Corporate News

STADA: Growth after nine months of 2006: Sales +18%, adjusted net income +27%

Important items at a glance

- Nine-month figures 2006 confirm sustainable growth:
  - Group sales EUR 870.3 million (+18%)
  - Operating profit EUR 114.3 million (+29%) or adjusted for special effects EUR 122.3 million (+25%)
  - Net income EUR 60.1 million (+80%) or adjusted for special effects EUR 71.5 million (+27%)
  - Earnings per share EUR 1.12 (+78%) or adjusted for special effects EUR 1.34 (+26%)
  - Operating profitability 13.1% (1-9/2005: 12.0%) or adjusted for special effects 14.1% (1-9/2005: 13.2%)
- Largest acquisition in company history to date in Q3 2006: STADA paid approx. EUR 493.9 million for 100% of shares in the Serbian Hemofarm Group (consolidated in the STADA Group since August 1, 2006)
- Sale of sales companies in the USA (preliminary book loss of EUR 12.0 million before taxes) and Switzerland (book profit of EUR 1.0 million before taxes) in the third quarter of 2006
- Erythropoietin-zeta: First “Assessment Report” within the framework of the ongoing approval process is available – chance to obtain EU-wide approval for the indication “dialysis” by the end of 2007

- Sustainable growth course with stronger increase in operating profit than in sales to be continued.

Figures for the first nine months of 2006, published today, on November 14, 2006, confirm the continuation of the sustainable growth course of STADA Arzneimittel AG.

“STADA continues to grow significantly – despite sometimes difficult local environments, currently in Germany for example. Our operating profitability has further improved and reaches – adjusted for one-time special effects – 14.1% after nine months of 2006. Our increasingly international focus is paying off now. The Group success no longer depends so strongly on individual national markets”, says STADA’s Chief Executive Officer Hartmut Retzlaff.

Clear increase in Group sales

In the first nine months of 2006, STADA recorded a plus of 18% to EUR 870.3 million (1-9/2005: EUR 739.2 million) in **Group sales**. Considering both initial consolidations as well as deconsolidations, the organic growth of the Group in the first nine months of the current fiscal year amounted to 12%.

In the reporting period, the largest core segment **Generics** (share of Group sales 70.1%), reported sales growth of 14% to EUR 609.7 million (1-9/2005: EUR 533.7 million). The second largest core segment **Branded Products** (share of Group sales 21.6%) grew by 23% to EUR 187.9 million in the first nine months of 2006 (1-9/2005: EUR 152.8 million). In the smallest core segment **Specialty Pharmaceuticals** (share of Group sales 2.1%), sales in the reporting period were at the level of the previous year with EUR 18.4 million (1-9/2005: EUR 18.5 million).

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

High one-time special effects

In the first nine months of 2006, burdens from one-time special effects amounted to a net total of EUR 20.0 million before taxes: Of this, a EUR 12.0 million burden can be attributed to the closing of the US activities in the third quarter of 2006; however, the final purchase price adjustment with the buyer has not yet been completed. A positive one-time special effect in the amount of EUR 1.0 million before taxes comes from book profits from the sale of the 50% stake in the Suisse sales company Helvepharm AG.

The one-time special effects of the basis for the year-on-year comparison, i.e. the first nine months of 2005 resulted in a burden of net EUR 28.9 million before taxes; of this, in particular EUR 20.0 million related to the third quarter of 2005 from the closing of the LipoNova/Reniale® project at the time.

Both this year's burdens from the closing of the US activities and the special effects from the closing of the LipoNova/Reniale® project in the previous year are stated in accordance with IFRS in the consolidated income statement below operating profit. The Group's operating profit development is thereby not affected by these two one-time special effects.

Strong increase in net income

In the first nine months of 2006, **net income** rose by 80% to EUR 60.1 million (1-9/2005: EUR 33.4 million) and thereby again at a stronger rate as compared to sales growth. Net income adjusted for one-time special effects in 2006 and 2005 grew by 27% to EUR 71.5 million (1-9/2005: EUR 56.4 million). After nine months of the current fiscal year, earnings per share thus totaled EUR 1.12 (1-9/2005: EUR 0.63), adjusted earnings per share totaled EUR 1.34 (1-9/2005: EUR 1.06).

The other **key earnings figures** also achieved clear growth in the first nine months of 2006. **Operating profit** showed an increase of 29% to EUR 114.3 million in the first nine months of the current fiscal year (1-9/2005: EUR 88.8 million), adjusted operating profit increased by 25% to EUR 122.3 million (1-9/2005: EUR 97.8 million). **Earnings before taxes (EBT)** recorded growth of 44% to EUR 89.2 million (1-9/2005: EUR 61.8 million), adjusted earnings before taxes grew by 20% to EUR 109.2 million (1-9/2005: EUR 90.7 million). **Earnings before interest and taxes (EBIT)** rose by 49% to EUR 102.5 million (1-9/2005: EUR 68.8 million), adjusted earnings before interest and taxes rose by 25% to EUR 122.6 million (1-9/2005: EUR 97.8 million). **Earnings before interest, taxes, depreciation and amortization (EBITDA)** increased by 37% to EUR 144.7 million (1-9/2005: EUR 105.9 million), adjusted earnings before interest, taxes, depreciation and amortization increased by 26% to EUR 153.8 million (1-9/2005: EUR 121.9 million).

Regional Developments

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

As a consequence of specific market effects (changed stock-keeping on the part of wholesalers and pharmacies) in connection with the AVWG (Economic Optimization of Pharmaceutical Care Act) which took effect on May 1, 2006, in Germany, the generics market as a whole declined by 13% in the third quarter of 2006 according to the figures of a leading pharmaceutical market research institute. In the Generics segment, in the third quarter of 2006, the STADA Group's sales in Germany are also 9% below the previous year and thus, grew by only 8% in the first nine months of 2006. Due to inventory building on the part of the distribution channels in the second quarter of 2006 unusually high inventory levels, in the third quarter of 2006 market norm payments to wholesalers and pharmacists for inventory value adjustments for price reductions took place to such a large extent that notwithstanding the provisions made for that purpose in the second quarter of 2006 an expense of approx. EUR 7.5 million arose in the third quarter.

From today's perspective STADA assumes – also supported by once again increasing generic sales in Germany in the current fourth quarter of 2006 – that these curbing effects of the third quarter of 2006 in the German generics business are only of temporary character. In the medium term the prospect that the AVWG can lead to a further increase in generics penetration in Germany and thus to positive volume effects for generics suppliers remains unchanged.

For the next fiscal year 2007, STADA will react to a possible permanent burden of earnings due to the structural market changes of the year 2006 as well as to additional expected reductions in reference prices as of January 1, 2007 by means of appropriate measures to secure earnings, if required, which can particularly also include reductions in personnel in the German sales companies.

A further comprehensive health care policy reform in Germany is expected as of April 1, 2007. The complex effects of this planned reform will depend, for the most part, on the final detailed formulation of the law and the competitive reaction to it and can therefore not be accurately assessed at this point in time. Overall, from today's perspective, STADA expects, notwithstanding this reform that the Group's worldwide long term growth course can be continued.

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

In **France**, STADA showed – in spite of regulatory-related price reductions as of February 1, 2006 – due to a pleasingly strong sales growth in the third quarter of 2006 (+12%) – again a slight sales increase of 1% to EUR 52.2 million in the first

nine months of the current fiscal year (1-9/2005: EUR 51.9 million). The margin situation in the French business, however, continues to be burdened by the price reductions.

In **Switzerland**, STADA sold its 50% stake in the local sales company Helvepharm AG for sales strategy reasons in the third quarter of 2006, retroactively taking effect as of June 30, 2006 and thereby achieved a book profit of EUR 1.0 million before taxes and EUR 1.0 million after taxes.

In **Serbia**, STADA completed the largest acquisition in company history in the third quarter and acquired the Serbian Hemofarm Group after a public takeover offer and subsequent squeeze-out procedure. Over the course of the third quarter of 2006, STADA thereby paid a total of approx. EUR 493.9 million for 100% of the shares.

The Hemofarm Group, an important East-European generics supplier with 27 subsidiaries in 11 countries, has been consolidated in the STADA Group since August 1, 2006. Therefore, STADA achieved sales in the amount of EUR 17.1 million in Serbia by the end of the third quarter and could thereby – also due to the currently strong Dinar – provide a positive contribution to the STADA Group's operating profit.

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

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

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

Due to the complex mechanisms with regard to the purchase price adjustments and their dependence on the final balance sheet at the date of the sale, there is, at the moment, no final determination of the purchase price. An additional claim from the buyer accommodated in the third quarter of 2006 a balance sheet adjustment of the purchase price claim via a provision. Against this backdrop, in the third quarter of 2006, STADA thus shows a selling loss from the deconsolidation of the US business of EUR 12.0 million before taxes or EUR 6.3 million after taxes.

In **Asia**, sales rose by 73% to EUR 34.0 million in the reporting period (1-9/2005: EUR 19.6 million). Thereby, a one-time tender business in Vietnam, focused on the first quarter of 2006, with a sales volume of EUR 12.2 million contributed to the positive development as a special factor.

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

Well-filled product pipeline

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

Biosimilar projects

The development of biosimilar products continues to be carried out by BIOCEUTICALS Arzneimittel AG, a company initiated by STADA and predominantly financed via venture capital.

After a capital increase of BIOCEUTICALS, which was carried out in October 2006, STADA now holds 14.99% of the shares in BIOCEUTICALS. Through a wholly-owned subsidiary, STADA continues to hold worldwide distribution rights as well as an option to acquire, from 2011, the outstanding shares in BIOCEUTICALS.

The European Medical Evaluation Agency (EMEA) is currently processing the approval application submitted by STADA on June 30, 2006, on behalf of BIOCEUTICALS, for a biosimilar from Erythropoietin with the INN label Erythropoietin-zeta (Epo-zeta). From today's perspective, STADA and BIOCEUTICALS assume – in acknowledgement of an "Assessment Report" from the current fourth quarter and which is usually carried out in the framework of this process – that there is a chance to obtain an EU-wide approval for Epo-zeta for the indication "dialysis" in 2007. Thus, the start of the EU-wide marketing of Epo-zeta continues to seem possible for the beginning of 2008. For the indication "oncology", which is also being strived for in the approval process, BIOCEUTICALS is currently

carrying out complimentary trials; possibly, this indication will not yet be approved by the EMEA at the start of marketing for Epo-zeta. However, an approval for the indication “oncology” for the EU will also continue to be strived for in the foreseeable future.

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

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

Balance sheet and acquisitions

The STADA balance sheet structure has been significantly affected by the credit financed takeover of Hemofarm in the third quarter of 2006. As of September 30, 2006, the equity-to-assets ratio was 35.6% (December 31, 2005: 50.7%), net debt amounted to EUR 852.5 million on this date (December 31, 2005: EUR 234.2 million). STADA wants to further accelerate the longterm growth course by making appropriate acquisitions in the future as well.

“We examine suitable acquisition objects. For this, credit lines continue to be available even after the takeover of Hemofarm. However, we can also imagine appropriate capital measures for the financing of additional acquisition projects“, says STADA’s Chief Financial Officer Wolfgang Jeblonski.

Outlook

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

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

“Due to the Group’s increasingly internationally diversified operative alignment, which we most recently further expanded through the successful takeover of the Serbian Hemofarm, we should continue to be able to benefit from the structural growth potential of the markets. Thereby, operating profit should increase stronger than sales, thus further improving STADA’s profitability”, explains STADA Chief Executive Officer Hartmut Retzlaff the in the view of the Executive Board’s continuing positive forecasts at Group level.

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