STADA
Arzneimittel

The Health Company

Q2/2006

Report on the First Six Months of 2006

STADA DEVELOPMENT AT A GLANCE

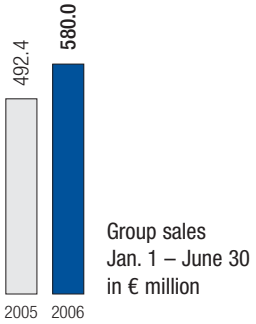
- Strong Group growth continues in the first half of 2006: sales +18% and net income +32%
- Current takeover bid for Hemofarm: largest acquisition in company history
- Approval documents for Erythropoietin biosimiliar submitted as planned
- Sale of sales companies in the USA and Switzerland
- Robust growth course with stronger increase in operating earnings than in sales to be continued

Key figures for the Group from Jan. 1 – June 30 in € million	2006	2005	± %
Group sales	580.0	492.4	+18%
Group sales in core segments, total	543.8	469.8	+16%
• Generics	403.4	350.8	+15%
• Branded Products	127.5	106.7	+20%
• Specialty Pharmaceuticals	12.9	12.3	+5%
Operating profit	74.7	55.9	+33%
EBITDA (Earnings before interest, taxes, depreciation and amortization)	103.9	77.6	+34%
EBIT (Earnings before interest and taxes)	74.9	55.9	+34%
EBT (Earnings before taxes)	69.1	50.8	+36%
Net income[1]	42.2	32.0	+32%
Cash flow (gross)	72.3	54.6	+32%
Equity capital (June 30)	705.9	661.8	+7%
Capital expenditure	37.2	136.9	-73%
Depreciation/amortization	29.0	21.7	+34%
Average number of employees (Jan. 1 – June 30)	3,999	3,903	+2%

Key share figures Jan. 1 – June 30	2006	2005	± %
Market capitalization in € million (as of June 30)	1,671.7	1,604.8	+4%
Closing price (XETRA®) in € on June 30	31.18	30.05	+4%
Average number of shares not including own shares (Jan. 1 – June 30)	53,422,444	53,272,047	0%
Basic earnings per share in €[2]	0.79	0.60	+32%
Diluted earnings per share in €[3]	0.73	0.56	+30%

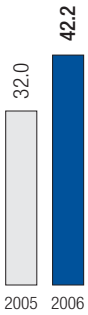
1) Unless otherwise stated, "net income" in this half year report refers to income attributable to the shareholders' stake in STADA Arzneimittel AG, which under IFRS represents the basis for calculating earnings per share and diluted earnings per share.

2) In accordance with IAS 33.10.
3) In accordance with IAS 33.31.



Group sales
Jan. 1 – June 30
in € million

Operating profit
Jan. 1 – June 30
in € million



Net income
Jan. 1 – June 30
in € million

Strong growth in sales

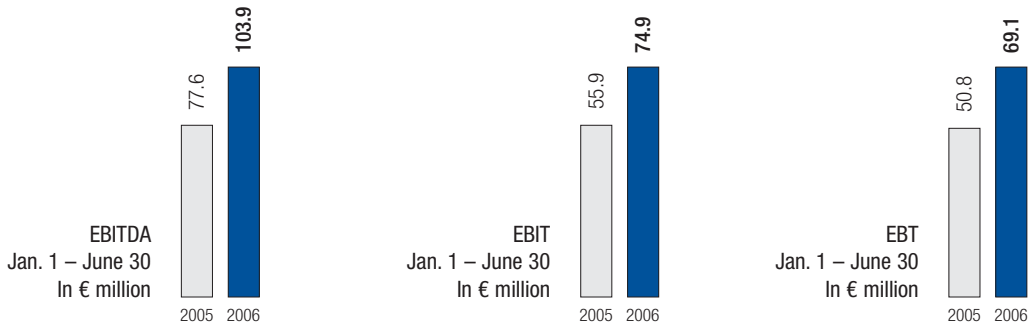
STADA's **Group sales** rose in the first half of 2006 by 18% to € 580.0 million (first half of 2005: € 492.4 million). The acquisition-related effects included in these figures – through the staggered first time inclusion of product sales in the current fiscal year from the acquisition of the SANKYO product package in the fourth quarter of 2005 – amounted to € 11.2 million or 2 percentage points. **Organic sales growth** in the reporting period thus amounted to 16%.

Sales in the largest core segment **Generics** (share of Group sales 69.5%) increased in the first six months of 2006 by 15% to € 403.4 million (first half of 2005: € 350.8 million). The second largest core segment **Branded Products** (share of Group sales 22.0%) was able to increase sales in the first half of 2006 by 20% to € 127.5 million (first half of 2005: € 106.7 million). The first time inclusion of the SANKYO product package also contributed to this positive development with 11 percentage points. The smallest core segment **Specialty Pharmaceuticals** (share of Group sales 2.2%) recorded a sales increase of 5% to € 12.9 million in the reporting period (first half of 2005: € 12.3 million.)

STADA's **international business activities** grew by 20%, again increasing at a stronger rate in comparison with the Group's overall sales. In the first six months of the current fiscal year, sales outside Germany thus had a share of Group sales of 56.9% (first half of 2005: 55.9%).

Clear increase in net income

On the basis of the strong sales development and continuous cost optimization, particularly in the areas of procurement and production as well as sales and marketing, the earnings situation of the STADA Group continued to develop pleasingly in the first half of 2006.



Net income was able to be increased in the reporting period by 32% to € 42.2 million (first half of 2005: € 32.0 million) and thereby clearly stronger than sales growth. Earnings per share[1)] thus totalled € 0.79 (first half of 2005: € 0.60). EPS diluted[2)] amounted in the first six months of 2006 to € 0.73 (first half of 2005: € 0.56).

The other key **earnings** figures also presented clear increase rates in the first half of 2006. Operating profit rose in the reporting period by 33% to € 74.7 million (first half of 2005: € 55.9 million). Earnings before tax (EBT) increased by 36% to € 69.1 million (first half of 2005: € 50.8 million). Earnings before interest and taxes (EBIT) recorded an increase by 34% to € 74.9 million (first half of 2005: € 55.9 million). Earnings before interest, taxes, depreciation, and amortization (EBITDA) grew by 34% to € 103.9 million (first half of 2005: € 77.6 million).

Thus, the following sales-related margins resulted: operating margin 12.9% (first half of 2005: 11.4%), EBIT margin 12.9% (first half of 2005: 11.4%), EBT margin 11.9% (first half of 2005: 10.3%) and net margin 7.3% (first half of 2005: 6.5%). STADA thus became significantly more profitable in the first half of 2006 in comparison with the corresponding period in the previous year.

Earnings from the second quarter of 2006 include burdening one-time special effects of € 6.1 million. This is unscheduled depreciation on intangible assets. Together with the already known one-time special effects from the first quarter of 2006 amounting to a total of € 5.8 million for unscheduled depreciation as well as compensation payments, thus one-time burdens of earnings before taxes for the first half of the current fiscal year result in a total of € 11.9 million. The one-time special effects from the first half of 2005 had burdened earnings before taxes at that time by € 6.8 million.

1) According to IAS 33.10 the average of own shares held are not considered in the earnings per share (EPS) calculation. Calculation of earning per share is thereby based on an average of 53,422,444 outstanding shares as of June 30, 2006 (corresponding number of outstanding shares as of June 30, 2005: 53,272,047).

2) According to IAS 33.31.

The operating results of the core segments presented the following development in the first six months of the current fiscal year: **Generics** rose by 29% to € 58.9 million (first half of 2005: € 45.5 million), **Branded Products** showed – among other things, due to initial consolidation effects from the acquisition of the SANKYO product package in the fourth quarter of 2005 – a rise of 21% to € 23.4 million (first half of 2005: € 19.4 million) and **Specialty Pharmaceuticals** recorded an increase of 100% to € 2.6 million (first half of 2005: € 1.3 million).

The operating profit margins of the individual core segments thus resulted in the following figures: **Generics** 14.6% (first half of 2005: 13.0%), **Branded Products** 18.4% (first half of 2005: 18.2%) and **Specialty Pharmaceuticals** 20.2% (first half of 2005: 10.6%).

Current takeover bid for Hemofarm: largest takeover in company history

STADA is to completely take over the Serbian Pharmaceuticals Group Hemofarm a.d., Vrsac, Serbia. To this end, in the current third quarter, STADA has, in Serbia, on July 14, 2006, submitted a public takeover offer to the Commission for Securities of the Republic of Serbia for all 3.3 million shares of the company which has been listed on the stock exchange in Belgrade since 2002. Hemofarm's management has welcomed STADA's takeover offer.

Within the framework of this takeover offer, STADA has offered CSD 12,345 (at the date of the announcement approx. € 146.97) for each Hemofarm share. This corresponds to a total purchase price for 100% of Hemofarm's shares of approx. CSD 40,739 million (at the date of the announcement approx. € 485 million). STADA will finance the acquisition via existing credit lines.

The execution of the takeover offer still partially requires the approval of the responsible anti-trust authorities. The takeover offer is only valid if a minimum of 67% of the shares are sold to STADA within the framework of the public takeover offer. STADA has reached contractual agreements with various shareholders, including institutional investors as well as members of Hemofarm's management, under which they will sell their shares to STADA within the framework of this takeover offer. It has thus been contractually agreed that STADA will have access to at least 59% of Hemofarm's shares.

Because the time limit for this takeover bid expires on August 9, 2006, i.e. on the evening prior to the publication of this interim report, no final statement can yet be made in this report on the validity of the bid; STADA assumes, however, that the bid will be valid and that STADA can, already in the current third quarter of 2006, achieve a position as majority shareholder of Hemofarm. Should STADA, within the framework of this takeover offer, be able to acquire at least 95% of Hemofarm's shares, STADA will strive, from today's perspective, within the frame-work of a squeeze-out procedure under Serbian law, to also acquire the remaining shares and so to achieve 100% ownership of Hemofarm.

Hemofarm is an important East-European generics supplier. In 2005, Hemofarm increased its sales in the local currency by approx. 30% to CSD 17,261.2 million (at the date of the announcement approx. € 205.5 million). In the same period, net income including minority interest in the local currency rose by approx. 89% to CSD 2,289.9 million (at the date of the announcement approx. € 27.3 million). The management of Hemofarm expects to continue with Hemofarm's growth course also in the future.

The sales focus of Hemofarm is in Eastern Europe. In the home market of Serbia, as well as in Montenegro, Hemofarm is the clear market leader in the individual national pharmaceutical markets; in 2005, in these two markets, a total of 62% of Hemofarm's sales were achieved. Further important local East-European markets for Hemofarm are the CIS countries, in particular Russia, as well as Bosnia and Herzegovina and Romania. In 2005, Hemofarm was represented world-wide by 27 subsidiaries in 11 countries and employed 3,625 people as per the end of 2005. The company currently has 5 production locations in various East-European countries.

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

Regional developments in the STADA Group

In **Germany**, which continues to be STADA's biggest national market, sales rose in the first half of 2006 by 15% to € 250.1 million (first half of 2005: € 217.2 million). The share of the German market of Group sales thus amounted to 43.1% in the reporting period (first half of 2005: 44.1%). At the same time, sales in the Generics segment in Germany rose by 17% to € 183.7 million (first half of 2005: € 157.4 million).

In the reporting period, namely on May 1, 2006, the Economic Optimization of Pharmaceutical Care Act (AVWG) took effect in Germany. The market segment for prescription generics (Rx generics), in particular, is thus subject to significant and complex regulatory changes.

On the one hand, regulations such as an additional mandatory discount of 10% of the ex-factory price for products in the generics market which are distributed at the expense of the public health care system (so-called "generics rebate"[1]) as well as the AVWG-conditioned reduction of reference prices and the associated new regulations on patient co-payments[2] (effective July 1, 2006), lead to significant earnings burdens. On the other hand a comprehensive ban on discounts outside of the drug price regulation leads to considerable earnings improvements and

1) The 10% mandatory generics discount does not apply as soon as a product is reduced to a price that is at least 30% below the reference price; as of January 1, 2007, each further price reduction of a product will be deducted from this mandatory discount. From this detail regulation of the AVWG, which took effect retroactively from April 1, 2006, STADA expects, from today's perspective, an annual burden of up approx. € 21.4 million.

2) According to a regulation provided by the AVWG, health insurance organizations can exempt patients from co-payments for generics with a price that is at least 30% below the reference price when overall savings can be achieved by doing so. Currently, the health insurance organizations have applied this exemption possibility to 79 active ingredients.

additional earnings. From today's perspective, the effects of other AVWG regulations, such as regulation of advertising opportunities for pharmaceutical companies in doctor's practice software or the introduction of bonus/malus regulations relating to the prescription volume of the individual doctor remain unclear.

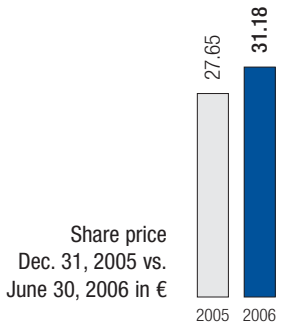
One temporary effect of the AVWG are the sales peaks that occurred in April of the current fiscal year. With a view to the AVWG discount ban starting on May 1, 2006, pharmacies and wholesalers stocked up on prescription generics (Rx generics) far beyond the usual extent. In May and June 2006 these inventories in the commercial channel then triggered, as expected, the countering, i.e. sales burdening effect in the affected product assortments. From today's standpoint it cannot be ruled out that this effect will still partly be noticeable in the third quarter of 2006.

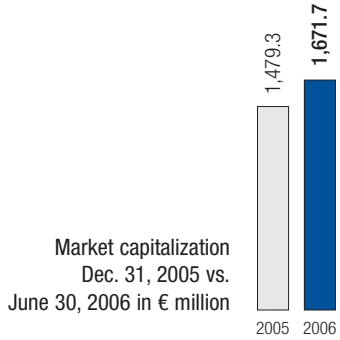
As of July 1, 2006, the two German generic lines in the STADA Group, STADApharm and ALIUD Pharma, carried out significant price reductions. This affects primarily price reductions that were already part of STADA's corporate plans and are aimed at detailed regulations of the AVWG. Their earnings effects are anticipated to be compensated to a considerable extent by the AVWG discount ban.

An assessment of the effects of the AVWG on STADA can still only be made on a preliminary basis because it depends for the most part on the competitive reactions of numerous market participants such as, for example, pharmacists, doctors, wholesalers, health insurance organizations and competitors. Of major importance here is how, over the long-term, the price reaction of the competition to the current regulatory interventions turns out.

Overall, from today's perspective, STADA still does not assume that the effects of the AVWG in the current fiscal year could lead to an adjustment of the Group's prognosis. However, it remains to be seen over the course of the year whether the regulatory interventions in their practical application will actually show the expected, and thus for STADA in balance manageable, effects.

A further comprehensive health care reform is currently being discussed in Germany in which the focus, in particular, should be on the financing of the system. According to a so-called framework study which was published in July, 2006, among other things, the financial strength of the German health care system should be improved through an increase in contributions and, from 2008, through tax subsidies. It is also planned to reorganize the distribution of resources to health insurance organizations within the framework of a fund model with a fixed per capita rate.
In addition, competitive structures should be strengthened in all organizational and health care forms of the health





care system. In the pharmaceutical area, for example, measures are planned against pseudo-innovations as well as additional savings clauses for direct contractual price agreements between health insurance organizations, individual service providers and suppliers. A first draft legislation is to be put forward in the current third quarter of 2006; politically, the passing of the reform into law is being strived for on January 1, 2007. The complex effects of this planned reform will depend, for the most part, on the final detailed formulation and the competitive reaction to it and can therefore not be accurately assessed at this point in time. Overall, from today's perspective, STADA expects, notwithstanding this reform, however it turns out in detail, that the company can continue the Group's worldwide long-term growth course.

Outside of Germany, the following national markets in particular showed pleasing developments in the first half of 2006: In **Italy** sales rose by 17% to € 49.7 million (first half of 2005: € 42.4 million). In **Russia** sales increased in local currency by 43% to RUB 1,231.7 million (first half of 2005: RUB 860.6 million) and in Euro by 51% to € 36.3 million (first half of 2005: € 24.1 million). In **Belgium** sales grew by 14% to € 50.8 million (first half of 2005: € 44.5 million). In **Spain** STADA presented a sales rise of 14% to € 31.4 million (first half of 2005: € 27.5 million).

In **France** STADA recorded – due to regulatory-related price reductions as of February 1, 2006 – a sales decrease of 5% to € 32.4 million in the first six months of the current fiscal year (first half of 2005: € 34.1 million). These price reductions have also significantly burdened the margin situation in the French business.

In **Switzerland**, Group-consolidated local sales rose in the first half of 2006 by 41% to € 4.2 million (first half of 2005: € 3.0 million).

As is known, STADA held here a 50% stake in the Swiss generics supplier Helvepharm AG. For sales strategy reasons STADA separated from this stake as of July 1, 2006 and thereby achieved a book profit expected at approx. € 1 million[1] from a selling price of € 2.5 million for 50% of the shares.

As a result STADA will initially be able to realize only license and export sales in Switzerland in the future; in the mid-term, however, STADA's own sales company remains a business policy option in this national market.

In the **USA** sales decreased in the first half of 2006 in local currency by 19% to US-$ 16.3 million (first half of 2005: US-$ 20.1 million) and in Euro by 16% to € 13.2 million (first half of 2005: € 15.8 million). The local STADA sales company continued – like other small suppliers too – to be massively affected by the continuing price and margin pressure in the US pharmaceuticals market.

In the face of the significant loss situation of the US business that has existed for several quarters, the Group decided to sell this business. For this purpose, on July 13, 2006 STADA Arzneimittel AG concluded a contract for the sale of its entire stake in its wholly-owned subsidiary STADA Inc., Cranbury, New Jersey, USA to DAVA Pharmaceuticals Inc., New Jersey, USA. According to this contract, the sale can be expected to be closed within the current third quarter 2006.

The proceeds from the sale, including all inventories, amounts to a balanced total of approx. US-$ 40 million or approx. € 31 million. The agreement calls for a staggered payment of the purchase price until 2009 which is covered by bank guarantees. DAVA is to pay STADA approx. US-$ 5 million on the closing date, a further US-$ 15 million after 18 months and finally, US-$ 20 million after 36 months. Depending on the balance sheet structure given at closing, as well as the exchange rate relevant at that time, STADA currently expects a selling loss from the deconsolidation of approx. € 10 million before taxes or approx. € 5 million after taxes.

With the sale, STADA has executed a complete withdrawal from the US business, since all necessary drug approvals, approval applications, brand names, development projects as well as existing inventories were transferred to STADA Inc. by different STADA Group companies and were thus – together with the local sales subsidiary STADA Pharmaceuticals Inc. – also sold. STADA's now sold US business, with sales of € 13.2 million in the first half of 2006, contributed only 2.3% of Group sales.

1) Depending on the yet to be audited financial statements.

DAVA can use the acquired company's current name for a further six months. The contractual agreements also call for STADA's Irish subsidiary, STADA Production Ireland Ltd., to take on contract manufacturing for some former STADA Pharmaceuticals Inc. products for a period of five years.

Thereby, STADA will initially be able to realize only low export sales in the USA in the future; however, in the mid-term under better general conditions STADA's own sales company remains a potential business policy option in this national market too, in which case the sales experience now gathered in the US business will be taken into account appropriately.

In **Asia** STADA increased sales in the first six months of 2006 by 100% to € 26.0 million (first half of 2005: € 13.0 million). Sales in the **Philippines** with growth of 10% to € 3.4 million (first half of 2005: € 3.1 million) and in **Vietnam** with a sales rise of 419% to € 15.8 million (first half of 2005: € 3.0 million) in particular contributed to this. In Vietnam, the special factor of a one-time tender business with a sales volume of approx. € 14 million contributed to the positive development. € 12.3 million were applied to the first half of 2006.

In the first half of 2006 STADA generated **export sales** in 34 other countries, thus achieving growth in sales of 54% or € 9.0 million (first half of 2005: € 5.8 million).

Continuous flow of new products through a well-filled product pipeline

The comprehensive development and approval activities continue to ensure that STADA has a well-filled product pipeline and therefore a continuous flow of new product launches. Thus, 176 new products could be launched in the first half of 2006 (first half of 2005: 151 launches). Also in the years to come, STADA expects a continuous flow of new product launches.

Biosimilar projects are making progress

The development of biosimilar products for Erythropoietin[1], Filgrastim[2] and Interferon beta-1a[3] is being carried out by BIOCEUTICALS Arzneimittel AG[4], a company initiated by STADA and predominantly financed via venture capital; through its wholly-owned subsidiary, STADA continues to hold worldwide distribution rights as well as an option according to which STADA, from 2011, can acquire the outstanding shares in BIOCEUTICALS Arzneimittel AG at a price which has already been defined via a formula.

On June 30, 2006, as planned on behalf of BIOCEUTICALS Arzneimittel AG, STADA submitted the approval application for a biosimilar from Erythropoietin with the INN label Erythropoietin-zeta to the European Medical Evaluation

1) Erythropoietin is used, among other things, for dialysis patients to stimulate hematopoieses as well as in cancer therapy.
2) Filgrastim is used, among other things, to treat neutropenia, e.g. following bone marrow transplants.
3) Interferon beta-1a is used in the treatment of multiple sclerosis.
4) STADA holds 13.02% of shares in BIOCEUTICALS Arzneimittel AG for which total payments of € 11.0 million have been made. STADA continues to provide BIOCEUTICALS Arzneimittel AG with a credit line facility with an interest rate that is usual for risk capital and of which a total of € 18.9 million had been used as of June 30, 2006. In addition, a capital guarantee from STADA for the benefit of BIOCEUTICALS Arzneimittel AG exists, of which approx. € 18.7 million had been used as of June 30, 2006.

Agency (EMEA) in London. For Erythropoietin-zeta, an approval for the indications dialysis and oncology are being strived for. From today's perspective, STADA continues to assume that there is a chance to obtain an EU-wide approval for Erythropoietin-zeta in 2007 and that sales and marketing of the product can start at the beginning of 2008.

The production partner for Erythropoietin-zeta is NorBiTec GmbH, a joint venture from the companies BIOCEUTICALS Arzneimittel AG, Nordmark Arzneimittel GmbH & Co. KG and NewLab BioQuality AG, each of which holds a one-third stake. NorBiTec will produce Erythropoietin-zeta exclusively for BIOCEUTICALS Arzneimittel AG. The company has a new production facility with sufficient capacity for the first years of sales and marketing. NorBiTec's facility is located on the factory grounds of Nordmark in Uetersen, near Hamburg, an established pharmaceutical production location with experience in protein chemistry.

With an EU-wide market volume of approx. € 1.2 billion[1)] in 2005, STADA continues to view a sales potential of up to € 70 million per year for Erythropoietin-zeta alone as achievable. The Group continues to investigate whether this potential can be expanded by involving additional partners in the sales and marketing and is evaluating this in discussions with various interested parties.

In the second quarter of 2006, the pre-clinical trials began for the Filgrastim biosimiliar project. After the successful completion of these ongoing pre-clinical trials the start of the clinical trials is expected before the year's end.

Balance sheet and cash flow

As of June 30, 2006 the STADA balance sheet structure presented an equity-to-assets ratio of 50.3% (50.7% as of December 31, 2005) and a net debt of € 294.4 million (December 31, 2005: € 234.2 million).

This healthy balance sheet structure is a solid base for the acquisition of Hemofarm currently being pursued; expansion in the credit lines required for this has been secured through various banks.

STADA intends to accelerate the many years of growth even beyond the aspired Hemofarm acquisition by making appropriate acquisitions. In this connection, the Group continues to examine suitable objects further on. For the financing of such projects, appropriate capital measures are possible in the foreseeable future.

Cash flow from operating activities in the first half of 2006 amounted to € -1.3 million; this negative cash flow from operating activities is, with a rise in inventories and trade accounts receivable that is lower as compared to sales, primarily attributable to a significant reduction in current liabilities. This includes a one-time special effect in the

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

amount of € 38.9 million for the partial payment of existing liabilities from the purchase of the SANKYO branded product package in the fourth quarter of 2005. Without this one-time special effect, cash flow from operating activities would have been positive with € 37.6 million in the first half of 2006.

STADA share

On June 30, 2006 STADA's restricted registered common share was listed at € 31.18. On December 30, 2005 the STADA share price had amounted to € 27.65. On June 30, 2006 STADA's market capitalization thus amounted to € 1.672 billion. On December 30, 2005 STADA's market capitalization had been situated at € 1.479 billion.

As of the reporting date, June 30, 2006, no investor held more than 5% of the share capital of STADA Arzneimittel AG.

In the first half of 2006, STADA did not purchase any of its own shares and sold 1,583 of its own shares at an average price of € 29.36. As of June 30, 2006, STADA thus held 118,419 of its own shares. In the first six months of the current fiscal year, 5,711 options from STADA warrants[1)] were exercised, leading to the creation of 114,220 new STADA shares. STADA's share capital thus increased as of June 30, 2006 to € 53,614,520.00 (31 December, 2005: € 53,500,300.00).

The STADA Annual Shareholders' Meeting on June 14, 2006[2)] was characterized by high approval rates. Among other things, authorization to buy back shares was renewed at this meeting. In addition, various changes on the articles of incorporation were decided. The dividend for the 2005 fiscal year amounts, in accordance with the Annual Shareholder's Meeting decision, to € 0.39 per common share (previous year: € 0.39) and was paid out on June 15, 2006. Total dividend payments in this context, amounting to € 20.8 million, correspond to 40% of STADA's net income.

Personnel

In August, 2006, STADA's Supervisory Board has appointed Hartmut Retzlaff, Chairman of the Executive Board and Wolfgang Jeblonski, Executive Board member responsible for Finance, to further five year terms from September 1, 2006 until August 31, 2011 and extended the appointment of Dr. Alexander Oehmichen, Executive Board member responsible for Legal, Human Resources and Corporate Development and Christof Schumann, Executive Board member responsible for Research and Development, from a three year term to a five year term until December 31, 2010.

1) The legally binding exact option terms and conditions are published on the company's website at www.stada.de.

2) The wording of the decisions of the Annual Shareholders' Meeting of June 14, 2006 as well as all voting results are published on the company's website at www.stada.com until the end of the current fiscal year.

After Hans Stols, former Executive Board member responsible for Procurement, Production and Logistics, departed the company effective August 4, 2006 for personal reasons, the Supervisory Board appointed Dr. Hans-Martin Schwarm as new Executive Board member responsible for Procurement, Production and Logistics until August 3, 2009.

Outlook: STADA continues many years of robust growth also in the future

The STADA Executive Board continues to be optimistic about the future of the Group.

Although regulatory interventions and increased price wars will continue to occasionally lead to burdens in some national markets, from today's perspective the STADA Executive Board continues to assume that the Group's many years of robust growth will proceed in the future. Thereby, a stronger increase in operating earnings than in sales will continue to be targeted.

The basis for this continuing positive prognosis is clear strategic positioning in growth markets, strong operative alignment and many years of expertise in areas crucial to success such as sales and marketing, product development, approval as well as procurement and production. Additionally, the pursued Hemofarm acquisition will bring further growth momentum for STADA.

H. Retzlaff | W. Jeblonski | Dr. A. Oehmichen | C. Schumann | Dr. H.-M. Schwarm

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Members of the Executive Board: Hartmut Retzlaff (Chairman), Wolfgang Jeblonski, Dr. Alexander Oehmichen, Christof Schumann, Dr. Hans-Martin Schwarm
Members of the Supervisory Board: Dr. Eckhard Brüggemann (Chairman), Karl Hertle[1] (Vice Chairman), Dr. Martin Abend, Heike Ebert[1], Uwe E. Flach, Dr. K. F. Arnold Hertzsch, Dieter Koch, Constantin Meyer, Adolf Zissel[1]

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

Rounding: The key performance indicators presented in this half year report are occasionally stated in euro millions, while in the interim financial statements presented at the end of this report the same figures are generally stated more precisely in euro thousands. Thus, some rounding differences may occur, although they are not material by their nature.

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

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1) Employee representatives.

GROUP RESULTS

Consolidated Income Statement in € 000s	H1 2006	H1 2005	Q2 2006	Q2 2005
01. Group sales	579,986	492,386	280,359	247,389
02. Cost of sales	293,782	248,059	141,071	126,646
03. Gross profit	**286,204**	**244,327**	**139,288**	**120,743**
04. Other operating income	10,503	8,997	5,490	6,874
05. Selling expenses	145,668	130,192	73,389	65,762
06. General and administrative expenses	39,694	35,858	19,503	17,127
07. Research and development expenses	15,529	15,806	7,638	8,671
08. Other operating expenses	21,140	15,521	7,817	9,177
09. Operating profit	**74,676**	**55,947**	**36,431**	**26,880**
10. Investment income	250	0	198	0
11. Interest result	-5,834	-5,130	-3,168	-2,957
12. Financial result	**-5,584**	**-5,130**	**-2,970**	**-2,957**
13. Earnings before taxes	**69,092**	**50,817**	**33,461**	**23,923**
14. Taxes on income	26,774	18,658	13,391	8,840
15. Net income[1)]	**42,318**	**32,159**	**20,070**	**15,083**
• thereof net income distributable to shareholders of STADA Arzneimittel AG	42,230	31,993	20,166	15,013
• thereof net income relating to minority interests	88	166	-96	70
16. Earnings per share in € (in accordance with IAS 33.10)	0.79	0.60	0.38	0.28
17. Earnings per share in € (diluted) (in accordance with IAS 33.31)	0.73	0.56	0.35	0.26

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

Consolidated Cash Flow Statement in € 000s (excerpt)[2)]	H1 2006	H1 2005
Cash flow (gross)	72,252	54,607
Cash flow from operating activities	-1,312	28,431
Cash flow from investing activities	-37,197	-136,929
Cash flow from financing activities	39,634	77,722
Other changes in shareholders' equity / currency translation	-2,778	-260
Net cash for the period	-1,653	-31,036

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

Consolidated Statement of Changes in Shareholders' Equity in € 000s	H1 2006	H1 2005
Shareholders' equity	684,811	638,995
Net income distributable to shareholders of STADA Arzeimittel AG	42,230	31,993
Capital increase through the exercising of warrants	1,879	244
Change in the provision for cash flow hedges	0	1,676
Dividend of STADA Arzneimittel AG	-20,819	-20,775
Other changes/currency translation	-2,240	9,670
Shareholders' equity	705,861	661,803

Segment Reporting in € 000s		H1 2006	H1 2005
1. Generics	Group sales	403,351	350,809
	Operating profit	58,878	45,506
	Contribution to net income for the period	32,571	26,865
	Segment assets (June 30)	420,861	373,232
	Liabilities (June 30)	164,618	126,403
2. Branded Products	Group sales	127,546	106,724
	Operating profit	23,443	19,400
	Contribution to net income for the period	14,679	11,296
	Segment assets (June 30)	137,076	116,102
	Liabilities (June 30)	65,169	20,988
3. Specialty Pharmaceuticals	Group sales	12,900	12,278
	Operating profit	2,607	1,305
	Contribution to net income for the period	1,497	846
	Segment assets (June 30)	65,406	65,349
	Liabilities (June 30)	1,899	1,758
4. Commercial business	Group sales	32,018	19,037
	Operating profit	695	849
	Contribution to net income for the period	257	287
	Segment assets (June 30)	4,606	3,654
	Liabilities (June 30)	10,579	9,316
5. Group holding company/other	Group sales	4,171	3,538
	Operating profit[3)]	-10,947	-11,113
	Contribution to net income for the period	-6,774	-7,301
	Segment assets (June 30)	65,259	92,624
	Liabilities (June 30)	394,651	297,795

3) Including eliminations within the segments.

The consolidated interim statements of STADA Arzneimittel AG as of June 30, 2006 (like the consolidated financial statements as of December 31, 2005) were prepared in accordance with the accounting standards of the International Accounting Standards Board (IASB), which are known as International Financial Reporting Standards (IFRS). The same accounting policies applied in the consolidated financial statements for fiscal year 2005 were applied to these interim financial statements. The notes to the consolidated financial statements for 2005 also apply to these interim financial statements where appropriate. The present quarterly report fulfills the requirements for interim financial reports set out in IAS 34.

Consolidated Balance Sheet in € 000s Assets	June 30, 2006	Dec. 31, 2005
A. Non-current assets	790,849	783,806
1. Intangible assets	612,255	612,205
2. Property, plant and equipment	95,916	94,540
3. Financial assets	39,706	32,702
4. Non-current trade accounts receivable	3,258	1,065
5. Other non-current assets	27,061	31,912
6. Deferred tax assets	12,653	11,382
B. Current assets	612,360	565,967
1. Inventories	247,244	224,042
2. Current trade accounts receivable	254,565	230,254
3. Other current assets	39,427	38,902
4. Current securities	21	13
5. Cash and cash equivalents	71,103	72,756
Total assets	1,403,209	1,349,773
Equity and Liabilities		
A. Shareholders' equity[1)]	705,861	684,811
1. Share capital	139,398	139,101
2. Reserves and unappropriated retained earnings	565,856	543,438
3. Minority interests	607	2,272
B. Non-current liabilities and provisions	318,561	316,856
1. Non-current provisions	18,324	17,362
2. Non-current financial liabilities	259,017	258,723
3. Non-current trade accounts payable	1,088	827
4. Other non-current liabilities	3,644	2,797
5. Deferred tax liabilities	36,488	37,147
C. Current liabilities and provisions	378,787	348,106
1. Current provisions	5,620	3,985
2. Current financial liabilities	106,494	48,214
3. Current trade accounts payable	122,321	124,614
4. Other current liabilities	144,352	171,293
Total equity and liabilities	1,403,209	1.349,773

1) In the time between January 1 and June 30, 2006, a total of 5,711 options from the STADA warrant (ISIN DE000 7251845) were exercised, leading to 114,220 new shares. Registered capital as of June 30, 2006 thereby includes 53,614,520 shares.

Consolidated Group sales by region[2)] in € 000s	H1 2006	H1 2005	±%
Europe	539,922	463,561	+16%
• Belgium	50,797	44,539	+14%
• Denmark	12,280	9,754	+26%
• Germany	250,090	217,214	+15%
• Finland	1,813	137	1,223%
• France	32,365	34,148	-5%
• United Kingdom	19,497	16,116	+21%
• Ireland	8,396	7,493	+12%
• Italy	49,728	42,389	+17%
• Lithuania	421	457	-8%
• The Netherlands	19,212	19,514	-2%
• Austria	4,918	5,342	-8%
• Portugal	4,909	1,603	+206%
• Russia	36,262	24,074	+51%
• Switzerland	4,203	2,989	+41%
• Spain	31,367	27,473	+14%
• Czech Republic	3,469	3,216	+8%
• Ukraine	3,974	2,688	+48%
• Rest of Europe	6,221	4,415	+41%
The Americas	13,424	15,849	-15%
• USA	13,242	15,786	-16%
• Rest of the Americas	182	63	+189%
Asia	25,960	12,952	+100%
• China	2,381	2,997	-21%
• Kazakhstan	1,640	1,280	+28%
• The Philippines	3,369	3,076	+10%
• Thailand	901	1,262	-29%
• Vietnam	15,801	3,043	+419%
• Rest of Asia	1,868	1,294	+44%
Rest of World	680	24	+2,733%

2) Broken down according to the national market in which the sales were achieved.

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