group as a whole, STADA Arzneimittel AG employs fundamentally different financial derivatives to hedge assets, liabilities and anticipated future cash flows denominated in foreign currency. In the 2004 reporting year, STADA made particular use of foreign-exchange futures contracts. The maturity dates of futures contracts are selected to match the Company's anticipated cash flows. Generally, however, their terms do not exceed one year.

The following currency hedges were held on the balance sheet date of December 31, 2004: currency futures contracts for hedging Group demand in Swiss francs and U.S. dollars in the amounts of CHF 6.1 million or USD 1.9 million. In addition, the Company held options for currency futures covering USD 2.8 million. These contracts have a total market value of € 5.4 million.

Default risk

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

Interest rate risk

The Company has an exposure to fluctuations in interest rates. A significant share of the interest rate-sensitive assets and liabilities consists of securities, cash and cash equivalents and debt. STADA Arzneimittel AG does not at present hedge these risks with financial derivatives. The balance maintained between the fixed-interest bond with warrants and floating-rate term money borrowings, however, serves to reduce interest-rate risk.

Procurement price risk

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

6.4. Related party transactions

Executive Board and Executive Board remuneration

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

- Hartmut Retzlaff,[1] Chairman and Chief Executive Officer (under contract until March 31, 2008)
- Wolfgang Jeblonski,[2] Chief Financial Officer (under contract until April 30, 2008)
- Dr. Klaus-Peter Reich,[3] Chief Research, Development and Quality Assurance Officer (under contract until December 31, 2006)
- Peter Niemann, Chief Production and Technology Officer (left the Executive Board effective February 28, 2005)

1) Hartmut Retzlaff is also member of the administrative and supervisory boards of HSBC Trinkaus & Burkhardt KGaA and BIOCEUTICALS Arzneimittel AG.
2) Wolfgang Jeblonski is also member of the entrepreneur´s advisory boards of DZ Bank AG and on the advisory board of the Region Mitte of Deutsche Bank AG.
3) Dr. Klaus-Peter Reich is also member of the executive board of BIOCEUTICALS Arzneimittel AG and member of the advisory board of NorBiTec GmbH.

Total remuneration paid to the Executive Board amounted to € 4,095,536.13 for STADA Arzneimittel AG and to € 4,249,449.13 for the Group in 2004. Remuneration of the Executive Board can be broken down as follows: Chairman of the Executive Board € 1,694,339.91 (€ 662,832.56 fixed and € 1,031,507.35 variable); the Chief Production and Technology Officer € 874,473.73 (€ 282,053.73 fixed and € 592,420.00 variable); the Chief Financial Officer € 859,589.83 (€ 267,169.83 fixed and € 592,420.00 variable); and the Chief Research, Development and Quality Assurance Officer € 821,045.66 (€ 228,625.66 fixed and € 592,420.00 variable).

Remuneration for former Executive Board Members who left the company before the closing date is € 119,271.48. Current pension provision for this group amounts to € 1,045,008.00.

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

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

Supervisory Board and Supervisory Board Remuneration

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

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

1) Employee representatives.

2) Uwe E. Flach is also member of the supervisory boards of Andreae-Noris-Zahn AG and Deutsche Börse AG and as well as member of the advisory board of GHP Holding GmbH and chairman of the supervisory board of ORGA Kartensysteme GmbH.

3) Adolf Zissel was elected to the Supervisory Board as employee representative and has belonged to this committee since June 15, 2004. The former employee representative, Reinhard Kraft, departed the Supervisory Board on the day Adolf Zissel joined.

Remuneration of the Supervisory Board is as follows pursuant to § 18 (1) of the statutes: For the relevant fiscal year, in addition to reimbursement of expenses, Supervisory Board members receive a) an annual fixed sum of € 25,000 and b) additional remuneration in the amount of 0.03% of Group earnings before taxes. The Chairman of the Supervisory Board receives triple this amount and his deputy twice the amount. Value added tax must be paid on the remuneration. In addition, Supervisory Board members receive an annual fixed remuneration of € 10,000 for their committee activities for the past fiscal year. The Chairman of a committee receives twice this amount in remuneration. Value added tax must be paid on the remuneration.

Total remuneration of Supervisory Board members amounted to € 431,944.72 during 2004. Remuneration in the Group can be broken down as follows: Chairman of the Supervisory Board, Dr. Eckhard Brüggemann, € 114,064.36 (thereof € 73,750.00 fixed and € 40,314.36 variable); Deputy Chairman of the Supervisory Board, Karl Hertle, € 78,126.25 (thereof € 51,250.01 fixed and € 26,876.24 variable); other members of the Supervisory Board: Dr. Martin Abend € 29,691.99 (thereof € 18,746.41 fixed and € 10,945.58 variable); Heike Ebert € 32,188.12 (thereof € 18,750.00 fixed and € 13,438.12 variable); Uwe E. Flach € 47,604.79 (thereof € 34,166.67 fixed, thereof € 13,438.12 variable); Dr. K.F. Arnold Hertzsch € 32,188.12 (thereof € 18,750.00 fixed and € 13,438.12 variable); Dieter Koch € 32,118.12 (thereof € 18,750.00 fixed and € 13,438.12 variable); and Constantin Meyer € 29,691.99 (thereof € 18,746.41 fixed and € 10,945.58 variable). Supervisory Board member Adolf Zissel, newly appointed as of June 15, 2004, received € 24,411.11 (thereof € 13,611.11 fixed and € 10,800.00 variable) for fiscal 2004. Reinhard Kraft, who departed from the Supervisory Board as of June 15, 2004, received € 6,804.79 (thereof € 4,166.67 fixed and € 2,638.12 variable) in fiscal 2004. Supervisory Board members who departed as of June 24, 2003, received the following amounts: Dr. Claus Jürgen Lang € 2,492.54 (thereof € 0.00 fixed and € 2,492.54 variable) and Eugen Weber € 2,492.54 (thereof € 0.00 fixed and € 2,492.54 variable).

Beyond this remuneration no additional monies or benefits have been granted to members of the Supervisory Board for personally rendered services, in particular for consulting or mediation services, other than in the following case: Supervisory Board member Constantin Meyer received royalty payments in the amount of € 12,554.96.

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

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

6.5. Corporate Governance Code

In accordance with § 161 of the German Stock Corporation Act, the Executive and Supervisory Boards have issued their annual joint declaration of compliance with the German Corporate Governance Code on December 10, 2004. Shareholders are provided with permanent access to this declaration on the Company's website www.stada.de (German website) and www.stada.com (English website). The Company also publishes this declaration in its annual report.

6.6. Dividends

The German Stock Corporation Act specifies that distributable dividends relate to the unconsolidated earnings of STADA Arzneimittel AG as shown in the relevant separate HGB financial statements. STADA Arzneimittel AG's distributable profit as of December 31, 2004, amounted to € 24,034,305.35. The Executive Board recommends that a dividend of € 0.39 per common share be appropriated from distributable profit.

Bad Vilbel, March 14, 2005

H. Retzlaff

W. Jeblonski

Dr. K.-P. Reich

Additional Information

Corporate Governance Declaration

Joint Declaration of the Executive and Supervisory Boards of STADA Arzneimittel AG on Conformity with the German Corporate Governance Code, as required by Section 161 of the German Stock Corporation Act (AktG)

At the time this declaration was submitted, STADA Arzneimittel AG complied with the recommendations of the German Corporate Governance Code in the version of May 21, 2003 (published in the electronic Federal Gazette on July 4, 2003) with the following exceptions:

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

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

Section 5.4.1: Age limit for members of the Supervisory Board

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

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

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

Section 7.1.4: Consolidated financial statements – information about outside companies

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

individual national markets. Transparency for shareholders is adequately guaranteed by detailed segment reporting on each line of business.

Since the most recent declaration of compliance was issued in the fourth quarter of 2003, STADA Arzneimittel AG has complied with the recommendations of the German Corporate Governance Code in the version applicable at the time, with the following exceptions:

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

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

Section 5.4.1: Age limit for members of the Supervisory Board

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

Section 5.4.5: Compensation of Supervisory Board members for serving on committees

Supervisory Board members who belong to committees do not receive any additional compensation for their committee activities.

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

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

Section 7.1.4: Consolidated financial statements – information about outside companies

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

Bad Vilbel, December 10, 2004

Dr. Eckhard Brüggemann
Chairman of the Supervisory Board

Hartmut Retzlaff
Chairman of the Executive Board

Independent Auditor's Report

We have audited the consolidated financial statements prepared by STADA Arzneimittel Aktiengesellschaft, Bad Vilbel, consisting of the balance sheet, statement of income, statement of movements in shareholders´ equity, statement of cash flows and notes, for the business year from 1 January through 31 December 2004. The preparation and contents of the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the company's executive board. Our responsibility is to express an opinion on the consolidated financial statements prepared in accordance with IFRS based on the results of our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing standards and generally accepted standards of audits of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW), as well as in accordance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the consolidated financial statements are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the disclosures in the consolidated financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the executive board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion. In our opinion, the consolidated financial statements, prepared in accordance with IFRS, present fairly the assets and liabilities, financial position, results of operations and cash flows of the group for the year ended December 31, 2004.

Our audit which, in accordance with German auditing standards, also included the group management report prepared by the executive board for the period from 1 January through 31 December 2004, has not led to any reservations. In our opinion, on the whole the group management report, together with other disclosures in the consolidated financial statements, provide a suitable understanding of the position of the group and suitably

present the risks for future development. We also confirm that the consolidated financial statements and the group management report for the business year from 1 January through 31 December 2004 comply with the conditions for exemption from preparing consolidated financial statements and a group management report in accordance with German law.

Frankfurt, March 16, 2005

TREUROG GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

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

Dieter Hanxleden
Wirtschaftsprüfer

Report of the Supervisory Board

Dear Shareholders,

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

In its seven sessions, the Supervisory Board received detailed reports from the Executive Board on all important business transactions and discussed these with the Executive Board. Pursuant to the requirements of the German Corporate Control and Transparency of Companies Act (KonTraG), these discussions focused on such topics as corporate strategy, the situation with regard to the economic environment and health care policy in individual national markets, in particular the effects of the German law on modernizing the public health insurance system ("GKV-Modernisierungsgesetz" or "GMG") in Germany, developments in market structures and competition, capital measures during 2004 (de facto 1:1 stock split and start of share buyback), STADA's international expansion, market and sales data, investment projects, cost and earnings development within the Group, corporate governance issues as well as risk and reward management. Particularly close attention was paid to all of STADA's proposed acquisitions, especially the acquisition of the Russian pharmaceutical company Nizhpharm. In addition, the Supervisory Board received a monthly written report on business trends and results in individual segments. All matters requiring the consent of the Supervisory Board in accordance with the articles of incorporation and rules of procedure were submitted to the Supervisory Board. The Executive Board at all times provided the Supervisory Board with frank, comprehensive information on the Company and its development. Regular additional meetings of the Executive Board with the Chairman of the Supervisory Board contributed to this too.

The Supervisory Board has satisfied itself that the Company is being properly managed. The financial statements of STADA Arzneimittel AG and the consolidated financial statements as well as the Company's management report for fiscal 2004 have been audited by TREUROG GmbH, Wirtschaftsprüfungsgesellschaft, Frankfurt, and issued with an unqualified audit opinion.

The auditor attended the financial statements review meeting of the Supervisory Board on March 29, 2005 and presented a report on his audit findings.

The financial statements, the management report and the proposal for the appropriation of profits were considered by the Supervisory Board. No objections were raised. The Supervisory Board therefore approved the outcome of the audit. The financial statements were thus adopted.

In 2004, STADA was subjected to an extremely difficult regulatory framework – as, incidentally, were all generics companies operating in Germany – resulting from the law on reforming the public health care system.

It is therefore all the more pleasing to see, at the end of the fiscal year, that STADA Group sales and net income have increased nevertheless. This success is the result of the commitment and performance of the employees and the Executive Board as well as the management. The Supervisory Board wishes to express its gratitude for and recognition of these achievements.

Bad Vilbel, March 29, 2005

Dr. Eckhard Brüggemann
Chairman of the Supervisory Board

Board Members

The Executive Board

(as of March 1, 2005)

Hartmut Retzlaff

Chairman

At STADA since 1986

Executive Board member since 1993

Chairman of the Executive Board since 1994

Contract until March 31, 2008

Dipl.-Kfm. Wolfgang Jeblonski
Finance

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

Dr. Klaus-Peter Reich
Research, Development
and Quality Assurance

At STADA since 1996
Executive Board member since 2003
Contract until December 31, 2006

The Supervisory Board

Dr. med. Eckhard Brüggemann, Herne (Chairman)

Karl Hertle[1)], Bad Vilbel (Deputy Chairman)

Dr. Martin Abend, Dresden

Heike Ebert[1)], Niddatal

Uwe E. Flach, Frankfurt am Main

Dr. K. F. Arnold Hertzsch, Dresden

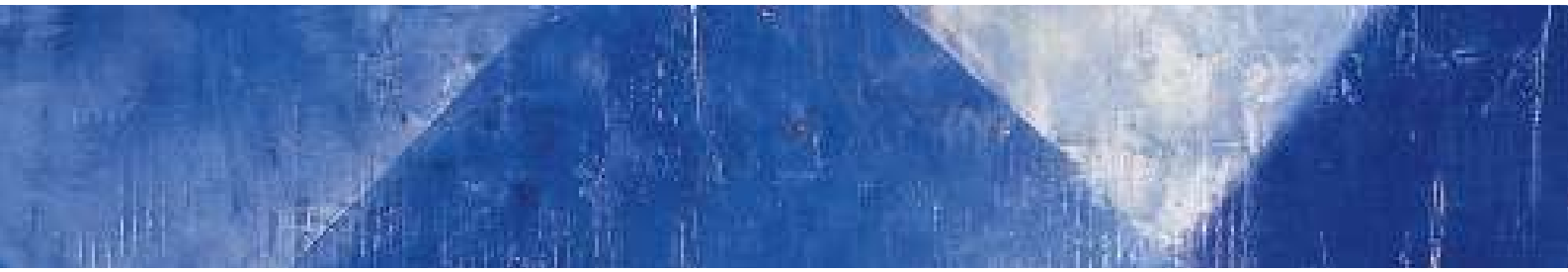
Dieter Koch, Dänischenhagen

Reinhard Kraft[1)], Friedberg (until June 15, 2004)

Constantin Meyer, Seelze

Adolf Zissel[1)], Bad Nauheim (since June 15, 2004)

1) Employee representative.



The Advisory Board

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

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

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

Red & Blue –
The Visual Concept of the Annual Report

STADA´s Corporate Identity as Envisioned by Artist Susanne Tack

German artist Susanne Tack has created a series of paintings inspired by red and blue – the principal colors of STADA's corporate identity. Susanne Tack was born in Rheda, Westphalia, in 1954. From 1994 to 1998, she studied art and painting at Ottersberg College near Bremen, and in 2001 the gallery Tack und Becker was opened.

Susanne Tack sees a magical attraction in the contrasting colors red and blue. In her view, red represents life, energy, emotionality, warmth, and security, but also aggression. Blue represents rationality, coolness, calm, and clarity.

These colors are reflected in the paintings that STADA commissioned Susanne Tack to create for the relocation to the new administrative building. Each of the paintings is unique and is intended to exude a special kind of magic. This is why the series has been called STADA MAGIC ARTWORKS.

Referring to the paintings, Susanne Tack says:

"One of my special interests as a painter is color-field painting, a genre with a long tradition that is used as a means to directly express color and surface. The creation of the paintings for STADA was an exciting assignment and I hope my paintings contribute to a friendly and creative work environment at the Company's headquarters. I'm pleased that STADA decided to incorporate my paintings in the graphic design of the 2004 annual report and this confirms the acceptance of my art."

Breath of air

Looking back 2

Red energy

Northern constellation

Green balance

Looking back 1

Floating

Geometric Transformation

Colourfield variation

Glossary from A to Z

Alphabetical sorting may differ in English translation from the German original.

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

ANDA approval: Abbreviated New Drug Application; special FDA approval procedure for generics in the U.S.

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

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

BfArM: The Federal Institute for Drugs and Medical Products, the German federal regulatory authority charged with evaluating and approving drugs and medical products.

Bioequivalence: Comparison of blood levels between drugs with identical active ingredients, e.g. generics and initial supplier products.

Biogenerics: Generics with biopharmaceutical products.

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

Bio-study: Clinical study on health test subjects to prove the bioequivalence of drugs having identical active ingredients.

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

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

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

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

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

Cost bearer: The person or institution bearing costs of a drug.

Data exclusivity period: Prior to the end of this period, a second supplier taking part in an EU approval process may not use documentation that was submitted by the initial supplier regarding the efficacy and safety of an active ingredient.

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

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

EMEA: European Medicine Evaluation Agency, central EU authority for drug evaluation and approval.

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

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

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

GKV market: Market segment in the German pharmaceutical market in which costs for prescribed drugs are borne by the public health care system (GKV).

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

GMP: Good Manufacturing Practice – international production standard in the pharmaceutical industry.

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

Indication: Diseases for which a certain drug is used.

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

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

Manufacturing permit: Permit required under law for the manufacture of drugs; specific facilities and personnel resources and organization of production operations are stipulated.

MR procedure: Mutual Recognition Procedure – European approval procedure enabling additional approvals in other EU countries based on the prior existence of national approval of a particular drug.

Multiple ownership: In the pharmaceutical market: the legal entitlement allowing individuals to own more than one pharmacy so that pharmacy chains can be formed through the combination of minority interests. In Germany, multiple ownership of pharmacies is legally restricted to a maximum of four pharmacies for each pharmacist.

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

NDA approval: New Drug Application, special FDA approval procedure for drugs with new active ingredients, new active ingredient combinations, new indications or new application methods for active ingredients or drugs already approved in the U.S.

Non-pharmacist ownership: In the pharmaceutical market: the legal entitlement allowing non-pharmacists to own pharmacies. In combination with multiple ownership, non-pharmacist ownership enables the creation of chains of pharmacies. Non-pharmacist ownership is not legal in Germany.

Oncology products: Cancer therapy products.

Orphan Drug: A drug for the treatment of a rare disease. In accordance with EU law, orphan drugs must undergo a centralized approval process at the EMEA, the European drug-approval agency. Once approval has been granted, the drugs have guaranteed market exclusivity for at least 6 years.

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

OTX products: These are OTC drugs that were reimbursed in the past by the public health care system if prescribed by a doctor.

Patent: Commercial property right granting active ingredients market exclusivity, the length and extent of which varies from country to country.

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

Pharmacy-only drugs: Drugs that may be dispensed only via pharmacies pursuant to legal requirements related to their risk potential.

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

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

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

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

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

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

Subsequent approval: Procedure for the review of drugs in Germany that were already on the market in 1976 when the Pharmaceutical Act came into effect. Applications for subsequent approvals for these products were required to be submitted no later than April 30, 1990. Subsequent approval has still not been completed for some drugs; these so-called “Alt-Arzneimittel” are still in circulation on the basis of the interim regulations.

Therapeutics Advertising Act: This legislation controls drug advertising in Germany.

Transdermal therapeutic systems (TTS): Medical patch containing active ingredients which act transdermally (through the skin), allowing controlled systemic delivery throughout the body.

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

Geometric Transformation

Publishing Information

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Publication
The complete annual report as well as current information on the STADA Group can be found on the Internet at www.stada.de. A short version of this annual report is distributed to the shareholders in the form of the management report.

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Forward-looking statements

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

Rounding

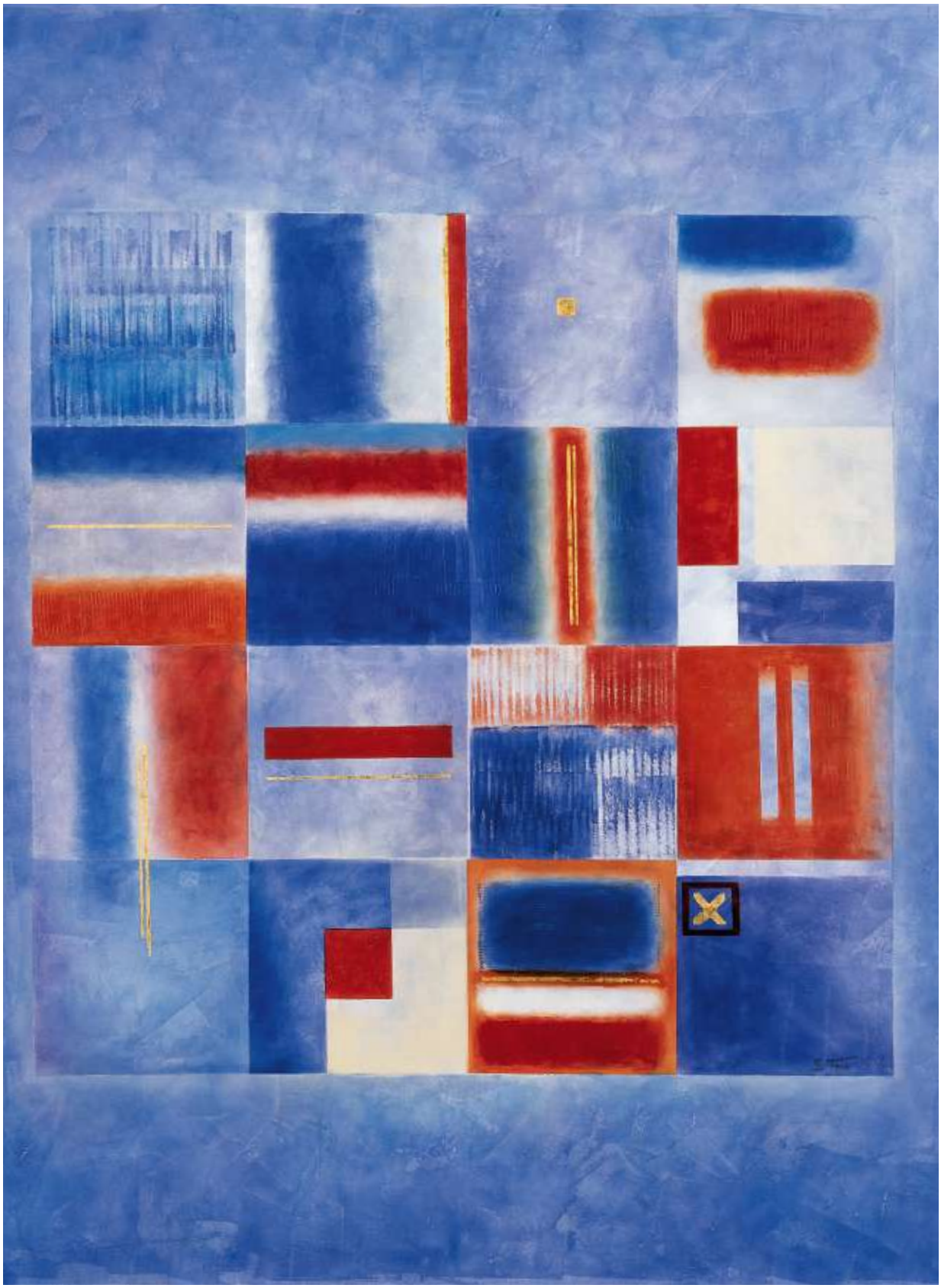
In the general portion of this annual report, STADA key figures are, as a rule, rounded to millions of euro, while the Notes present these figures with greater accuracy in thousands of euro. Due to rounding of these figures, differences may arise in individual figures between the general portion and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

Financial Calendar

2005	March 30, 2005	Publication of 2004 results with press and analysts' conference
	May 12, 2005	Publication of Q1/2005 results
	June 14, 2005	Annual Shareholders' Meeting
	August 11, 2005	Publication of 2005 interim results with press and analysts' conference
	November 10, 2005	Publication of Q3/2005 results
2006	March 30, 2006	Publication of 2005 results with press and analysts' conference
	May 15, 2006	Publication of Q1/2006 results
	June 14, 2006	Annual Shareholders' Meeting
	August 10, 2006	Publication of 2006 interim results with press and analysts' conference
	November 14, 2006	Publication of Q3/2006 results

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

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



Colourfield variation

Five-year Consolidated Financial Summary

Group sales in € million	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001	HGB 2000
Total Group sales	813.5	745.2	633.5	537.8	467.2
Core segment sales, total	772.6	705.9	572.0	425.3	350.4
• Generics	608.3	549.1	444.5	326.0	261.0
• Branded Products	139.6	135.3	107.6	83.3	76.8
• Special Pharmaceuticals	24.7	21.5	19.9	16.0	12.6
Commercial sales	32.0	34.0	54.9	106.5	113.7
Other	8.9	5.3	6.6	6.0	3.1

Sales by region[1] in € million	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001	HGB 2000
Europe	743.6	675.1	569.0	520.0	452.8
• Belgium	65.2	49.9	39.2	37.5	24.4
• Denmark	9.1	9.9	7.3	4.4	4.2
• Germany	383.1	378.0	330.8	280.7	236.6
• France	53.9	37.8	23.1	11.6	10.9
• UK	31.1	21.9	11.8	10.3	11.3
• Ireland	13.7	12.5	10.5	11.0	9.7
• Italy	74.3	60.7	37.5	13.1	3.3
• The Netherlands	39.7	42.8	70.6	135.7	140.8
• Austria	8.2	7.9	5.5	4.0	2.9
• Switzerland	5.4	3.8	3.0	2.2	0.8
• Spain	44.4	38.3	21.6	1.4	0.8
• Czech Republic	5.4	4.4	4.0	4.9	4.8
• Rest of Europe	10.2	7.2	4.1	3.2	2.3
The Americas	46.1	52.6	48.8	7.4	7.1
• USA	46.0	52.5	48.4	7.2	6.9
• Rest of the Americas	0.1	0.1	0.4	0.2	0.2
Asia	22.5	17.3	15.6	10.3	7.3
• China	6.6	5.1	5.8	1.9	1.4
• The Philippines	4.9	3.8	3.6	3.1	–
• Thailand	2.7	3.0	2.9	4.0	4.2
• Vietnam	5.2	2.9	1.8	0.8	0.8
• Rest of Asia	3.1	2.5	1.5	0.5	0.9
Rest of world	1.3	0.2	0.1	0.1	–

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

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

Financial results in € million	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001	HGB 2000
EBITDA	122.7	116.8	96.5	74.9	54.2[1]
EBIT	88.2	85.7	73.2	54.7	39.5[1]
EBT	77.6	72.1	61.0	47.8	33.4[1]
Net income	48.5	43.9	35.1	24.7	18.4[2]
Cash flow (gross)	81.3	78.8	62.5	40.7	36.1

1) Before extraordinary expenses for capital measures of € 3.571 million.

2) Before extraordinary expenses for capital measures of € 3.571 million and taking into account the German tax rate.

Asset & capital structure in € million	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001	HGB 2000
Total assets	1,020.4	955.1	741.0	476.7	403.3
Equity capital	639.0	614.5	324.1	232.0	209.0
Equity-to-assets ratio in percent	62.6%	64.3%	43.7%	48.7%	51.8%
Net debt	103.6	38.2	226.5	93.6	70.4

Capital expenditure / depreciation & amortization in € million	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001	HGB 2000
Total capital expenditure	82.1	76.5	185.9	56.6	39.3
• on intangible assets	67.6	64.9	163.7	44.1	18.0
• on property, plant and equipment	7.0	11.2	20.5	12.1	17.6
• on financial assets	7.5	0.4	1.7	0.4	3.7
Total depreciation and amortization	34.5	31.1	23.3	20.1	14.9
• on intangible assets	26.6	23.4	16.2	13.5	8.9
• on property, plant and equipment	7.9	7.7	7.1	6.6	5.8
• on financial assets	0.0	0.0	0.0	0.0	0.2

Employees	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001	HGB 2000
Average number of employees[3] per year	2,586	2,465	2,083	1,793	1,515

3) Employees of companies consolidated at only 50% have since 2003 been included in accordance with their respective consolidation rate. The figures for the previous year were adjusted accordingly.

Key figures per share	IFRS 2004	IFRS 2003	IFRS 2002	HGB 2001	HGB 2000
Market capitalization (year-end) in € million	1,061.9	1,312.9	766.5	730.4	422.0[4]
Year-end closing price of common shares in €	19.89	24.59[5]	19.15[5]	19.50[5]	11.77[5]
Basic earnings per share in €[6]	0.91[5]	1.01[5]	0.92[4][5]	0.69[4][5][7]	0.57[4][5][7]
Diluted earnings per share in €[8]	0.88[5]	0.95[5]	0.90[4][5]	–	–
Dividend per common share in €	0.39[9]	0.35[5]	0.325[5]	0.295[5]	0.245[5]
Total dividend payments in € million	20.9[9]	18.7	13.0	11.0	8.6[4]

4) Common shares plus preferred shares.
5) Adjusted for de facto 1:1 stock split on July 30, 2004.
6) According to IAS 33.10.
7) According to DVFA.
8) According to IAS 33.24.
9) Proposed.

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