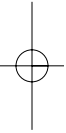
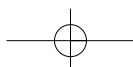


Annual Report 2001



SCHWARZ
P H A R M A



Contents

Financial Overview SCHWARZ PHARMA-Group	3
Stock Information / Financial Calendar	4
Letter to the Shareholders	5
Report of Supervisory Board	6
Our Strategy: Growth by Innovation	8
The Financial Year in Overview	10
Consolidated Financial Statement and Management's Discussion and Analysis	13
Statements of Income	14
Balance Sheets	15
Statements of Cash Flows	16
Management's Discussion and Analysis	17
Segment Reporting	28
Management of Business Risks	32
Notes to Consolidated Financial Statements	34
SCHWARZ PHARMA Affiliates	62
Leading SCHWARZ PHARMA Products	63
Supervisory Board and Executive Board	64
SCHWARZ PHARMA-Group Addresses	66

This Annual Report is published on the internet: www.schwarzpharma.com

Financial Overview SCHWARZ PHARMA-Group

From the Income Statement (€ in thousands)	1997	1998	1999	2000	2001
Net sales	650,570	681,644	705,883	736,192	767,728
Gross margin	460,530	458,333	412,072	431,583	466,018
Selling, general and administrative expense	263,496	267,034	293,223	301,012	313,195
Research and development expense	54,736	59,225	77,064	91,482	106,982
Operating result	102,461	103,925	(29,820)	(3,613)	16,552
Net income	59,605	60,349	8,254	13,624	40,505

From the Consolidated Balance Sheet (€ in thousands)					
Cash and cash equivalents	27,844	26,533	35,603	23,993	32,282
Other current assets	190,124	234,077	261,295	219,433	258,974
Property, plant and equipment	135,823	132,655	164,867	179,526	193,034
Goodwill and other intangible assets	359,733	399,107	339,178	320,340	348,738
Long-term investments and other assets	19,896	20,785	66,055	73,664	71,921
Short and long-term debt	118,681	159,750	173,851	128,209	174,875
Other current liabilities	101,105	128,792	165,756	153,933	145,492
Accruals and other long-term liabilities	37,420	30,479	38,142	36,165	41,294
Shareholders' equity	476,214	494,136	489,249	498,650	543,288
Total	733,419	813,156	866,999	816,957	904,949

From the Cash Flow Statement (€ in thousands)					
Cash flow from operating activities	109,005	82,450	39,022	103,227	71,176
Depreciation/amortization (incl. impairment)	61,530	61,387	106,388	72,836	62,421
Cash flow from investing activities	(38,411)	(107,230)	12,125	(41,405)	(95,611)
Investments	(44,322)	(128,973)	(115,962)	(64,007)	(97,120)
Cash flow from financing activities	(66,663)	24,006	(42,637)	(74,364)	31,844

Key Figures

Equity ratio	in %	64.9	60.8	56.4	61.0	60.0
Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)*	in million €	171.1	160.4	76.9	66.8	80.0
Earnings before Interest and Taxes (EBIT)*	in million €	109.6	99.0	14.2	(3.7)	18.9
Employees (annual average)	heads	3,066	3,101	3,347	3,233	3,428
Earnings per share	in €	2.64	2.68	0.37	0.62	1.84
Cash flow per share (cash flow from operations)	in €	4.84	3.66	1.74	4.69	3.24
Dividends per share	in €	1.02	1.28	0.26+0.77	0.55	0.60+0.60

* Adjusted for one-time effects

Stock Information / Financial Calendar

Per Share Information		1997	1998	1999	2000	2001
Earnings per share	in €	2.64	2.68	0.37	0.62	1.84
Cash flow per share*	in €	4.84	3.66	1.74	4.69	3.24
Dividends per share	in €	1.02	1.28	0.26+0.77	0.55	0.60+0.60
Book value per share	in €	21.13	21.92	22.25	22.68	24.69
Market capitalization (12/31)	in million €	1,394	1,106	706	592	632
Number of shares (weighted average)	in thousands	22,540	22,540	22,482	21,993	21,993
Number of shares (12/31)	in thousands	22,540	22,540	21,994	21,993	21,993

Security code no. 722 190

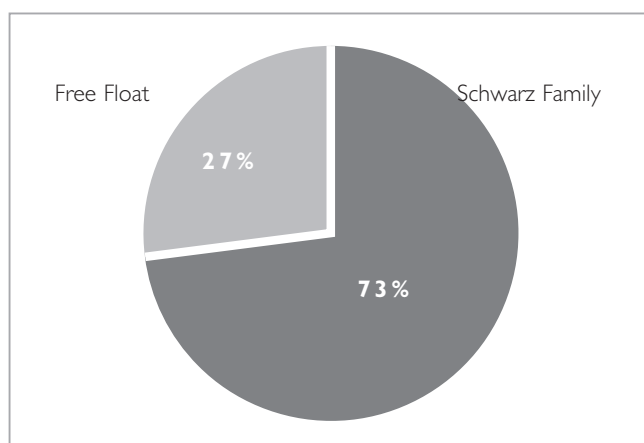
ISIN Nr. DE 0007221905

*Cash flow from operating activities

Financial Calendar

February 19, 2002	4 th Quarter Report 2000, Press Conference, Analysts' Meeting
May 7, 2002	1 st Quarter Report 2001
May 15, 2002	Annual Meeting of Shareholders in Düsseldorf
July 31, 2002	2 nd Quarter Report 2002
November 6, 2002	3 rd Quarter Report 2002
February 2003	4 th Quarter Report 2002
May 13, 2003	Annual Meeting of Shareholders

Shareholder Structure SCHWARZ PHARMA AG



Investor Relations on the internet:
www.schwarzpharma.com

Letter to the Shareholders

Dear shareholders and friends of SCHWARZ PHARMA,

The 2001 financial year was a good year for SCHWARZ PHARMA. We not only exceeded our sales target, but more importantly our earnings target. This success was achieved in spite of further significant increase in research and development investments.

We made important process in developing our innovative pipeline in 2001. Our development portfolio currently includes five projects in late clinical stages.

The SCHWARZ PHARMA Group increased sales by 4.3% in 2001 to € 767.7 million. Operating result improved by € 20 million to € 16.5. This was aided by an eight percent improvement in gross margin, resulting from improved product mix and supply chain optimization. Net income tripled to € 40.5 million. This allows us to propose an increased annual dividend of € 0.60 and additionally a bonus dividend of € 0.60, resulting in a total dividend of € 1.20 per share.

Our development pipeline is focussed on the therapeutic areas of central nervous system/neurology and urology. It currently comprises one phase III project and four phase II projects. In 2001 we archived the following milestones:

We concluded clinical phase II trials for the treatment of Parkinson's disease with the rotigotine CDS patch. The study program for phase III commenced in November 2001. Overall, more than 1,200 patients suffering from early and advanced stages of Parkinson's disease will be included.

We initiated a new, additional project for the treatment of the Restless Legs Syndrome (RLS) with rotigotine CDS. A phase II pilot study was started in November 2001.

Phase II and IIb trials started in May 2001 and in February 2002 with the innovative compound harkoseride for the treatment of epilepsy.

Phase II trials for the investigation of the use of harkoseride in neuropathic pain commenced in May 2001 for the treatment of diabetic neuropathy and in February 2002 for post-herpetic neuralgia.

The multi-national phase IIb clinical study program with fesoterodine for the treatment of urinary incontinence commenced in October 2001. Overall, approximately 800 patients will be treated with our once-daily sustained release formulation.

We have great plans for 2002. It will be the year of clinical trials. We intend to test our drugs that are in advanced stages of clinical development on more than 2,500 patients. This will occur in more than 300 medical centers in more than 25 countries around the globe. In addition we are in preparations for the filing of the future marketing applications for rotigotine CDS and fesoterodine in the U.S. and Europe. We intend to enter into further partnerships, and further new projects will supplement our innovative pipeline. The potential marketing of our generic omeprazole 10 and 20 mg formulations in the U.S. opens attractive sales and earnings potential which we will use to extend our research and development activities. Following the positive development in 2001 the SCHWARZ PHARMA-Group expects continuing growth in 2002.

At this point, we would like to thank our employees. They are committed to the benefits of the patients and it is their outstanding commitment and expertise that makes the future of SCHWARZ PHARMA so promising.

We would also like to thank our customers, business partners and shareholders for their commitment to the SCHWARZ PHARMA-Group.

Patrick Schwarz-Schütte

Monheim am Rhein, March 2002

Report of Supervisory Board

In the course of five meetings with the Executive Board in the fiscal year 2001, the Supervisory Board received in-depth information on the business development of the SCHWARZ PHARMA-Group. Of great importance were the quarterly sales and earnings analyses, net asset and financial position of the company and its subsidiaries. There were also three meetings of the personnel committee of the Supervisory Board, responsible for management staff affairs.

In the context of the strategic re-orientation of SCHWARZ PHARMA-Group and the company's endeavors in respect of innovative, patented products and development projects in the focus indications urology and neurology (Parkinson's disease, epilepsy and neuropathic pain), regular reporting by the Executive Board and analysis by the Supervisory Board included the following major items:

- the ongoing development projects (in particular regarding the new chemical entities rotigotine CDS, fesoterodine and harkoseride), their progress and chances of realization,
- the further strengthening of the development pipeline by initiating new projects and
- improvement of the marketing position through product acquisitions and the market launch of new products such as CLIVARINA[®] (reviparine sodium; deep vein thrombosis) in Italy, MITEN[®] (valsartan; hypertension) and BACTIL[®] (ebastine; allergies) in Spain and the anti-asthmatic drug ATMADISC[®] (salmeterol/fluticasone; Germany) as well as NEXXAIR[®] and VENTEXXAIR[®] (beclometazone; salbutamol; France).

The finance, investment and personnel plans submitted by the Executive Board were reviewed and the Supervisory Board examined the corporate cost structure – also in an industry comparison. In addition to the development of sales and general administrative expense, the focus was on the cost of goods sold situation of the company. The Supervisory Board's review also included the risk management system of the SCHWARZ PHARMA-Group.

Other matters for Supervisory Board resolutions were the Executive Stock Option Program 2000 (2nd tranche) on the basis of the approval of the Annual Meeting of Shareholders on May 10, 2000 and the resultant issue of a 5.5% convertible bond of a total nominal value of € 1,556,120.80 for subscription by authorized senior managers and members of the Executive Board. The Supervisory Board also agreed to the issue of employee shares at a preferential price.

The following recommendations for resolutions were presented to the 2001 Annual Meeting of Shareholders by the Supervisory Board:

- Cancellation of the authorized capital I and II and generation of new authorized capital of € 29,302,000.
- Authorization to acquire own shares with simultaneous adjustment of authorization to issue and dispose of own shares which the company has already purchased, as well as adjustment of conditions regarding limited capital.

The Supervisory Board resolved the determination of strategic objectives for the members of the Executive Board in the 2002 fiscal year and in the context of medium-term planning. Apart from the effects of the state health reforms the challenges are retaining the existing profitable business continuing down the path of growth, further development of the pipeline whilst, at the same time taking into account the rising cost of research and improving corporate results in future.

The financial statements and management report for SCHWARZ PHARMA AG and the consolidated financial statements for 2001 were audited and given an unqualified audit certificate from the auditors Ernst & Young, Deutsche Allgemeine Treuhand AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, who were mandated by the Supervisory Board in September 2001 to audit the annual accounts, comprising the development of the risk management system with inclusion and integration of research risk. The financial statements including the Auditor's Report were presented to the Supervisory Board for examination at an early date. The Supervisory Board acknowledged and approved the results of the audit and the audit conclusions submitted by the auditor who attended the meeting of the Supervisory Board on March 20, 2002. There were no objections following the Supervisory Board's own review of the corresponding results. The Supervisory Board approved the financial statements submitted by the Executive Board for the 2001 fiscal year and thereby adopted them. It will propose a cash dividend of € 0.60 to the Annual Meeting of Shareholders and, taking into consideration the Axcan special income, the payment of a bonus dividend of a further € 0.60, that is a total of € 1.20 per share.

The Supervisory Board appointed Prof Dr Iris Löw-Friedrich as member of the Executive Board of SCHWARZ PHARMA AG. Ms Löw-Friedrich is responsible for the research and development activities of the Group including the expansion of the development pipeline in the major indications. Mr Detlef Thielgen was appointed as deputy member of the Executive Board February 1st 2002.

The Supervisory Board appointments of Dr h.c. Rolf Schwarz-Schütte and Dr Marcel Studer ended with the Annual Meeting of Shareholders on May 9, 2001. Dr Terence Eaves, former director and member of the Board of Glaxo Research and Development Ltd. and Dr Rüdiger Hauffe, former chairman of the Management Board of SmithKline Beecham Pharma GmbH were newly elected to the Supervisory Board. In appreciation of his outstanding achievements in respect of the company, Mr Rolf Schwarz-Schütte was elected honorary chairman of the Supervisory Board at the Supervisory Board meeting of March 20, 2001.

The Supervisory Board would like to express its gratitude and appreciation to the Executive Board members, Works Councils, senior managers and employees for their efforts during the year 2001.

Dr Hans-Dietrich Winkhaus

Chairman of the Supervisory Board

Monheim am Rhein, March 2002

Our Strategy: Growth by Innovation

The worldwide pharmaceutical market has a volume of more than US\$ 355 billion and continues to be a growth market due to innovations and demographic development. For a pharmaceutical company the key criteria for success on this market are the ability for innovation and for efficient marketing.

Today's business generates the cash flow for...

SCHWARZ PHARMA is well positioned. Through its affiliates the SCHWARZ PHARMA-Group is present in all important markets in Europe, North America as well as in key markets in Asia. In addition, the company holds licensing partnerships in more than 50 countries. With almost 1,700 employees in marketing and sales around the world and focus on prescription drugs for the indications of cardio-vascular disease, urology, central nervous system and gastro-intestinal disease, SCHWARZ PHARMA is well respected by all major customer groups, patients and their doctors. We consistently review and adapt our established marketing strength to different local markets to archive maximum growth in new market- and product circumstances. This assures a continuous and consistent development of the product portfolio.

In line with this strategy, a number of innovative and patented drugs were licensed in over the past three years and are currently the major contributors to the Company's growth. They include: the anti-asthmatic agent ATMADISC® and the cardio-vascular product PROVAS® in Germany, the anti-thrombotic agent CLIVARINA® in Italy, the anti-histamine BACTIL® and the anti-hypertonic agent MITEN® in Spain, the anti-asthmatic drugs NEXXAIR® and VENTEXXAIR® in France and the chronotherapeutic anti-hypertension drug VERELAN PM® in the United States.

At SCHWARZ PHARMA a healthy balance between established drugs (such as the proven SCHWARZ PHARMA nitrate portfolio for the treatment of coronary heart disease) and innovative drugs provides the necessary cash flow for the development of new drugs.

...investments in drug development

SCHWARZ PHARMA does not invest time and money conducting basic research but seeks instead co-operations with partners at universities and in research companies as well as within the biotechnological and pharmaceutical industries. Global "search" activities, drug development, the projects and approval activities of the SCHWARZ PHARMA-Group are concentrated in SCHWARZ BIOSCIENCES, which has two sites in Germany and the U.S. The focus is on the indications of central nervous system/neurology and urology. Currently the development pipeline comprises five projects in phases II and III.

Five development projects at an advanced stage

Four projects are undergoing studies in clinical development in the area of the central nervous system/neurology. They include: for the treatment of Parkinson's disease with the rotigotine CDS patch one project in phase III and in phase II, one project for the indication Restless Legs Syndrome (RLS) treated with rotigotine CDS, and two projects for the treatment of epilepsy and neuropathic pain with hakoseride.

In urology the compound fesoterodine is being developed in clinical phase IIb for the treatment of urinary incontinence.

The international phase III study program for rotigotine CDS, the Parkinson patch, commenced in November 2001. Overall, more than 1,200 patients with early or advanced Parkinson's disease will be enrolled in double-blind, placebo-controlled trials. The aim is to demonstrate efficacy and safety of the new dopamine agonist rotigotine CDS, which is applied once a day to the skin as a patch. Parkinson's disease is a function disorder of the central nervous system. The patients suffer from a lack of dopamine, a messenger substance in the central nervous system, which is responsible for the co-ordination of movement. In contrast to dopamine agents in

tablet forms, transdermal administration of rotigotine CDS results in stable plasma levels which may lead to consistent efficacy and improved tolerance. This could be a core milestone in improving the quality of life of patients who suffer from this severe disease. Results of the phase III studies should be available in the first quarter of 2004 and the peak sales potential is estimated to be € 350 million.

A phase II pilot study with rotigotine CDS for the indication Restless Legs Syndrome (RLS) commenced at the end of November 2001. Up to 9% of the population suffer from this illness which is characterized by an unpleasant hyperkinesia of the legs, occurring primarily in the evening and at night. Dopamine agents are thought to be an effective treatment for this condition. Results of the pilot study are expected for the third quarter of 2002. The potential peak sales volume is € 200 million.

The multi-national phase IIb clinical study of the incontinence product with fesoterodine commenced in October 2001. A total of approximately 800 patients are to be treated with the once-daily sustained-release formulation, in double-blind placebo-controlled studies. The anti-muscarinic agent fesoterodine is a patent protected new chemical entity developed by SCHWARZ PHARMA. It is characterized by its known mechanism of action and may offer patients good efficacy with fewer side effects than comparable drugs. The results of these studies should be available in the first

quarter of 2003 and the expected peak sales potential is € 450 million.

A phase II dose-finding and tolerance study on the use of harkoseride for the treatment of epilepsy has been in progress since May 2001, involving approximately 100 patients. Results are expected to be available for the fourth quarter 2002. A phase IIb international, double-blind, placebo-controlled clinical study enrolling a total of 500 patients commenced in February 2002. The forecasted peak sales volume is € 300 million.

A double-blind, placebo-controlled phase II study involving the active substance harkoseride for the treatment of neuropathic pain has been in progress since the beginning of June 2001. Overall, this study will involve approximately 120 patients and results are expected to be available in the fourth quarter of 2002. A further phase II study commenced in February 2002. Sales potential is estimated to be € 400 million. Currently there is hardly any drug which relieves neuropathic pain. Doctors and patients predominantly use anti-convulsants to fight this pain.

SCHWARZ PHARMA'S successful drug business on the international pharmaceutical markets secures the financing for the successful ongoing development of the pipeline. With these innovative drugs SCHWARZ PHARMA is securing future market shares with attractive sales and earnings potential.

Projects in Clinical Development

INDICATION	PHASE II	PHASE III
NEUROLOGY	Harkoseride NEUROPATHIC PAIN Rotigotine CDS RESTLESS LEGS SYNDROME Harkoseride EPILEPSY	Rotigotine CDS PARKINSON
UROLOGY	Fesoterodine INCONTINENCE	

The Financial Year in Overview

Sales development

In the 2001 fiscal year the SCHWARZ PHARMA-Group increased sales by 4.3 % to € 767.7 million, exceeding the annual target.

Europe

The **German sales organization** increased sales by 5.7 % to € 210.1 million. Adjusted for the divestiture of the product LIPREVIL[®] in 2000, sales growth of the German subsidiary was 12 %. In 2001 the best selling drug of SCHWARZ PHARMA Deutschland GmbH was again the gastrointestinal drug RIFUN[®] (pantoprazol); sales rose to € 33.5 million (+7.5 %). The cardiovascular drugs PROSTAVASIN[®] (alprostadil), for the treatment of peripheral arterial occlusive diseases, and ISOKET[®] (isosorbiddinitrat), for the treatment of coronary heart disease achieved sales of € 27.7 million (+2.5 %) and € 26.9 million (– 9.2 %) respectively.

SCHWARZ PHARMA Deutschland GmbH increased the share of patent-protected drugs through product launches. The innovative anti-asthmatic drug ATMADISC[®] was introduced to the market in September 2000. For the marketing of the anti-asthmatic products and to further increase sales of PROVAS[®] which was introduced in 1999, SCHWARZ PHARMA extended its sales force by 100 employees in the autumn of 2000. PROVAS[®] achieved sales of € 16.8 million in 2001 (+76.7 %) and, as early as 2001, ATMADISC[®] achieved a sales volume of € 16 million.

European sales excluding Germany rose by 5.2 % to € 285.5 million despite increasing market regulations by various governments. SCHWARZ PHARMA achieved the strongest increases in Italy, where the cardiovascular product CLIVARINA[®] (reviparine soidum) was successfully launched and on the Eastern European markets. In detail 2001 sales developed as follows.

Despite price reductions ordered by the government sales on the Spanish market were retained at just € 44.2 million. The strongest selling product was NORPRAMIN[®] (omeprazole), a gastro-intestinal drug where sales declined by 14.3 % to € 18.6 million due to the required price reductions.

Business in France rose by 3.8 % to € 57.1 million after a decline both in 2000 and 1999. The strongest selling product is the migraine drug SEGLOR[®] (dihydroergotamin) at € 11.9 million (– 2.5 %). Sales of the gastrointestinal drug VOGALENE[®] (metopimazin) continued the success of the new marketing strategy in 2001 with growth of 11.7 % to € 8.6 million.

Sales in Italy rose by 11.9 % to € 57.1 million. The cardiovascular drugs CLIVARINA[®] (reviparine sodium) and PRIMESIN[®] (fluvastatin) which were licensed in 2000 developed extremely well. PRIMESIN[®] achieved sales of € 1 million and CLIVARINA[®] generated € 5.3 million in its first year on the market. The strongest selling drugs were DEPONIT[®] (glyceroltrinitrat), a patch for the treatment of angina pectoris (+ 6.2 % to € 14.7 million) and LORANS[®] (lorazepam), licensed in 1999, for the treatment of anxiety (+4.3 % to € 9.6 million).

Due to the overall market situation for the two core products TYLEX[®] (paracetamol, codein), for the treatment of pain and ELANTAN[®] (isosorbidmononitrat), for the treatment of angina pectoris, sales dropped by 7.8 % to € 31.8 million in Great Britain. However, these sales exceeded expectations.

Sales in Poland rose by 33.7 % to € 24 million. Proven cardiovascular products such as EFFOX[®] (isosorbidmononitrat) and the successful launch of the newly licensed cardio-vascular drug TICLO[®] (ticlopidine) in 2000 supported this development.

U.S.A.

In the U.S. SCHWARZ PHARMA increased sales by 6.1 % to € 231.4 million. Based on local currency rates sales of the distribution company SCHWARZ PHARMA Inc. rose by 3 %. Core products that were sales and growth drivers include: the ACE inhibitor UNIVASC[®]/ UNIRETIC[®] (moexipril) with an increase in sales of 18.1 % to € 57.1 million, the calcium antagonist VERELAN PM[®] (verapamil HCL), with sales rising by 95.5 % to € 33.4 million and the gastro-intestinal product lines COLYTE[®] (€ 16.2 million; +22.7 %) and LEVSIN[®] with the newly introduced extensions (€ 24.3 million; + 8.2 %).

Asia

The dynamic sales growth in Asia continued to improve, due to the solid performance of established products and supplemented by product launches. Sales volume in Asia rose by a further 53.4 % to € 17.7 million, primarily in China and the Philippines.

Earnings development

Gross profit in 2001 grew more strongly than sales with an increase of 8 % to € 466 million. Newly introduced products and products with higher gross margins (e.g. UNIVASC®, VERELAN® PM and the nitrates group) as well as supply chain optimization contributed to this.

Selling, general and administrative expenses rose by 4 % to € 313.2 million. Despite launching several new products (e.g.

ATMADISC® in Germany, NEXXAIR® in France and NULEV® in the U.S.) and the expansion of the sales force, selling expenses did not rise quite as fast as sales.

Research and development expense rose by 17% to € 107 million. This increase is due to progress in the pipeline, a consequence of the increased number of clinical studies executed in 2001.

Amortization of intangible assets decreased by 17.2 % to € 38.4 million. Other operating income and expenses benefited from the sale of technology no longer required in the research and development division and improved from € 6 million to € 10.4 million.

The 2001 operating result thus increased by € 20.1 million to € 16.5 million, after a loss of € 3.6 million in 2000.

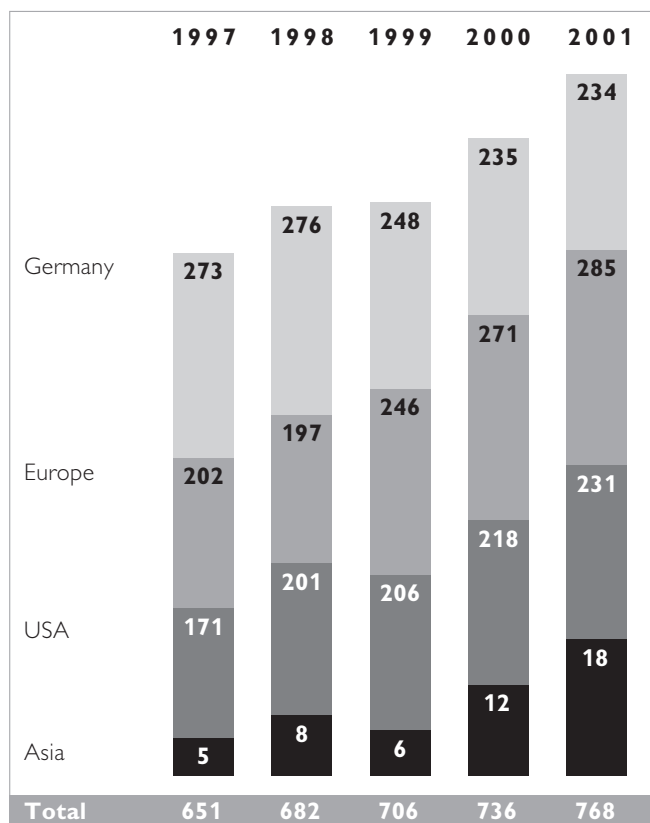
Interest expenses dropped by 10.1 % to € 8 million. This was offset by interest income of € 3.6 million, after € 15.5 million in the previous year. Due to the sale of securities interest income for 2000 was very positive. Overall the net interest position in 2001 was € -4.4 million.

AXCAN PHARMA Inc., Canada made an early payment in settlement of the remaining purchase price for the 1999 acquisition of all shares in the AXCAN-SCHWARZ LLC joint venture. The purchase price payment of € 42.9 million received at the end of June 2001 increased non-operating income to € 53 million.

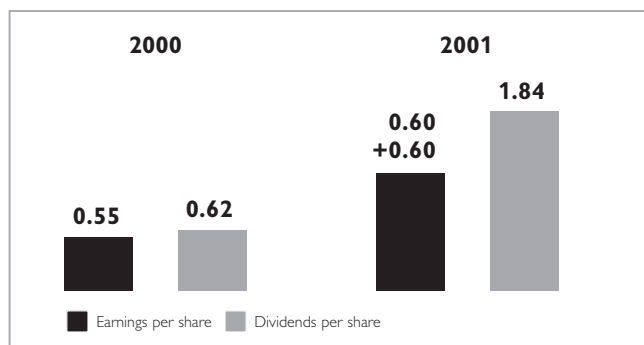
Income before taxes thus increased by € 47.3 million to € 65.1 million. The tax rate was 38.1 %, which corresponds to taxes of € 24.8 million. Net income tripled to € 40.5 million. This translates to € 1.84 per share.

Excluding the special earnings from AXCAN, net income for 2001 totaled € 16.1 million. This corresponds to an increase of 18.4 % and exceeded our expectation of a 15 % rise.

Sales Development by Region (in € million)



Earnings and Dividends per Share



As a consequence of the investments especially the balance sheet total increased by 10.8 % to € 904.9 million as at December 31, 2001, compared to December 31, 2000. The equity ratio was 60 % after 61 % in the previous year.

As of December 31, 2001 the number of employees rose by 287 to 3,542. On a yearly average the number of employees increased by 195 to 3,428. The new employees are largely employed in research and development, marketing and sales and production divisions.

Financial Situation

The cash flow from operating activities dropped by 31 % to € 71.2 million. Optimization of inventory management led to a considerable reduction of inventories in 2000 and thus to corresponding cash inflows. These were not repeated in 2001.

Capital Expenditures (in € million)	2000	2001
Intangible assets	18.1	60.7
Tangible assets	40.9	32.9
Financial assets	5.0	3.6
Total	64.0	97.2

The outflow of funds from investment activities was € 95.6 million, after € 41.4 million in the previous year. SCHWARZ PHARMA invested € 32.9 million in tangible assets such as the new production plant for nitrate products in Ireland, machines and laboratory equipment. € 60.7 million were invested on intangible assets such as product rights in the U.S., Great Britain, France and Spain, stakes in collaboration partners as well as the contingent purchase price for the Spanish affiliate.

Cash inflows from financing activities were €31.8 million. As of December 31, 2001, the liquid funds of the SCHWARZ PHARMA-Group increased by 34.5 % to € 32.3 million.

Employees at SCHWARZ PHARMA by sectors

Marketing and Sales	47 %
Production	26 %
Search & Development	11 %
Service	16 %

Employees at SCHWARZ PHARMA by region

Germany	42 %
Europe	32 %
U.S.A.	19 %
Asia	7 %

Consolidated Financial Statements and Management's Discussion and Analysis

The accompanying consolidated financial statements were prepared in accordance with the United States Generally Accepted Accounting Principles (U.S. GAAP). The consolidated statements of income, shareholders' equity and cash flows were prepared for the years ended December 31, 2001, 2000 and 1999. The consolidated balance sheets were prepared as of December 31, 2001 and 2000.

In order to comply with §292a German Commercial Code (HGB), the consolidated statements were prepared in Euro and supplemented with Management's Discussion and Analysis and further explanations. Therefore, the consolidated financial statements comply with the Fourth and Seventh Directive of the European Community.

The complete consolidated financial statements – established in Euro – shall be published in the Bundesanzeiger and deposited with the Handelsregister (Commercial Register) of the Amtsgericht (Local Court) of Langenfeld/Rheinland.

The following auditor's report was issued on the consolidated financial statements which were prepared in Euro:

Independent Auditors' Report

To the shareholders of SCHWARZ PHARMA AG, Monheim:

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements, prepared by SCHWARZ PHARMA AG for the business year from January 1 through December 31, 2001. The preparation and the content of the consolidated financial statements are the responsibility of the Company's executive board. Our responsibility is to express an opinion whether the consolidated financial statements are in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP) based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance

whether the consolidated financial statements are free of material misstatements. 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 amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, 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 give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with U.S. GAAP.

Our audit, which also extends to the group management report prepared by the executive board for the business year from January 1 through December 31, 2001 has not led to any reservations. In our opinion, on the whole the group management report together with the other disclosures in the consolidated financial statements provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2001 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law. We conducted our audit of the required consistency of the group accounting and the Seventh EU Directive for the exemption from the requirement for consolidated accounting pursuant German commercial law on the basis of the interpretation of the Directive by the European Commission's Contact Committee on Accounting Directives.

Düsseldorf, February 28, 2002

Ernst & Young

Deutsche Allgemeine Treuhand AG
Wirtschaftsprüfungsgesellschaft

signed Beyer
Wirtschaftsprüfer

signed Lewe
Wirtschaftsprüfer

Statements of Income

SCHWARZ PHARMA AG and Subsidiaries

Year ended December 31

(€ in thousands, except per share amounts)

	Notes	1999	2000	2001
Net sales		705,883	736,192	767,728
Cost of goods sold	4	293,811	304,609	301,710
Gross profit		412,072	431,583	466,018
Selling expense		238,715	244,209	254,078
General and administrative expense		54,508	56,803	59,117
Research and development expense		77,064	91,482	106,982
Amortization and depreciation of intangible assets		41,450	46,354	38,413
Impairment loss		43,653	2,326	1,329
Other operating income (expense) – net		13,498	5,978	10,453
Operating income (loss)		(29,820)	(3,613)	16,552
Interest and similar income		4,155	15,509	3,613
Interest expense		8,406	8,939	8,036
Other income (expense) – net	7	92,883	14,820	52,985
Income before income taxes and minority		58,812	17,777	65,114
Income tax	8	51,284	4,369	24,822
Minority interest		(726)	(216)	(213)
Net income		8,254	13,624	40,505
Basic earnings per share in €	16	0.37	0.62	1.84

Balance Sheets

SCHWARZ PHARMA AG and Subsidiaries

December 31 (€ in thousands)	Notes	2000	2001
ASSETS			
Current assets			
Cash and cash equivalents		23,993	32,282
Marketable securities		–	12,013
Accounts receivable, less allowances (2000: 1,746; 2001: 1,874)		108,688	125,694
Inventories	9	80,609	87,267
Prepaid expenses and other current assets		6,361	8,129
Deferred income taxes	8	23,775	25,871
Total current assets		243,426	291,256
Property, plant and equipment			
Land and buildings		123,220	132,275
Machinery and equipment		169,725	182,116
Construction in progress		8,167	11,145
Less accumulated depreciation		121,586	132,502
Total property, plant and equipment	10	179,526	193,034
Goodwill and other intangible assets			
Net of accumulated amortization (2000: 240,413; 2001: 275,691)	10	320,340	348,738
Long-term investments and other assets	10, 11	54,608	47,918
Deferred income tax – non current	8	19,057	24,003
TOTAL ASSETS		816,957	904,949
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term debt	12	35,984	56,289
Current portion of long-term debt	12	57,744	73,431
Accounts payable		52,846	55,195
Accrued liabilities and other current liabilities		82,093	75,617
Income and other tax liabilities		18,994	14,680
Total current liabilities		247,661	275,212
Long-term debt	12	34,481	45,155
Pensions	14	19,297	19,682
Other accrued and non-current liabilities		16,242	21,199
Minority interests		626	413
Shareholders' equity			
Common stock (authorized 42,410,000 shares, issued 22,540,000 shares in 1999 and 2001)		58,604	58,604
Additional paid-in capital		141,327	141,327
Retained earnings		248,691	277,099
Treasury stock; at cost (546,500 shares in 2000 and 2001)		(17,813)	(17,813)
Accumulated other comprehensive income ¹⁾		67,841	84,071
Total shareholders' equity	15	498,650	543,288
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		816,957	904,949

¹⁾ OCI = "Other Comprehensive Income" according to SFAS 130 "Reporting Comprehensive Income"

Statements of Cash Flows

SCHWARZ PHARMA AG and Subsidiaries

Year ended December 31 (€ in thousands)	1999	2000	2001
Cash Flow from Operating Activities			
Net income	8,254	13,624	40,505
Adjustments to reconcile net income to net cash:			
Depreciation and amortization	62,734	70,510	61,092
Impairment loss	43,653	2,326	1,329
Loss (Gains) on sales of tangible and intangible assets	(2,822)	(605)	1,153
Loss (Gains) on sales of long-term investments	(83,723)	(8,509)	0
Undistributed earnings of affiliates	2,358	6,862	3,385
Deferred income taxes	(11,102)	(5,501)	(7,108)
Net changes in assets and liabilities:			
Accounts receivable	15,328	(4,230)	(15,139)
Inventories	(21,383)	48,353	(4,669)
Other assets	(8,230)	(2,303)	(2,858)
Accounts payable	18,136	(1,606)	(681)
Accrued domestic and foreign taxes	(6,072)	(4,573)	(4,408)
Pensions	2,346	(4,282)	554
Other accrued liabilities	19,545	(6,839)	(1,979)
Net Cash Provided by Operating Activities	39,022	103,227	71,176
Cash Flow from Investing Activities			
Capital expenditures	(39,579)	(40,883)	(32,852)
Acquisition of businesses and intangible assets,	(74,498)	(18,143)	(60,679)
Net of cash acquired			
Disposition of businesses, net of cash disposed	126,772	0	0
Proceeds of sales of property, plant and equipment and intangible assets	1,316	11,285	1,509
Purchase of investments and marketable securities	(1,886)	(4,980)	(3,589)
Proceeds from sales/maturities of marketable securities	0	11,316	0
Net Cash Provided by (Used in) Investing Activities	12,125	(41,405)	(95,611)
Cash Flow from Financing Activities			
Net change in short-term borrowings	25,530	(20,736)	19,564
Proceeds from long-term debt	43,637	27,503	53,956
Repayments of long-term debt	(65,544)	(58,626)	(29,579)
Issuance (purchase) of treasury stock	(17,457)	(15)	0
Dividends paid	(28,803)	(22,490)	(12,097)
Net Cash Provided by (Used in) Financing Activities	(42,637)	(74,364)	31,844
Effects of exchange rate changes on cash and cash equivalents	560	932	880
Change in cash and cash equivalents	9,070	(11,610)	8,289
Cash and cash equivalents at beginning of period	26,533	35,603	23,993
Cash and cash equivalents at end of period	35,603	23,993	32,282

Management's Discussion and Analysis

Discussion of Statement of Income

The Consolidated Statement of Income summarizes the Company's operating performance over the last three years.

Net Sales

SCHWARZ PHARMA Group increased net sales by 4.3% to € 767.7 million in 2001.

In 2000, sales growth of € 30.3 million (+4.3%) to € 736.2 million was recorded. Excluding the impact of the acquisition in Spain, (CEPA SCHWARZ PHARMA S.L. ("CEPA") as of April 1, 1999) and excluding the reduction in sales as a result of the divestiture of the ISIS Group (referred to as the "Generic Business", as of June 15, 1999) sales growth would have been 7.2% in 2000. This increase includes the sale of approximately € 9.6 million in inventory to the Alpharma Group (former ISIS Group) in mid 2000. Exchange rate effects influenced sales positively in the amount of € 8.4 million in 2001, € 34.7 million in 2000 and € 8.4 million in 1999.

In 1999, the SCHWARZ PHARMA Group recorded growth in sales of 4.6% to € 705.9 million, excluding the impact of acquisitions and divestitures (before exclusion of acquisition and divestiture effects sales growth was +3.6%).

International sales grew by 6.6% in 2001 to € 534 million (as compared to increases of 9.2% and 12.8% in 2000 and 1999, respectively); whereas sales in Germany decreased by -0.7% to € 233.8 million (as compared to a reduction of -4.9% and -10.1% in 2000 and 1999, respectively). Excluding the impact from the sale of inventory to the Alpharma Group (former ISIS Group), in which inventory of approximately € 9.6 million was sold in mid 2000, sales in Germany would have risen by 3.5% in 2001, which is less than the average German market growth of 10%. In relation to total group sales, foreign business accounted for approximately 69.6% in 2001 as compared to 68.0% in 2000 and 64.9% in 1999. The U.S. accounted for approximately 43.2% of these foreign sales in 2001 as compared to 43.5% in 2000 and 45.1% in 1999. Europe accounted for 53.5% of total international sales in 2001 as compared to 54.2% in 2000 and 53.6% in 1999.

Similar to 2000, the twenty-five top-selling products accounted for 73% of total SCHWARZ PHARMA Group sales. The drug substance Moexipril, which is sold as a mono-product (UNIVASC®/ FEMPIRES®) as well as a combo-product (UNIRETIC®/FEMIPRES PLUS®), has remained the highest selling product in 2001 with sales amounting to € 67.2 million. This figure corresponds to an increase of 18% as compared to previous year's sales.

Sales of the calcium antagonist VERELAN PM®, a drug for the treatment of hypertension registered in the U.S. market, increased from € 17.1 million in 2000 to € 33.5 million in 2001. Sales of COLYTE®, a product for bowel cleansing prior to colonoscopy and is being sold in the U.S. market, rose by 22% to € 16.2 million in 2001. The best selling drugs in Germany are the gastro-intestinal drug RIFUN® (€ 33.5 million), the cardiovascular product ISOKET® (€ 48.7 million) and PROSTAVASIN®, a drug against peripheral arterial occlusive disease (€ 40.5 million).

In 2000, SCHWARZ PHARMA licensed in several patent-protected drugs which are planned to become our main growth products. These products proved to be very successful in 2001: Sales of PROVAS®, an all-antagonist, rose to € 16.8 million, whereas that of the anti-asthmatic ATMADISC® increased to € 16.0 million. Sales of the anti-migraine drug NARAMIG® (€ 5.5 million; -15%) as well as that of ZOLIM®, a product for the treatment of hay fever and allergies, turned out to be less successful (€ 3.9 million; -10%).

Gross profit margin was 60.7% of sales in 2001 as compared with 58.6% in 2000 and 58.4% in 1999. In absolute amounts, the increase in gross profit margins were more than proportional (+8% to € 34.4 million) as compared to the prior year. These increases were primarily the result of launching new products, selling products with higher profit margins (e.g. UNIVASC®, VERELAN PM® and the nitrate products) and optimizing our production units.

Selling expenses include promotion expenses, sales force expenses and other marketing expenses. Even though several products were launched and our sales force expanded, selling expenses remained nearly on the same level in 2001. As a percentage of sales, selling expense decreased to 33.1 % in 2001 from 33.2 % in 2000 (1999: 33.8 %). NEXXAIR[®], a drug for the treatment of asthma, was introduced in France, and BACTIL[®], a product against allergies, was launched in Spain. SCHWARZ PHARMA strengthened its position in the Polish cardiovascular market by introducing CARDIN[®]. Furthermore, sales force was expanded in several markets where SCHWARZ PHARMA is very successful (e.g. in Germany, Poland and Asia).

In 2000, the anti-asthma drug ATMADISC[®] was introduced in Germany. With CLIVARINA[®] and PRIMESIN[®], SCHWARZ PHARMA reinforced its position on the Italian cardiovascular market during the year.

In 1999, upfront expenses in connection with the launch of the product VERELAN[®] were necessary. These expenses were partially compensated by reimbursements of € 6.6 million from the licensor Elan Corporation.

As a percentage of sales, **general and administrative expenses** amounted to 7.7 % in 2001 (2000: 7.7 %, 1999: 7.7 %) and are therefore equivalent to previous years. Despite unfavorable exchange rate effects, this level could still be realized as a result of the re-organizational measures initiated in 1999. The results of these measures created newly defined and more efficient organizational units and strict world-wide cost saving programs.

Research and development expenses increased by 16.7 % or € 15.5 million to € 107.0 million in 2001. As a percentage of sales, 13.9 % of sales have been spent for research and development expenses, compared to 12.4 % in 2000 and 10.9 % in 1999. This substantial increase results from the development progress the SCHWARZ PHARMA pipeline has undertaken. The rising number of patients being treated in several clinical trials significantly influenced research and development expenses.

Due to positive results, SCHWARZ PHARMA was able to proceed with all projects. The description below is limited to the most important clinical projects:

Clinical development in neurology to find drugs for Central Nervous System diseases (CNS) is proceeding with four projects: Rotigotine CDS for the therapy of Parkinson's Disease and Restless-Legs-Syndrome, and Harkoseride* for the treatment of epilepsy and neuropathic pain.

The project Rotigotine CDS (Parkinsons' Patch) is proceeding as scheduled. Two phase IIb clinical trials were successfully completed in January 2001. In addition, the concept and design of the phase III clinical trials were presented and approved by the U.S. and European drug registration authorities (FDA and EMEA). These studies started on schedule in November 2001 and will include trials on a total of 1,200 patients suffering from an early and advanced state of the disease.

At the end of November 2001 a phase II pilot study was started, in which Rotigotine CDS was tested in connection with the Restless-Legs-Syndrome (RLS). Results are expected by 2002.

* proposed INN

The Harkoseride* project is currently in phase II clinical trials. A first phase II pilot study to treat neuropathic pain has met expectations and was followed by a study on 120 patients at the beginning of June. Further studies are being prepared. With regards to epilepsy, a study with approximately 100 patients is carried out to establish the right dosages and to discover tolerance levels towards the drug.

Studies on SCHWARZ PHARMA's urology compound Fesoterodine are making significant progress. Phase IIb clinical trials started on schedule in September 2001. Fesoterodine is a patent protected compound for the treatment of urinary incontinence and is to be tested in approximately 800 patients during a multi-national dose finding trial.

SCHWARZ PHARMA continues to focus on projects that show good clinical results as part of its strategic outlook. Therefore, SCHWARZ PHARMA will concentrate its resources on the Central Nervous System and Urology programs. Projects are regularly examined as to what extent they are likely to be successful, with corrective actions a part of the general risk in a pharmaceutical company that is doing research and development. There can be no guarantee against these kinds of risks.

A decision was made to discontinue a study with the American partner Cephalon Inc., U.S.A., on a tyrosine kinase inhibitor for the treatment of prostate cancer. The project was stopped in May 2001, since the compound was not deemed to be effective. Another project, "C-Peptide", for the therapy of late complications in diabetes type I patients was discontinued in February 2001.

* proposed INN

Amortization and depreciation of intangible assets

In 2001 there was no extraordinary depreciation recorded in addition to ordinary depreciation.

In 2000, the human growth formulations NUTROPINAQ® and NUTROPIN DEPOT® were in the process of being registered with the European authorities (EMA). NUTROPINAQ® was registered in January 2001, whereas for NUTROPIN DEPOT® it became clear towards the end of the first quarter of 2001 that the approval process would be delayed. Consequently, its launch, originally scheduled for the end of 2001 would also be delayed. As a result of these delays, in 2000 SCHWARZ PHARMA AG recorded an extraordinary depreciation charge of € 7.8 million related to previously capitalized payments.

As the project would have required more resources than expected and marketing NUTROPINAQ® without NUTROPIN DEPOT® did not appear feasible, the exclusive development and marketing rights were sold back to Genentech Inc., U.S.A., in June 2001.

Impairment loss (according to FAS 121)

As future sales of MIZOLLEN®, a product marketed in the United Kingdom for the relief of allergies, are expected to be below future expectations, an impairment loss of € 1.3 million was recorded. This loss results from the difference between the carrying value of the product right at year end and its fair value, based upon estimated discounted future cash flows.

Upon termination of the "C-Peptide" project in 2000, the Company fully depreciated € 2.3 million of non-marketable securities of our contractual partner Creative Peptides AB, Sweden. The carrying value of these securities could not be justified any longer due to the termination of the project.

In 1999, SCHWARZ PHARMA incurred an impairment loss of € 43.7 million on long-lived assets from its U.S. operations, which represented the difference between the carrying value of goodwill and product rights and their fair value, based upon estimated discounted future cash flows.

Other operating income includes a € 4.4 million gain from the disposal of ASES Technology as well as a € 1.9 million gain that our French subsidiary achieved by selling some minor product rights. In addition to this, included here are reimbursements from the former AXCAN-SCHWARZ LLC Joint Venture for selling and administration expenses as well as marketing support for VERELAN® from Elan Corporation.

Reimbursements from the AXCAN-SCHWARZ LLC Joint Venture ceased in 1999 and while marketing support from Elan Corporation in 2001 was consistent with 2000 and in accordance with the agreement.

Interest and similar income amounted to € 3.6 million in 2001 as compared to € 15.5 million in 2000 and € 4.1 million in 1999. The decline in 2001 as compared to 2000 mainly resulted from a lesser amount of securities being held (€ 9.0 million in asset securities were sold in 2000). In addition to this, interest income generated from the outstanding principal payments due from AXCAN PHARMA, Inc. upon the divestiture of the Joint Venture AXCAN-SCHWARZ LLC, was lower in 2001. Interest income on the outstanding principal decreased by € 2.9 million as compared to 2000 (2001: € 2.0 million; 2000: € 4.9 million; 1999: € 0.6 million) as a result of the full repayment of the outstanding principal by AXCAN PHARMA Inc. in June 2001.

The increase in 1999 results from the temporary investment of the proceeds from the divestiture of the Generic Business.

Interest expense amounted to € 8.0 million in 2001, which was slightly below previous year's expenses of € 8.9 million. Short-term and long-term financial payables continued to be reduced throughout 2001 in addition to the considerable reduction in 2000. Consequently, interest payments were correspondingly reduced.

Compared to 2000, the net interest result went down by € 1.9 million, since interest income from AXCAN PHARMA Inc., Canada, on the outstanding principal payment decreased in 2001 after the payment was effected in June 2001. (Net interest expenses: 2001: € 4.4 million; 2000: € 2.5 million; 1999: € 4.2 million.) The aforementioned net interest expenses for 2000 (€ 2.5 million) is already reduced by the income of € 9.0 million that had been achieved by selling current asset securities.

In 1999, interest expenses exceeded 1998 expenses by 26.9%. The main reason for this increase was an additional financing need due to the acquisition of "CEPA".

Other income (expense) – net increased in 2001 primarily as a result of the prepayment by AXCAN PHARMA Inc., Canada, of the remaining principal from the 1999 divestiture of the AXCAN-SCHWARZ LLC Joint Venture. This income amounted to € 42.9 million. As AXCAN U.S. was a highly leveraged entity, the non-cash portion of the gain on the original transaction was deferred and set off against the underlying purchase price receivable until such time AXCAN U.S. has the cash flow available to make payments. The Company has recognized the gain as principal payments were received. In addition, an accrual, originally set up in 1999 for past-registration risks, was reversed in 2001 (€ 10.2 million).

Finally, other income/expense includes income and/or expense from equity investments, gains and losses on disposal of fixed assets and exchange rate gains or losses. After a decrease in income from equity investments in 2000 as compared to 1999 (2000: € 1.4 million, 1999: € 2.1 million), it increased by € 1 million to € 2.4 million in 2001.

The decrease in other income/expense income by € 78.1 million from 1999 to 2000 is based upon one-time gain recognized on the disposal of the generic business in 1999 (gain of € 91.2 million). However, other income was positively impacted in 2000 by scheduled gains from the divestiture of the Joint Venture AXCAN-SCHWARZ LLC (+ € 10.1 million as compared to 1999) as well as gains from disposal of product rights (€ 5.8 million).

Income from equity investments improved by € 7.3 million to € 2.1 million in 1999, as the result of the positive contribution of the newly formed Joint Venture HOYER-MADAUS GmbH & Co. KG in early 1999.

The **income tax rate** increased to an effective tax rate of 38.1 % in 2001, compared to 24.6 % in 2000 and 87.2 % in 1999. In 2000, the income tax rate was reduced primarily by diversification of taxable income from Germany to other countries where income is subject to lower tax rates. In the fiscal year 2001, the income tax rate increased primarily due to the non-operating income from the remaining principal payments received from the divestiture of the AXCAN-SCHWARZ LLC Joint Venture in the USA, which is taxed at approximately 43%.

The strong increase in 1999 was primarily the result of taxable German income due to the gain on the disposal of the ISIS Group. In addition, there was no tax benefit available for the goodwill impairment recorded in the U.S.

Net income increased by 197% to € 40.5 million in 2001, whereas in 2000 it increased by only 65.1 % to € 13.6 million as compared to 1999. Exchange rate effects influenced net income differently in the considered reporting periods. In 2001 and 2000, exchange rate

effects improved net income by € 1.6 million and € 1.4 million, respectively, whereas exchange rate effects decreased net income by approximately € 2.2 million in 1999. Excluding these exchange rate effects, net income would have risen by 185 % in 2001, in comparison to an increase of 48.4 % in 2000 and a decrease of 82.8 % in 1999. Net income as a percentage of sales was 5.3 % in 2001, compared to 1.9 % in 2000 and 1.2 % in 1999. Significant changes in 2001 and 2000 pre-tax income related to:

2001

- income of € 42.9 million from of an early payment of the purchase price for the divestiture of the AXCAN-SCHWARZ LLC Joint Venture
- impairment loss of € 1.3 million
- further increase of research and development expenses of € 15.5 million
- gain on disposal of the ASES Technology of € 4.4 million
- gain on disposal of product rights of € 1.9 million
- income of € 10.2 million out of the reversal of an accrual for potential risks incurring after registration

2000

- impairment loss of € 2.4 million
- extraordinary depreciation of intangible assets amounting to € 7.8 million
- increased research and development expenses of € 14.4 million
- gain on disposal of available for sale securities of € 9.0 million
- gain on divestiture of product rights of € 5.8 million
- scheduled gains on divestiture of equity investment of € 11.4 million (1999: € 1.3 million)

Production

During 2001, SCHWARZ PHARMA has achieved further manufacturing efficiency gains. Several benchmarking projects aimed at productivity improvements and cost reductions resulted in a considerable increase of the gross margin as compared to the previous year (see above).

In anticipation of a potential launch of the generic omeprazole in the U.S., the U.S. production site in Seymour, Indiana was expanded and equipped with the necessary manufacturing capabilities during 2001. The German production site in Monheim has been further modernized in order to provide even higher quality packaging service by the middle of 2002. The new nitration plant was inaugurated in Shannon, Ireland (Sifa Ltd.), which by 2002 will be in charge of the company's world-wide nitration supply. In addition to these measures, several new production service agreements have been signed to engage new contract labor partners.

In 2000 SCHWARZ PHARMA finalized the technical aspects of the European Production Strategy (EPS 2000). This strategy had been launched in 1996. The regulatory aspect of this strategy was completed in 2001. In 2000, SCHWARZ PHARMA was inspected twice by the U.S. Food and Drug Association (FDA). These inspections did not lead to any major findings. In 2001, Shannon and our headquarters in Monheim were inspected by the FDA without any major findings.

Already in 1999, SCHWARZ PHARMA underwent organizational changes within its manufacturing unit. Beginning in 1999 the organizational entity SPO ("SCHWARZ PHARMA Operations") concentrates world-wide responsibilities for all production steps within the Group. As a result, SCHWARZ PHARMA Produktions-GmbH & Co. KG was separated from SCHWARZ PHARMA AG into its own legal entity in November 1999. This new affiliate is part of the SPO structure which was created in order to guarantee efficient functioning of the production facilities and be able to offer competitive contract manufacturing to third parties.

Outlook

As a result of the Group's strategy of Search & Development of innovative drugs which address unmet medical needs, no forecast can be given with respect to net income development in 2002 that carries complete certainty. Uncertainties regarding future product registrations and launches into the market of those projects, which are currently part of SCHWARZ PHARMA's pipeline and represent a central strategy, can significantly affect successful business development in the future. Furthermore, reforms in the public health care systems will lower the profit margin of important products, thus having an impact on the Company's net income. However, SCHWARZ PHARMA expects sales and net income (after elimination of the extraordinary effect caused by the AXCAN-SCHWARZ LLC gain in 2001) to rise slightly in 2002. The Company anticipates an increase in R&D-expenses for current and planned projects (expenses of € 107 million in 2001, plus 10% in 2002).

"Bridging" Strategy

Several projects have been started in order to bridge the gap between the development and launch of products that are currently in our research pipeline. These projects are of sufficient substance in order to improve the Company's financial and operational performance and will have a positive influence on future developments.

SCHWARZ PHARMA holds formulation patents and has received tentative approval for generic omeprazole 10 and 20 mg in the U.S. The compound patent for omeprazole expired in October 2001. SCHWARZ PHARMA considers itself in a favorable position as far as the legal proceedings are concerned, since SCHWARZ PHARMA is convinced not to infringe ASTRAZENECA formulation patents. To market this generic product offers a favorable sales and income opportunity for SCHWARZ PHARMA which will be used for further R&D investments. A final sentence in the legal proceedings is expected for 2002.

In addition, SCHWARZ PHARMA intends to acquire marketable products world-wide that strategically fit in order to further increase income. Along with an innovative marketing strategy, these products will contribute to the Company's growth as well as to the mid- and long-term success of the research strategy.

Plans for fiscal year 2002 do not provide for additional debt or equity. However, should acquisitions or major product purchases constitute a need for major funding, SCHWARZ PHARMA AG could either increase share capital by issuing up to 11.3 million common shares or non-voting preferred shares, or issue convertible debentures of € 20.8 million, equivalent to additional 8 million common shares. The Company also has committed lines of credit available.

Management's Discussion and Analysis

Discussion of Balance Sheet

The Consolidated Balance Sheet show the Company's financial position at year-end in comparison to previous year-end. This statement provides information to assist in assessing factors such as the Company's liquidity and financial resources.

The overall effect of currency rate changes during the year caused a € 14.2 million increase in the foreign currency translation adjustments' equity account. These exchange rate changes also resulted in significant increases in accounts receivable, inventories, goodwill and property, plant and equipment as well as in accounts payable and various accrual accounts.

Marketable securities amount to € 12.0 million and relate to shares of AXCAN PHARMA, Inc., Canada (former joint venture partner) (see note 11). These have been reclassified from "Long-term Investments and other Assets" to "Marketable Securities" as they are considered available-for-sale. FAS 115 requires a disclosure of the actual Fair Value of marketable securities, with any change to book value recorded as "Other Comprehensive Income" in the equity section. According to FAS 115, the value of the marketable securities rose by € 3.5 million compared to the previous year.

Accounts receivable amounted to € 125.7 million at December 31, 2001, compared to € 108.7 million at December 31, 2000. The majority of this increase was caused by the 4.3% growth in sales and to a minor extent by cut-off date related influences, such as leasing our German marketing sales force. Tax and license receivables also increased the accounts receivables.

Inventories grew to € 87.3 million at December 31, 2001, compared to € 80.6 million a year ago. Several factors made it necessary to increase inventories: there was project related increases of certain raw-material and semi-finished goods in the U.S.; the introduction of SAP R/3 in Ireland in the 1st quarter of 2002 for which long supply periods made it necessary to keep additional safety stock. In addition, the inventory reserves were reduced by € 20.5 million as compared to € 26.4 million in 2000. This decline could be mainly realized by improving inventory management in the U.S.

Prepaid expenses increased by € 1.8 million to € 8.1 million in 2001 as SCHWARZ BIOSCIENCES Inc., USA, were required to prepay certain clinical trials to a contract research organization.

Fixed assets, net of accumulated depreciation, increased by € 13.5 million to € 193.0 million in 2001 after considering investments of € 33.1 million offset by depreciation of € 22.7 million. The increase in fixed assets mainly relates to further investments for improved technologies of our manufacturing facilities in the U.S. and Ireland.

Goodwill and other intangible assets increased by € 28.4 million to € 348.7 million at December 31, 2001 (2000: € 320.3 million). This increase results from investments of € 61.2 million offset by depreciation incurred during the year of € 39.7 million. In addition, an asset impairment loss of € 1.3 million on a SCHWARZ PHARMA product right was recorded. Investments include € 21.7 million paid as a contingent purchase price to former stakeholders of our Spanish subsidiary as well as a total of € 34.0 million for acquiring product rights in the USA.

Long-term investments and other assets slightly decreased by € 6.7 million to € 47.9 million in 2001. This is mainly the result of the reclassification of the investment in AXCAN PHARMA Inc., Canada, shares to "Marketable Securities". Furthermore, participations in research and developments partners of € 3.6 million have been acquired.

Total debt (short and long-term) increased to € 174.9 million as of December 31, 2001 from € 128.2 million in 2000. The increased financing needs were mainly the result of capital expenditures as well as of acquisitions of intangible assets and similar rights as mentioned above.

Accrued liabilities and other current liabilities decreased by € 6.5 million in 2001. This decline was caused by eliminating an accrual for post-registration risks (€ 10.2 million) and by increasing accruals related to employees bonuses etc. (approximately € 4.0 million).

Income and other tax liabilities were reduced by € 4.3 million to € 14.7 million due to tax payments that were made during the year.

Other accrued and non-current liabilities were recorded for a further tranche of the "Executive Stock Option Program" and for several benefit pension plans of certain subsidiaries. This line item increased by € 5.0 million to € 21.2 million at the end of 2001 (December 31, 2000: € 16.2 million).

Management's Discussion and Analysis

Discussion of Cash Flows

The Consolidated Statement of Cash Flows reflects cash inflows and outflows from the Company's operating, investing and financing activities. Cash and cash equivalents increased by € 8.3 million to € 32.3 million in 2001 after a decrease of € 11.6 million in 2000.

Cash Flow from Operating Activities

During 2001, cash flow provided by operating activities decreased to € 71.2 million after a peak level of € 103.2 million in 2000. The consolidated net income improved to 40.5 million in 2001 (2000: € 13.6 million). Depreciation and amortization amounted to € 61.1 million, which was lower than previous year by € 9.4 million. The net change in other assets and liabilities led to an outflow of € 29.2 million. This includes an increase in accounts receivables of € 15.1 million and a slight increase in inventories of € 4.7 million.

During 2000, cash flows provided by operating activities more than doubled to € 103.2 million. Beside the improvement of the consolidated net income of 65.1 % to € 13.6 million, the successful reduction of inventory levels contributed cash flows of € 48.4 million. Depreciation and amortization amounted to € 70.5 million, which exceeded the previous year by € 7.8 million. Net accounts receivable and payables were reduced by € 23.8 million in total.

In 1999, cash flow provided by operating activities – excluding the changes in the scope of consolidation – decreased to € 39.0 million. The reduction in operating cash flow was principally due to significantly lower net income for the period of € 8.3 million as compared with 1998. In addition, non-cash expenses such as depreciation and amortization, impairment loss and the reclassification items of loss/gain on asset disposals including long-term investments substantially decreased by € 38.2 million to € 19.8 million. Moreover, cash was used by increased inventory levels of € 21.4 million. This usage of cash was partially offset by cash provided through a decrease of € 15.3 million in accounts receivable and increases of

€ 18.1 million in accounts payable as well as increased other accrued liabilities of € 19.5 million.

Cash Flow from Investing Activities

In 2001, net cash used in investing activities was € 95.6 million (2000: outflow of € 41.4 million). Of these investments € 32.9 million were spent for tangible assets. In 2001, the new manufacturing plant in Ireland was nearly completed and the production facilities in the U.S. required additional technologies as a result of certain projects. Approximately € 60.7 million was spent to acquire product rights and other intangible assets. This includes the acquisition of two product rights in the U.S.A. (€ 33.5 million), the contingent purchase price paid for the Spanish subsidiary which was purchased in 1999 (€ 21.7 million) and business participations in several research and development partners (€ 3.6 million).

In 2000, net cash flow used in investing activities was € 41.4 million. The Company acquired € 64.0 million of gross investments and realized € 22.6 million of proceeds from asset disposals. Investments in tangible fixed assets of € 40.9 million mainly related to the new nitration plant in Ireland and the increasing capacities in the U.S. production facility. The acquisition of product rights and other intangible assets amounted to approximately € 18.1 million (e.g. ATMADISC®). SCHWARZ PHARMA also acquired € 5.0 million of shares in one of its cooperation partners. Proceeds amounting to € 22.6 million from the disposal of marketable securities as well as product right disposals were recorded.

During 1999, cash flow provided by investing activities amounted to € 12.1 million. This was primarily due to the proceeds from the disposal of the Generic Business that contributed cash of € 126.8 million. The acquisition of CEPA used cash of € 44.7 million and € 29.8 million was used to fund product acquisitions (e.g. PROVAS®, MIZOLLEN®, NARAMIG®). Capital expenditures, which focused on improved technology, totaled € 39.6 million in 1999.

Cash Flow from Financing Activities

During 2001, the positive cash flow from operating activities was not sufficient to cover investment activities. The financing gap was bridged by increasing short- and long-term loans by € 44.0 million. These loans were also used to pay the 2000 year dividend (€ 12.1 million). Cash and cash equivalents rose by € 8.3 million to € 32.3 million.

In 2000, the positive cash flow from operating activities was used to reduce of short- and long-term bank loans (€ 51.9 million) and to pay the 1999 year dividend (€ 22.5 million). Cash and cash equivalents were cut down by € 11.6 million to € 24.0 million.

In 1999, the Company reduced its outstanding long-term borrowings by a net total of € 21.9 million mainly using the cash provided by the divestiture of the ISIS Group. Short-term borrowings, however, were increased by € 25.5 million to finance current financial needs, e.g. increased inventories. The Company initiated a stock repurchase program for which € 17.5 million was used to repurchase approximately 2.5% of the outstanding stock.

The dividend pay-out ratio, which represents cash dividends paid per common share divided by basic earnings per common share, amounted to 65.2% in 2001, compared to 89.3% in 2000 and 278% in 1999.

In summary, based upon the Company's past performance and current expectations, the Board believes the cash flows generated from future operating activities, combined with the Company's worldwide financial capabilities, will provide adequate funds to support planned growth and continued improvements in the Company.

Segment Reporting by Geographic Area

SCHWARZ PHARMA AG and Subsidiaries

Years Ended December 31, (€ in thousands)	1999	2000	2001
Net sales			
Germany	351,758	337,127	344,063
USA	206,481	218,104	231,359
Europe (excluding Germany)	217,873	240,034	265,363
Asia	6,107	11,509	17,652
Inter-area elimination	(76,336)	(70,582)	(90,709)
	705,883	736,192	767,728
Operating income (loss)			
Germany	65,584	46,503	77,395
USA	(43,063)	414	15,375
Europe (excluding Germany)	25,235	28,309	34,004
Asia	(2,497)	(374)	1,885
Inter-area elimination	(4,776)	14,378	1,345
	40,483	89,230	130,004
Unallocated corporate expenses (a)	70,303	92,843	113,452
Operating income (loss)	(29,820)	(3,613)	16,552
Identifiable assets			
Germany	269,572	254,590	274,741
USA	295,386	303,156	343,119
Europe (excluding Germany)	230,351	230,689	258,974
Asia	8,183	11,070	12,668
Inter-area elimination	(36,579)	(68,991)	(81,716)
	766,913	730,514	807,786
Corporate Assets (b)	100,086	86,443	97,163
Identifiable assets	866,999	816,957	904,949
Long-lived assets			
Germany	146,088	132,940	122,349
USA	220,100	222,466	259,629
Europe (excluding Germany)	130,948	133,661	151,894
Asia	3,872	4,504	4,490
	501,008	493,571	538,362
Corporate Assets (b)	9,844	12,600	11,803
Long-lived assets	510,852	506,171	550,165
Additions to tangible and intangible assets (c)			
Germany	37,579	19,167	11,303
USA	20,223	14,014	44,926
Europe (excluding Germany)	9,587	24,857	15,959
Asia	863	796	377
Additions to tangible and intangible assets	68,252	58,834	72,565
Depreciation and amortization (d):			
Germany	23,036	27,691	20,591
USA	19,172	22,782	21,568
Europe (excluding Germany)	17,073	19,565	19,640
Asia	536	472	623
Depreciation and amortization	59,817	70,510	62,422

(a) Unallocated corporate expenses primarily relate to research and development, executive and supervisory board, general counsel as well as expenses of the legal department, business development, international marketing and finance.

(b) Corporate assets comprise cash and cash equivalents, marketable securities, investments, headquarter facilities and facilities held for sale.

(c) Additions to tangible and intangible assets do not include assets acquired in a business combination.

(d) Depreciation and amortization include only those of tangible and intangible assets and of exchange rate effects.

Sales between geographic areas are recorded at cost plus a proportionate share of profit. During 2001, 2000 and 1999 no customer accounted for more than 10% of consolidated net revenue.

Segment Reporting

Discussion

The SCHWARZ PHARMA Group is engaged in the discovery, development, approval, manufacturing and marketing of a broad and diversified line of pharmaceutical products and services. The Company's focussed indications are diseases of Cardiovascular, Central Nervous Systems (CNS), Gastro-intestinal and Urology. The majority of products are prescription-only and are sold primarily through pharmaceutical wholesalers.

The Company has adopted FASB Statement No. 131, "Discussions about Segments of an Enterprise and Related Information" according to U.S. GAAP. The SCHWARZ PHARMA business is divided into four geographic segments: Germany, Europe excluding Germany, USA and Asia.

The Business Segment Information presents net sales, operating income and assets by the principal geographic areas in which the Company operates.

Germany

	1999	2000	2001
Net sales (€ million)	351.8	337.1	344.1
Operating income, before unallocated corporate expense, as percentage of sales	18.6%	13.8%	22.5%

Sales in Germany, including exports to trading subsidiaries and distributors, fell in 2000 by 4.0% and rose by 2.1% in 2001. This decrease in 2000 is solely attributable to the divestiture of ISIS Pharma GmbH in June 1999. To some extent, this decrease was compensated by revenues from the divested business, intensification of marketing activities and sales growth from launched products.

At present, the product portfolio of SCHWARZ PHARMA Germany is significantly changing. While off-patent products are stagnating due to strong generic competition, recently in-licensed patent-protected products, such as the cardiovascular drug PROVAS[®] (valsartan) and the asthma treatment agent ATMADISC[®] (salmeterol/fluticason) are showing considerable growth rates.

The best-selling product of SCHWARZ PHARMA Germany in 2001 continued to be the gastro-intestinal drug RIFUN[®] (pantoprazol) with sales increasing to € 33.5 million (+7.5%). RIFUN[®] is followed by the cardiovascular drugs PROSTAVASIN[®] (alprostadiol), for peripheral arterial occlusive disease, and ISOKET[®] (isosorbidnitrate), for the treatment of coronary heart disease. Sales amounted to € 27.7 million (+ 2.5%) and € 26.9 million (-9.2%), respectively.

It is SCHWARZ PHARMA Germany's aim to achieve a significant increase in the proportion sales achieved by patent-protected drugs through the introduction of new products. In September 2000, the asthma treatment agent ATMADISC[®] with its innovative inhalation system was introduced into the German market. SCHWARZ PHARMA Germany's sales force was expanded by 100 people in late 2000 in order to be able to properly market the asthma product and to intensify the promotion of PROVAS[®], a drug launched in 1999. In 2001, sales of PROVAS[®] amounted to € 16.8 million (+76.7%) and ATMADISC[®] reached a sales volume of € 16.0 million.

The decrease in operating income in 2000 resulted from the divestiture of the ISIS Group and an unfavorable product mix: Products with higher margins were replaced by products with lower margins. In addition, increased marketing expenses resulting from the introduction of new products lowered the operating income in 2000. In 2001, SCHWARZ PHARMA managed to achieve a turn-around. The product mix was improved to a considerable extent as newly launched, as well as established products, were successful in the market. Lower marketing expenses for product launches as well as higher income from SCHWARZ PHARMA AG, which was a result of having certain subsidiaries contribute to the research expenses, led to an operating income increase of € 66.4%.

Europe (excluding Germany)

	1999	2000	2001
Net sales (€ million)	217.9	240.0	265.4
Operating Income, before unallocated corporate expense, as percentage of sales	11.6%	11.8%	12.8%

Within Europe, SCHWARZ PHARMA's strategic target is to become a customer-oriented pharmaceutical company which operates in all key markets with highly efficient marketing and distribution organizations. This enables the company to not only market its own products successfully, but also to license in new, patent-protected products.

Now that the Spanish company CEPA SCHWARZ PHARMA has been integrated in 1999/2000, the Company is now present in all European key markets with its own distribution companies. SCHWARZ PHARMA's sales force is able to successfully sell products in these important countries, not only to core clients such as general and internal physicians, but also to smaller target groups such as practitioners in urology, pneumology and allergology.

In 2001 and 2000, sales in European markets, excluding Germany rose by 10.6% and 10.2%, respectively. In 2000, growth principally resulted from the marketing organizations in Spain, Italy, Poland as well as from our branch offices in Eastern Europe. In 2001 sales have developed as follows:

The Spanish subsidiary CEPA was able to maintain sales of € 44.2 million despite governmental price cuts. CEPA's main product is NORPRAMIN® (omeprazole), a drug for the treatment of gastrointestinal ulcers. Due to these governmental price cuts, sales decreased by 14.3% to € 18.6 million. However, in November 2001, CEPA SCHWARZ PHARMA has extended its product portfolio by licensing the anti-hypertonic agent MITEN®/MITEN PLUS® (valsartan).

Sales of SCHWARZ PHARMA France increased 3.8% to € 57.1 million, in contrast to 2000 and 1999 in which sales declined. The best-selling product in France is the migraine drug SEGLOR® (dihydroergotamin), with sales amounting to € 11.9 million (-2.5%). A new marketing strategy helped to increase sales of the gastro-intestinal agent VOGALENE® (metopimazin) by 11.7% to € 8.6 million. SCHWARZ PHARMA acquired exclusive rights for two products for the treatment of asthma. In spring 2001, NEXXAIR® (beclometason) was launched for the long-term treatment of asthma. In addition, the French subsidiary has expanded its asthma product range with VENTEXXAIR® (a spray version of salbutamol) for the treatment of asthma in the acute state, which will be introduced into the market in late 2002.

Sales in Italy were € 57.1 million, which represents an increase of 11.9% as compared to previous year. In 2000, the Italian subsidiary licensed two cardiovascular drugs, CLIVARINA® (reviparin natrium) and PRIMESIN® (fluvastatin). These products have shown very positive sales trends: sales of PRIMESIN® amounted to € 1.0 million and sales of CLIVARINA® have risen to € 5.3 million in the first year. The top-selling products were DEPONIT® (glyceroltrinitrate), a component patch for the treatment of Angina Pectoris (+6.2% to € 14.7 million), and LORANS® (lorazepam) – licensed in 1999, which is for the medication of various states of anxiety (+4.3% to € 9.6 million).

Due to considerable competition, sales in Great Britain, with its top-selling products – TYLEX® (paracetamol, codein), a pain reliever, and ELANTAN® (isosorbidmononitrate), for the treatment of Angina Pectoris – declined 7.8% to € 31.8 million. However, this sales trend was beyond expectations. In 2001, IDROLAX® (polyethylen glykol), a laxative, was in-licensed in order to strengthen SCHWARZ PHARMA's position in the British pharmaceutical market. The product launch is planned for the 2nd quarter of 2002.

SCHWARZ PHARMA Poland increased sales by 33.7% to € 24.0 million. This development, which was exceptionally positive, was largely attributed to the cardiovascular products EFFOX® (isosorbidmononitrate) and TICLO® (ticlopidine), which was in-licensed and launched in 2000.

Sales in smaller European countries (Russia, the Czech Republic and Bulgaria), where SCHWARZ PHARMA is represented by branch offices or a license partner declined 1.1 % to € 51.2 million.

In 1999, the operating result in Europe (without Germany) decreased due to an unfavorable change in the product mix and the integration of the Spanish CEPA. However, in 2000, the Spanish subsidiary managed to contribute to the growth of the operating result (+12.6%). During 2001 the Italian and Polish affiliates contributed significantly (20.1 %) to the improvement of the operating result in Europe (excluding Germany).

U.S.A.

	1999	2000	2001
Net sales (€ million)	206.5	218.1	231.4
Operating income (loss), before unallocated corporate expense, as percentage of sales	(20.9%)	0.2%	6.6%

Sales of SCHWARZ PHARMA's U.S. operations rose by 6.1 %, compared to an increase of 5.6 % in 2000. Calculated in local currency, sales of our marketing organization SCHWARZ PHARMA Inc. increased by 3%. Substantial sales increases were realized from the anti-hypertensive agent UNIVASC®/UNIRETIC® (moexipril), which increased to € 57.1 million (+18.1%). The calcium antagonist VERELAN PM® (verapamil HCL), for the treatment of hypertension, contributed to sales growth with € 33.4 million (+95.5%) in total sales. The gastrointestinal products COLYTE® (€ 16.2 million; +22.7%) and LEVSIN® (€ 24.3 million; +8.2%), with the line extension launched in 2001, also contributed to the growth.

In 1999, the operating result was negatively influenced by a considerable impairment loss. In 2000, a change in product mix and a successful re-organization of the sales force considerably improved the operating result.

In 2001, a significantly improved product mix (mainly due to VERELAN PM®) and an optimization of the production facility led to a higher operating result.

Asia

	1999	2000	2001
Net sales (€ million)	6.1	11.5	17.7
Operating income (loss), before unallocated corporate expense, as percentage of sales	(40.9%)	(3.2%)	10.7%

SCHWARZ PHARMA's Asian subsidiaries increased sales on the Asian markets by 88.5 % in 2000. In 2001, sales volume increased by 53.4%, due mainly to the success of both established and newly launched products in China and the Philippines.

Start-up losses associated with the establishment of SCHWARZ PHARMA in Asia were significantly reduced in 2000 as compared to 1999. In 2001, a positive income was achieved for the first time.

Management of Business Risks

SCHWARZ PHARMA is subject to a number of business risks, which are constantly reviewed and evaluated. The most significant ones are described below, classified by risk categories.

Sales Risks

SCHWARZ PHARMA's ability to earn sufficient returns on its products depends, in part, on the availability of reimbursements from third party payers, such as health insurers, governmental health administration authorities and other organizations. These third parties are increasingly challenging the price and cost-effectiveness of medical products and services. There can be no assurance that adequate third party reimbursement will be available in the future to enable SCHWARZ PHARMA to achieve or maintain price levels sufficient to realize an appropriate return on its investment in product development. Furthermore, efforts to contain health care costs, particularly among European governments and managed care organizations in the U.S., continue to exert downward pressure on the pricing of off-patent products. The Board believes, however, that a negative effect on the Company's financial position and results of operation will not be impaired more than has been experienced in the past.

Currently, SCHWARZ PHARMA sales include sales based on license agreements with third parties. However, there is no guarantee that similar new agreements will be made in the future nor that current agreements will be prolonged.

SCHWARZ PHARMA's future sales depend to a large extent on the Company's ability to successfully develop marketable products. Despite the fact that SCHWARZ PHARMA invests considerably in product development, there can be no assurance that the Company will be able to develop a sufficient number of marketable products, nor that such products will be accepted in the marketplace.

Manufacturing and Supply Risks

All facilities and manufacturing techniques used for the manufacturing of products and devices for clinical use or for sale are operated in conformity with current Good Manufacturing Practices ("GMP"), the regulations governing the production of pharmaceutical products. SCHWARZ PHARMA's facilities are subject to scheduled periodic regulatory inspections by governmental authorities to ensure compliance with GMP regulations. SCHWARZ PHARMA believes that all of its facilities are in substantial compliance with GMP regulations. In case it is determined during one of these governmental inspections that SCHWARZ PHARMA does not operate in compliance with GMP regulations, this could have a material adverse effect on the Company's financial performance.

SCHWARZ PHARMA currently purchases raw materials and finished goods from single domestic or foreign suppliers. Although material difficulties have never been experienced, supply interruptions may occur in the future, which could force SCHWARZ PHARMA to obtain substitute materials or products. Depending on the raw material or product involved, a significant interruption of supply could have a material adverse effect on SCHWARZ PHARMA's operations. The critical materials and products have been identified and great effort is made to establish second suppliers where feasible.

Financial Risks

SCHWARZ PHARMA is continuously working on improving its existing financial management systems. These systems provide for a short-, medium- and long-term cash management, with which the Company's liquidity and currency management is being controlled.

A portion of SCHWARZ PHARMA's operations are subject to currency fluctuations. However, these exposures are reduced through the use of foreign currency forward exchange contracts. These contracts are entered with major financial institutions, thus, the risk of loss is considered remote.

Human Resources Risks

The fluctuation and recruitment of employees represents the main risk related to the Human Resources area. In order to guarantee high-quality pharmaceutical research, manufacturing and services, Human Resources must be able to reduce fluctuations and to recruit qualified employees. Therefore, the Company has defined several new benefit initiatives of which the most important ones are described below. With respect to incentive systems, the Executive Stock Option Program (ESOP), the Management Bonus Program and the Stock Appreciation Right Program (SAR) have been established. Salaries of certain employees include variable components, which can be earned if predefined personal as well as company objectives have been met during the year. Furthermore, these employees can participate in the long-term success of SCHWARZ PHARMA via the ESOP and SAR programs.

In order to retain and recruit employees, SCHWARZ PHARMA is also highly engaged in personal development programs. For instance, the "Global Leadership Program" was created to develop a company-wide management culture. The "Performance Dialogue" was introduced to define an employee's personal and working career in order to continuously discover training opportunities.

Management believes that these measures help reducing Human Resources Risks.

R&D Risks

To minimize risks in research and development, SCHWARZ PHARMA established an independent R&D controlling division whose tasks comprise expense accounting, budgeting and expense control. Financial models are applied to evaluate whether each R&D project is likely to be successful and if it will provide future income. Furthermore, net present values for all projects are calculated on a regular basis, giving consideration of statistical success probabilities. However, these instruments do not provide any guarantee to safeguard the Company against failure of one or several R&D projects.

Risk Management Systems

SCHWARZ PHARMA is constantly improving its risk management systems. In 2001, a new project was started to redefine and electronically elaborate risk data. SCHWARZ PHARMA is working on a company-wide method that takes the present risk structure, integrates and evaluates potential future risks and then portrays these risks using the "Value-At-Risk-Concept". These improved systems are expected to be finished by the middle of 2002.

Management believes that effective measures are being utilized to identify and deal with existing business risks.

Notes to Consolidated Financial Statements

(€ in thousands, unless otherwise noted)

1. Significant Accounting Policies

Principles of Consolidation – The consolidated financial statements include the accounts of SCHWARZ PHARMA AG and its majority-owned subsidiaries (“SCHWARZ PHARMA” or “the Company”). All material inter-company balances and transactions have been eliminated (receivables and payables as well as income and expense). Investments in corporate joint ventures are accounted for according to the equity method.

Revenue Recognition – Revenues are generally recognized when finished products are shipped or services have been rendered to unaffiliated customers.

Research and Development – Research and development costs consist of expenditures incurred during the course of planned research and investigation aimed to discover new knowledge which will be useful in developing new products or processes, or significantly enhancing existing products or production processes, and the implementation of such through design or testing of product alternatives. All research and development costs are expensed as incurred.

Cash and Cash Equivalents – The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and Cash equivalents consist primarily of commercial papers, certificates of deposit, bank repurchase agreements and money market fund investments carried at cost, which approximates fair value.

Inventories – Inventories are stated at the lower of cost or market. Cost is generally determined in accordance with the average cost method. Certain foreign companies determine cost using the last-in, first-out method. Provision for potentially obsolete or slow-moving inventory is made based on management’s analysis of inventory levels and future sales forecasts.

Property, Plant and Equipment and Depreciation – Property, plant and equipment are recorded at cost. Depreciation is provided using principally the straight-line method based on estimated useful lives of the assets as follows:

	years
Buildings	20 to 40
Machinery and equipment	3 to 15

Improvements that extend the useful life of property are capitalized, and maintenance and repairs are expensed.

Intangible Assets – The excess of the cost over the fair value of net assets of purchased business is recorded as goodwill and is amortized using the straight-line method over 15 years to 40 years. Other intangibles including trademarks, tradenames and distribution rights are valued at acquisition cost and are amortized using the straight-line method with estimated lives of 5 to 40 years.

Investments in Marketable Securities – The Company classifies its investments as either available-for-sale or held-to-maturity. Investments available-for-sale consist of marketable equity securities and are carried at fair value. Net unrealized gains and losses on investments available-for-sale, net of related income taxes, are reported as a separate component of shareholders’ equity. These investments are classified as non-current when it is management’s intention to keep the securities on a long-term basis.

Investments in Joint Venture companies, in which ownership is 50%, are stated at cost plus the Company's equity in undistributed earnings as required under the equity method of accounting.

Long-Lived Assets – The Company periodically evaluates the carrying value of property, plant and equipment and intangible assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized when the expected undiscounted cash flows derived from the asset are less than its carrying value. The Company recorded an impairment loss of € 1.3 million in 2001 and an impairment loss of € 2.3 million in 2000. In 1999 an impairment loss of € 43.7 million was recorded. The 2001 impairment loss related to a product right.

The 2000 impairment loss related to non-marketable securities of one of our cooperation partners. In addition, extraordinary depreciation of € 7.8 million was recognized for capitalized down payments related to the "Human Growth Hormone" project. These down payments were expenses as the product launch was to be delayed. This project was divested to its original licensor in 2001.

The 1999 impairment loss of € 43.7 million related to intangible assets of the manufacturing operations in Seymour, Indiana (formerly Central Pharmaceuticals Inc., purchased in 1995) and to product rights purchased from Block Drug Company in 1995. It was determined that the estimated future undiscounted cash flows were insufficient to recover their carrying values. The assets were written down to fair value, which was determined on the basis of discounted future cash flows and confirmed by independent appraisal.

Income Taxes – Income taxes are provided based upon income for financial reporting purposes. Deferred income taxes reflect the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company expects that undistributed earnings of certain foreign subsidiaries will be permanently reinvested in their operations. Accordingly, no provision is made for additional income taxes that might be payable on the distribution of such earnings.

Foreign Currency Translation – Assets and liabilities of foreign subsidiaries are translated into EURO at current exchange rates at the balance sheet date, and income and expenses are translated using weighted average exchange rates during the period. The effects that arise from translating these items are reported as a separate component of shareholders' equity. Exchange gains and losses from transactions in a currency other than the local currency of the entity involved are included in income (losses: € 0.2 million in 2001, € 1.6 million in 2000 and € 1.4 million in 1999).

The currency exchange rates used in preparation of the consolidated financial statements were as follows:

	Currency	Exchange rates at December 31,		Annual average exchange rates		
		2000	2001	1999	2000	2001
China	100 RMB	12.98	13.69	11.59	13.40	13.80
France	100 FRF	15.25	15.25	15.25	15.25	15.25
Great Britain	1 GBP	1.61	1.64	1.52	1.64	1.61
Hong Kong	100 HKD	13.77	14.53	12.10	13.93	14.32
Ireland	1 IEP	1.27	1.27	1.27	1.27	1.27
Italy	1000 ITL	0.52	0.52	0.52	0.52	0.52
Poland	100 PLZ	25.87	28.52	23.70	25.00	27.31
Switzerland	100 CHF	65.70	67.54	62.58	64.29	66.21
Spain	100 ESP	0.60	0.60	0.60	0.60	0.60
USA	1 US	1.07	1.13	0.94	1.08	0.12

Use of Estimates – The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and use assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Earnings per Share – Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding. Common stock equivalents had no dilutive effects for the period reported (“Diluted Earnings per Common Share”), therefore no presentation of “Diluted Earnings per Share” is requested.

The average number of shares outstanding was 21,993 thousand in 2001, 21,993 thousand in 2000 and 22,482 thousand in 1999.

New Accounting Pronouncements – In June 1998, the FASB issued SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, which establishes accounting and reporting standards for derivative instruments and for hedging activities. In the meantime, this standard has been amended by SFAS No. 137 and SFAS

No. 138. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. A gain or loss from hedging transactions may be wholly or partially recorded in earnings or comprehensive income, depending upon the classification of the hedge transaction. A gain or loss on a derivative instrument not classified as a hedging instrument is recognized in earnings in the period of change. SFAS No. 133 has become effective for the Company beginning in fiscal 2001. Therefore, a cut-off liability was recorded that diminishes earnings by € 0.2 million.

In June 2001, the Financial Accounting Standards Board issues SFAS No. 141, “Business Combinations”, and No. 142, “Goodwill and Other Intangible Assets.” SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. SFAS No. 142 will be effective for the Company beginning January 1, 2002. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the statement. Other intangible assets will continue to be amortized over their estimated useful lives.

In addition to these standards, in August 2001 the FASB issued SFAS No. 144 "Accounting for the Impairment of Disposal of Long-Lived Assets", which establishes new standards for accounting of long-lived assets. SCHWARZ PHARMA is required to adopt SFAS No. 144 effective January 1, 2002.

Reclassifications – Prior years' financial statements (2000 and 1999) have been reclassified to be consistent with the current year. These changes had no impact on previously reported results of operations or shareholders' equity.

2. Consolidated Companies

The detail of share ownership has been given to the Local Court of Langenfeld under HRB 1506 in accordance with §313 (4) German Commercial Code (HGB). As a rule, consolidated subsidiaries are those in which SCHWARZ PHARMA AG directly or indirectly holds the majority of voting rights or which are subject to its uniform control. Nine German and twenty-three foreign companies are included together with SCHWARZ PHARMA AG in the consolidated financial statements. The HOYER-MADAUS GmbH & Co. KG joint venture is accounted for under the equity method.

Twelve subsidiaries have been omitted due to their immaterial net worth, financial position and result of operations of the group; their sales volume accounts for less than 1 % of group sales.

The group of consolidated companies changed in the year under review as follows:

Additions

SCHWARZ BIOSCIENCES, GmbH, Monheim, Germany

SCHWARZ BIOSCIENCES was established on July 1, 2001, separating all research and developing activities from SCHWARZ PHARMA AG. The first step was to group all R&D activities in the legal entity of a GmbH that previously existed. The second step was to rename this legal entity SCHWARZ BIOSCIENCES GmbH. The purpose of this Company is to focus and strengthen our research and development activities in Europe.

Other Changes

AXCAN-SCHWARZ LLC., Wilmington, Delaware (U.S.A.)

In November 1999, the Company sold its 50% interest in AXCAN-SCHWARZ LLC. (AXCAN-SCHWARZ) at a price of € 58.7 million to AXCAN PHARMA U.S., Inc. (AXCAN U.S.). The joint venture between SCHWARZ PHARMA Inc. and AXCAN U.S., a United States subsidiary of AXCAN PHARMA, Inc. (AXCAN PHARMA), a Canadian company, was created in January 1997 for the purpose of marketing medicines containing Ursodiol in the United States.

The purchase price was to be paid in accordance with the terms of a loan agreement between the two parties of the transaction in November 1999. Under these terms AXCAN U.S. was to repay the unpaid principal amount of the loan and all accrued interest owing at a rate of 9% per annum. The scheduled payments were as follows: € 8.2 million in 1999, € 6.1 million in 2000, € 4.1 million in 2001 and with any remaining principal due in 2002. In addition, principal prepayments of the loan were to be made quarterly, based upon a percentage of annual net sales recorded by AXCAN U.S.

At the end of June 2001 AXCAN U.S. made use of its cancellation privilege and fully paid the remaining principal payment, which totaled € 42.9 million (€ 11.4 million in 2000; € 8.0 million in 1999). In addition, interest income recognized in 2001 approximated € 2.0 million (2000: € 4.9 million; 1999: € 0.6 million).

Since AXCAN U.S. was a highly leveraged entity, the non-cash portion of the gain on this transaction had been deferred and set off against the underlying purchase price receivable until such time AXCAN U.S. had the cash flow available to make payments. Therefore, the Company recognized the gain as principal payments were received. The total gain deferred as of December 31, 2001 approximated € 0 million, € 42.9 million as of 2000 and € 49.8 million as of 1999. The net gain recorded in 2001 was approximately € 42.9 million compared to € 11.4 million in 2000 and € 1.7 million in 1999.

In connection with the formation of AXCAN-SCHWARZ during 1997, the Company purchased 750,000 special warrants in AXCAN PHARMA (see note 11). These shares were not part of the aforementioned transaction.

During the fiscal year 2001 the following companies have been consolidated:

Purchase Method

SCHWARZ PHARMA AG, Monheim, Germany
 SCHWARZ PHARMA Deutschland GmbH, Monheim, Germany
 SCHWARZ PHARMA Produktions-GmbH & Co. KG, Monheim, Germany
 HOYER GmbH & Co., Monheim, Germany
 MELUSIN SCHWARZ GmbH, Monheim, Germany
 SANOL GmbH, Monheim, Germany
 SCHWARZ & Co. Immobiliengesellschaft Zwickau beschränkt haftende OHG, Zwickau, Germany
 SCHWARZ & Co. Industriegebäudegesellschaft Zwickau beschränkt haftende OHG, Zwickau, Germany
 SCHWARZ BIOSCIENCES GmbH, Monheim/Germany
 SCHWARZ PHARMA S.p.A., Milano/Italy
 SCHWARZ PHARMA Ltd., Chesham/GB
 SCHWARZ PHARMACEUTICAL Ltd., Chesham/GB
 MEDO PHARMACEUTICAL Ltd, Chesham/GB
 SIFA CHEMICALS AG, Liestal/Switzerland
 SIFA Ltd., Shannon/Ireland
 LABORATOIRES SCHWARZ PHARMA S.A., Boulogne/France
 SCHWARZ PHARMA USA Holdings Inc., Wilmington/USA
 SCHWARZ PHARMA Manufacturing Inc., Seymour/USA
 SCHWARZ PHARMA Inc., Milwaukee/USA
 CPM PROPERTIES Inc., Wilmington/USA
 SRZ PROPERTIES Inc., Wilmington/USA
 KREMERS URBAN Development Comp. Inc., Milwaukee/USA
 SCHWARZ PHARMA Poland Sp.zo.o., Warsaw/Poland
 ZHUHAI SCHWARZ PHARMA Comp. Ltd., PRChina
 SCHWARZ PHARMA Hong Kong. Ltd., PRChina
 SCHWARZ PHARMA Philippines Inc., Manila/Philippines
 SCHWARZ PHARMA S.L., Barcelona/Spain
 CEPA SCHWARZ PHARMA S.L., Madrid/Spain
 IFE S.L., Madrid/Spain
 SCHWARZ PHARMA Nordic A/S, Hellerup/Denmark
 SCHWARZ PHARMA Benelux B.V., Arnheim/The Netherlands
 SCHWARZ BIOSCIENCES Inc., Research Triangle Park/USA

Equity Method

HOYER-MADAUS GmbH & Co. KG, Monheim, Germany

3. Acquisition of Products and Strategic Ventures

During 2001, the Company made the following product/licence acquisitions:

Date	Partner	Rights	Product/Indication(s)	Territory
January	3M Europe	Marketing and distribution	NEXXAIR® Long-term therapy of Asthma	France
June	Novartis Farmaceutica, S.A.	Co-Marketing	MITEN® + MITEN PLUS® Hypertension	Spain
July	3M Europe	Marketing and distribution	VENTEXXAIR® Medication of accute Asthma	France
October	Beaufort Ipsen	Marketing and distribution	IDROLAX® Obstipation	Great Britain
November	American Home Products Corp.	Marketing and distribution	REGLAN® Gastro-intestinal diseases	U.S.A.
December	American Home Products Corp.	Marketing and distribution	ROBAXXIN® Relaxation of muscles	U.S.A.

NEXXAIR® for the treatment of asthma was introduced in France in May 2001. The anti-asthma product range will be further expanded by launching VENTEXXAIR® in late 2002.

The MITEN® and MITEN PLUS® product as well as VALSARTAN, for hypertension, have proved to be very successful in the German market. SCHWARZ PHARMA will apply the same strategy for the Spanish gastro-intestinal market. The product was launched in November 2001.

The laxative IDROLAX® will strengthen SCHWARZ PHARMA's position in Great Britain. The product launch is scheduled for the 2nd quarter of 2002.

REGLAN®, a gastro-intestinal drug, and ROBAXIN® (relaxation of muscles) will enhance the product portfolio in the U.S. market. Notes to the Income Statement.

Notes to Financial Statements

Notes to the Income Statement

4. Cost of Materials

Cost of materials increased in 2001 from 2000 primarily due to a nearly proportional growth in sales. The finished goods inventory at our U.S. manufacturing site, which had increased in 1999 to safeguard against possible year 2000 problems, was reduced in 2001.

	1999	2000	2001
Cost of raw materials, supplies and Purchased goods	228,569	222,159	234,098
Cost of purchased services	5,208	6,322	7,310
Total	233,777	228,481	241,408

5. Personnel Expenses

In 2001, total remuneration paid to members of the Supervisory Board was T€ 270 and T€ 2,456 to members of the Management Board. Stock option rights were granted to the Management Board with a value of T€ 286. Within the scope of the Stock Appreciation Rights Program 2000, members of the Management Board received no rights in 2001 as compared to 75,000 rights in 2000.

As of December 31, 2001, provisions were made for pension commitments to former Management Board members amounting to T€ 5,648. Current payments to former members of the Management Board were T€ 344. No loans were outstanding to members of the Management Board at year-end.

	1999	2000	2001
Wages and salaries	153,024	155,215	174,220
Social security, welfare payments and pension schemes	35,078	37,244	42,554
Thereof expenditure on retirement benefits	4,668	2,911	3,941
Total	188,102	192,459	216,774

6. Number of Employees (Annual Average)

The average number of employees increased by 195 to 3,428 in 2001. This growth is mainly due to the intensification of our research activities (SCHWARZ BIOSCIENCES GmbH and SCHWARZ BIOSCIENCES Inc.). Furthermore, SCHWARZ PHARMA Deutschland GmbH took over

part of an external sales force (previously contract labor) in order to be able to represent the larger product portfolio. The sales force in Asia was also increased. The new nitration production plant in Ireland also contributed to the increase in the number of employees.

	1999	2000	2001
Research and development	339	316	352
Production	887	863	884
Administration and sales	2,121	2,054	2,192
Total	3,347	3,233	3,428

7. Other Income (Expense) – Net

In 2001, other income improved due to an early payment of the purchase price of € 42.9 million for the divestiture of the AXCAN-SCHWARZ LLC Joint Venture. Furthermore, the HOYER-MADAUS Joint Venture – established in 1999 – contributed € 2.4 million to the positive result.

In 2000, the gain from disposal of investments includes the gain from the divestiture of LIPREVIL® of € 5.8 million. The disposal of fixed assets at SCHWARZ PHARMA Manufacturing, U.S.A. resulted in a loss of approximately € 0.7 million.

Income from the divestiture of interests in affiliated companies included proceeds from the divestiture of the Generic Business of € 91.2 million in 1999.

	1999	2000	2001
Income/(loss) from equity investments	2,067	1,438	2,400
Gain/(loss) from disposal of investments and fixed assets	92,359	4,694	63
Other income/(expense) – net	(1,543)	8,688	50,522
Total	92,883	14,820	52,985

8. Income Taxes

Income tax expense includes the following:

	1999	2000	2001
Current			
German federal	31,599	(1,764)	(1,013)
German state and local	17,314	1,376	389
Foreign	13,473	10,258	32,555
	62,386	9,870	31,931
Deferred			
German federal	(1,903)	(4,272)	(4,872)
German state and local	(1,568)	(5,024)	(4,906)
Foreign	(7,631)	3,795	2,669
	(11,102)	(5,501)	(7,109)
Total	51,284	4,369	24,822

German and foreign operations contributed to pretax income as follows:

	1999	2000	2001
German	85,336	(20,652)	(28,380)
Foreign	(26,524)	38,429	93,493
Total	58,812	17,777	65,114

Deferred income taxes related to:

	1999	2000	2001
Liabilities			
Property, plant and equipment	9,835	9,003	7,903
Intangible assets	0	0	0
Other	1,015	2,001	2,569
Total deferred tax liabilities	10,850	11,004	10,472
Assets			
Intangible assets	10,755	4,126	5,933
Accounts receivable	8,284	8,304	11,097
Inventories	11,988	9,563	7,653
Pension accruals	3,767	3,206	3,488
Operating loss carry-forwards	5,590	18,239	22,469
Other	9,506	11,207	13,128
Subtotal	49,890	54,645	63,767
Valuation allowance	1,518	809	3,422
Total deferred tax assets	48,372	53,836	60,346
Net deferred tax assets (liabilities)	37,522	42,832	49,873
Current deferred income tax asset	25,334	23,775	25,871
Net long-term deferred tax asset (liability)	12,188	19,057	24,003

Deferred taxes are not provided for undistributed earnings of certain foreign subsidiaries of the Company, since they are considered to be indefinitely reinvested. The undistributed earnings amounted to approximately € 125.7 million, € 93.4 million and € 75.2 million at December 31, 2001, 2000 and 1999, respectively. Estimated taxes of approximately € 7.3 million, € 6.0 million and € 4.6 million would be payable upon remittance of all previously un-remitted earnings as of December 31, 2001, 2000 and 1999, respectively.

As of December 31, 2001, all German companies had available net operating loss carry-forwards of approximately € 106 million for local income tax purposes, which are not subject to expiration. Deferred tax assets of approximately € 20 million relate to these

loss carry-forwards. The tax loss carry-forwards of foreign subsidiaries amounted to approximately € 40 million, representing deferred tax assets of approximately € 3.0 million. The majority of these loss carry-forwards will expire at various dates through 2020. A valuation allowance has been established for the resulting deferred tax assets whenever the Company considers it more likely than not that some or all of the deferred income tax assets will not be realized. Cash paid for income taxes in 2001, 2000 and 1999 was € 37.2 million, € 16.8 million and € 76.5 million, respectively.

The reconciliation of income tax from continuing operations computed at the German federal statutory tax rate to the Company's effective income tax rate is as follows:

(in percent)	1999	2000	2001
German federal statutory rate	40.0	40.0	25.0
German local tax	26.8	16.8	0.6
Credit for dividend distributions	(8.6)	(15.4)	(6.8)
Foreign tax rate differences	(3.4)	(57.1)	7.5
Non-deductable expenses	4.8	33.8	11.1
Non-deductable goodwill amortization	38.5	11.8	4.1
Federal tax benefit on local taxes	(10.7)	(0.0)	(0.0)
Other	(0.2)	(5.3)	(3.4)
	87.2	24.6	38.1

During 2001, there were no tax rate changes which would effect deferred taxes for the group. However, in 2000 the German federal statutory tax rate to be used for deferred tax calculations was reduced by 13 percentage points due to a tax reduction law. Consequently, additional deferred tax income of € 1.8 million could be accounted for in the reporting period.

Contrary, in 1999 the effect of the 5 percentage points decrease in the German federal statutory tax rate resulted in additional deferred tax expense of approximately € 0.4 million.

Notes to Financial Statements

Notes to the Balance Sheets

9. Inventories

Inventories as of December 31 consisted of the following:

	2000	2001
Raw materials and Work in process	30,362	35,029
Finished products	25,644	27,906
Merchandise goods	24,603	24,332
	80,609	87,267

Inventories valued on a last-in, first-out basis comprised approximately 27% and 20 % of total inventories as of December 31, 2001 and 2000 respectively.

10. Property, Plant and Equipment, Intangible Assets and Long-term Investments

Property, plant and equipment	Land	Buildings	Plant and machinery	Technical equipment	Other equipment, operational and office equipment	Advance payments and construction in progress	Total
Acquisition cost 31. 12. 2000	9,793	113,427	84,273	58,840	26,612	8,167	301,112
Currency change	30	2,455	1,670	613	452	413	5,633
Acquisitions/disposals of businesses	0	0	0	0	0	0	0
Additions	0	2,432	8,945	6,537	3,565	11,608	33,087
Disposals	0	(84)	(2,669)	(8,688)	(2,743)	(112)	(14,296)
Reclassifications	0	4,222	3,235	986	488	(8,931)	0
Acquisition cost 31. 12. 2001	9,823	122,452	95,454	58,288	28,374	11,145	325,536
Depreciation 31. 12. 2000	0	25,431	35,299	44,359	16,497	0	121,586
Currency change	0	325	618	420	251	0	1,614
Acquisitions/disposals of businesses	0	0	0	0	0	0	0
Depreciation	0	4,872	7,777	6,791	3,238	0	22,678
Disposals	0	(80)	(2,448)	(8,280)	(2,568)	0	(13,376)
Reclassifications	0	(89)	44	(24)	69	0	0
Depreciation 31. 12. 2001	0	30,459	41,290	43,266	17,487	0	132,502
Book value 31. 12. 2001	9,823	91,993	54,164	15,022	10,887	11,145	193,034
Book value 31. 12. 2000	9,793	87,996	48,974	14,482	10,114	8,167	179,526

Additions in property, plant and equipment primarily relate to technology improvements of the U.S. manufacturing facility of € 9.7 million (construction in progress) and to the opening of a new nitration plant in Ireland of € 10.4 million. At the Monheim manufacturing site investments were made related to the packaging operations and

amounted to € 1,0 million. In addition to that, capital expenditures in technical and other equipment in Germany of approximately € 5.9 million were made.

Intangible assets	Concession	Patents and similar rights	Trademarks	Licenses and similar rights	Goodwill	Advances paid on intangible assets	Total
Acquisition cost 31. 12. 2000	1,069	3,646	59,854	377,466	118,902	(184)	560,753
Currency change	85	180	323	11,035	5,001	0	16,624
Acquisitions/disposals of businesses	0	0	0	0	21,706	0	21,706
Additions	323	283	1	36,185	0	2,687	39,479
Disposals	(92)	0	(601)	(13,348)	0	(2)	(14,133)
Reclassifications	39	0	0	296	0	(335)	0
Acquisition cost 31. 12. 2001	1,424	4,109	59,577	411,544	145,609	2,166	624,429
Amortization 31. 12. 2000	508	2,946	14,061	130,798	92,339	(239)	240,413
Currency change	40	143	157	2,963	4,474	0	7,777
Acquisitions/disposals of businesses	0	0	0	0	0	0	0
Amortization 2001	185	0	5,423	30,754	3,381	0	39,743
Disposals	0	0	(396)	(11,846)	0	0	(12,242)
Reclassifications	0	0	0	0	0	0	0
Amortization 31. 12. 2001	733	3,089	19,245	152,669	100,194	(239)	275,691
Book value 31. 12. 2001	691	1,020	40,332	258,875	45,415	2,405	348,738
Book value 31. 12. 2000	561	699	45,792	246,670	26,563	55	320,340

The € 39.5 million in investments in intangible assets mainly relate to the acquisition of licenses and similar rights in the U.S.A., Great Britain, France and Spain. The contingent purchase price for the Spanish subsidiary CEPA is shown in the position "Acquisitions/disposals of businesses".

Depreciation on intangible assets recorded in 2001 comprise ordinary depreciation of € 39.7 million; no extraordinary depreciation was recorded.

Long-term investments	Investments in affiliated companies	Investments in associated companies	Long-term securities	Total
Acquisition cost 31. 12. 2000	1,322	34,986	17,211	53,519
Currency change	0	0	465	465
Acquisitions/disposals of businesses	0	0	0	0
Additions	47	80	3,634	3,761
Writing ups	0	0	3,050	3,050
Disposals	0	0	(2,327)	(2,327)
Reclassifications	0	0	(12,013)	(12,013)
Acquisition cost 31. 12. 2001	1,369	35,066	10,020	46,455
Depreciation 31. 12. 2000	0	6,244	3,760	10,004
Currency change	0	0	0	0
Acquisitions/disposals of businesses	0	0	0	0
Depreciation 2001	0	3,465	0	3,465
Disposals	0	0	(2,326)	(2,326)
Reclassifications	0	0	0	0
Depreciation 31. 12. 2001	0	9,709	1,434	11,143
Book value 31. 12. 2001	1,369	25,357	8,586	35,312
Book value 31. 12. 2000	1,322	28,742	13,451	43,515

Investments in associated companies relate to the net development of the HOYER-MADAUS Joint Venture, which was established in 1999. Long-term investments relate to investments concerning U.S. cooperation partners. The investment in the former joint venture part-

ner AXCAN PHARMA Inc., Canada, has been reclassified into current assets as they are available-for-sale. Long-term investments are included in the balance sheet position "Long-term investments and other assets".

11. Investments

Information regarding the Company's investment in debt and equity securities is as follows:

	2000	2001
Cost of available-for-sale equity securities	12,260	15,866
Unrealized gains	1,190	4,733
Unrealized losses	-	-
Fair value of available-for-sale equity securities	13,450	20,599

These investments are included in the position "Marketable securities" and "Long-term investments and other assets".

With the establishment of the AXCAN-SCHWARZ LLC Joint Venture in 1997, SCHWARZ PHARMA acquired 750,000 convertible bonds of AXCAN PHARMA, Inc. for a price of € 6.6 million and additional € 1.3 million premium. Subsequently, each convertible bond was exchanged into common shares of Axcan Schwarz, Inc. without any additional payment. Currently, SCHWARZ PHARMA owns less than 5 % of the outstanding common shares. In 2001, this investment has been reclassified from the position "available-for-sale securities" into the position "marketable securities".

In 2000 SCHWARZ PHARMA purchased 489,804 preferred shares of common stock of Discovery Therapeutics, Inc. for € 5.0 million. In 2001, SCHWARZ PHARMA has acquired additional 200,000 shares of common stock of Discovery Therapeutic Inc. for € 2.5 million. This investment in common stock has been classified as available-for-sale and is being shown as additions to securities (fixed assets).

There were no sales of available-for-sale securities during 2001 and 2000, respectively.

12. Borrowings and Credit Arrangements

Long-term debt as of December 31 consisted of:

	Range of interest rates %	Due date	2000	2001
Domestic				
Bank loans	4.2 – 6.1 (2000: 4.2 – 6.1)	2002	62,884	55,872
Foreign				
Bank loans	3.6 – 6.9 (2000: 5.7 – 6.9)	2005	28,668	57,973
Revolving credit	2.3		–	3,401
State loans	0	2002–2010	673	1,340
Total long-term debt			92,225	118,586
Less current portion of long-term debt			57,744	73,431
Long-term debt, net			34,481	45,155

Principal amounts of long-term debt payable during the five years ending December 31, 2002 through 2006 are T€ 73,431, T€ 19,355, T€ 11,421, T€ 10,350 and T€ 195 (thereafter, T€ 3,833 with a term of more than 5 years) respectively. T€ 2,877 of total long-term debt are secured by a mortgage lien.

As of December 31, 2001, one of the Company's foreign subsidiaries borrowed € 3.4 million under a working capital revolving line of credit facility.

The Company and certain subsidiaries have various unsecured bank loans, which all bear interest at fixed rates.

The Company has domestic and foreign line of credit agreements with banks totaling € 86.7 million, of which € 34.8 million were available at December 31, 2001. The interest on borrowings is based upon the terms of each specific arrangement and is subject to market conditions. Certain agreements contain a limitation on the

Company's debt-equity ratios, specified net worth and interest coverage ratios relating to SCHWARZ PHARMA groups. The Company does not anticipate that future borrowings will be limited by the terms of these agreements.

Short-term debt includes notes payable and bank overdrafts. The weighted average interest rate was 4.7%, 5.6% and 5.4%, respectively, as of December 31, 2001, 2000 and 1999.

Cash paid for interest was € 8 million in 2001, € 9 million in 2000 and € 9 million in 1999.

13. Concentrations of Credit Risk

The Company periodically reviews the creditworthiness of counterparties to foreign exchange and other agreements and does not expect to incur a loss from failure of any counter-parties to perform under the agreements. Concentrations of credit risk with respect to trade receivables are limited, due to the large number of customers comprising the Company's customer base. Ongoing credit evaluations of customers' financial condition are performed and, generally, no collateral is required.

14. Employee Benefits

Retirement benefits

The Company has noncontributory defined benefit pension plans covering eligible employees, including certain employees in foreign countries. Plans for most employees provide benefits based on flat EURO amounts and years of service. In general, the Company's policy is to fund these plans only if it is legally required, if it is local practice or if it is beneficial from tax considerations. The Company also sponsors defined contribution plans and participates in government-sponsored programs in certain countries.

Effective June 1, 2000 the Company's Spain subsidiary elected to terminate a defined benefit pension plan covering 139 retired employees. The benefit accruals for these employees were frozen as of that date. The accumulated benefit obligation of the plan was settled by the purchase of a non-participating group annuity contract for the retired employees. The settlement was accounted for in accordance with SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", and resulted in a curtailment gain of T€ 603 for the year ended December 31, 2001.

On June 30, 2000, the German operations of the Company terminated a defined benefit pension plan and benefit accruals for all eligible employees were frozen as of that date. Vested pension benefits from the old plan will be paid when the retirement requirements of the plan are being met.

Commencing July 1, 2000, a defined benefit pension plan was created in Germany covering substantially all employees. The plan has been instituted through a benevolent fund that is an independent organization. The fund is committed to purchase reinsurance annuity contracts for every individual participant in order to secure future retirement payments from the fund to those participants. The Company contributes 0.75 % of every participant's eligible salaries/wages to the plan (contribution 1). The participant may elect to contribute certain amounts not to exceed 0.75 % of their eligible salaries/wages to the plan (contribution 2). The Company will match the employee's election (contribution 2 only) up to the elected amount but not to exceed the predetermined maximum. In addition, the participants may further contribute at their discretion up to 0.75 % of their eligible salaries/wages to the plan (contribution 3). All contributions to the plan are vested immediately. The accumulated benefit obligation will generally be settled through lump-sum distributions at the

time of retirement based on actuarial evaluations. The participant may elect to spread such distributions into up to five partial payments.

In 2001, SCHWARZ PHARMA started paying contributions to a benevolent fund from which plan assets with an amount of T€ 1,809 resulted at year end. These plan assets are netted against the discounted value of the pension commitments.

Pension cost for all plans were T€ 5,639, T€ 5,481 and T€ 2,615 for 2001, 2000, 1999, respectively. Pension plan information for fiscal years ending December 31, 2001 and 2000 was as follows: (see page 52).

Employee Savings Plan

The U.S. operations of SCHWARZ PHARMA have a defined contribution plan covering substantially all U.S. employees. Eligible employees can contribute a percentage of their earnings to the 401(k) savings feature of the plan. SCHWARZ PHARMA matched 50% of the first 6% of an employee's annual contribution. SCHWARZ PHARMA may elect to make additional discretionary profit sharing contributions in such amounts as may be determined by the Board of Directors of the U.S. operations. SCHWARZ PHARMA's matching contributions to the plan were approximately T€ 829, T€ 922 and T€ 674 for 2001, 2000 and 1999, respectively. The U.S. Board of Directors authorized additional discretionary contributions of T€ 1,613, T€ 1,698 and T€ 0 for 2001, 2000 and 1999, respectively.

Deferred Compensation Plan

Effective January 1, 1998, the U.S. company instituted a Deferred Compensation Plan (the "Deferred Plan") to permit certain key employees to defer receipt of current compensation in order to provide retirement benefits on behalf of such employees. The Deferred Plan is intended to be unfunded and, therefore, all compensation deferred under the Deferred Plan is held by the U.S. company and commingled with its general assets. However, employee deferrals are deposited in U.S. company-owned life insurance contracts. Within these contracts the employees have the option of selecting a variety of investments. The return on these underlying investments will determine the amount of earnings credited to the employee's account.

Amounts charged to expense relating to the Deferred Plan were approximately € 2 million and € 1 million for the years ended December 31, 2001 and 2000, respectively. Included in other non-current liabilities in the accompanying consolidated balance sheets as of December 31, 2001 and 2000 was approximately € 1 million and € 2 million, relating to the Deferred Plan.

Change in benefit obligation	2000	2001
Benefit obligation at beginning of year	23,602	19,685
Service Cost	1,037	1,345
Interest Cost	1,185	1,174
Amendments	428	0
Actuarial (gain)/loss	(289)	(338)
Business acquired	0	0
Businesses disposed	0	0
Benefits paid	(963)	(707)
Curtailments	(5,315)	0
Benefit obligation at end of the year	19,685	21,159

Change in plan assets		
Fair value of plan assets at beginning of year	0	0
Fair value of plan assets at end of year	0	1,809
Funded status	(19,685)	(19,350)
Unrecognized net actuarial (gain)/loss	1,598	769
Unrecognized prior service cost	398	336
Additional minimum liability	(1,608)	(1,438)
Prepaid (accrued) benefit cost	(19,297)	(19,682)

Components of net periodic pension cost	1999	2000	2001
Service Cost	649	1,036	1,345
Interest Cost	1,237	1,185	1,174
Actual return on assets	0	0	(22)
Net amortization and deferral	73	61	21
Curtailement loss/(gain)	0	(603)	0
Net periodic pension cost	1,959	1,679	2,518

Weighted-average assumptions as of December 31	1999	2000	2001
Domestic and other European plans:			
Discount rate	5.5 %	5.9 %	6.0 %
Rate of compensation increase	1.9 %	2.5 %	2.5 %

15. Shareholders' Equity

SCHWARZ PHARMA AG and Subsidiaries

	Common shares outstanding	Common stock outstanding	Additional paid in capital	Other comprehen- sive income (OCI) ¹⁾	Retained earnings	Total equity	Total comprehen- sive income SFAS 130 ^{1) 2)}
Balance per 01.01.1998	22,533	57,516	141,093	16,671	278,856	494,136	
Net income					8,254	8,254	8,254
Other comprehensive income							
Currency translation				33,407		33,427	33,427
Unrealized holding gains (losses) on securities arising during the period				544		544	544
Minimum pension liability adjustments				(852)		(852)	(852)
Total comprehensive income							41,373
Reclassification to common stock		981			(981)		
Dividend to shareholders					(28,803)	(28,803)	
Purchase of treasury stock	(539)	(1,403)	(16,054)			(17,457)	
Balance 31.12.1999	21,994	57,094	125,039	49,790	257,326	489,249	
Net income					13,623	13,623	13,623
Other comprehensive income							
Currency translation				15,635		15,635	15,635
Unrealized holding gains (losses) on securities arising during the period				2,783		2,783	2,783
Minimum pension liability adjustments				(135)		(135)	(135)
Total comprehensive income							31,906
Reclassification to common stock				(232)	232		
Dividend to shareholders					(22,490)	(22,490)	
Purchase of treasury stock	(1)	(1)	(14)			(15)	
Balance 31.12.2000	21,993	57,093	125,025	67,841	248,691	498,650	
Net income					40,505	40,505	40,505
Other comprehensive income							
Currency translation				14,199		14,199	14,199
Unrealized holding gains (losses) on securities arising during the period				1,927		1,927	1,927
Minimum pension liability adjustments				104		104	104
Total comprehensive income							56,735
Reclassification dividend to shareholders					(12,097)	(12,097)	
Balance 31.12.2001	21,993	57,093	125,025	84,071	277,099	543,288	

¹⁾ OCI = "Other Comprehensive Income" according to SFAS 130 "Reporting Comprehensive Income".

²⁾ The total comprehensive income is equivalent to the sum of "Other Comprehensive Income" and the net income

The unrealized holding gains (losses), pension liability and reclassification adjustments are presented net of tax amounting to T€ 1,681, T€ 1,182 and T€ 1,224 for 2001, 2000 and 1999, respectively.

In October 1999, the Supervisory Board authorized the Management Board to repurchase Company stock. The Management Board elected to repurchase SCHWARZ PHARMA shares up to a nominal value of € 0.51 million through December 31, 1999. The Company's repurchases of common stock are recorded as a separate item in shareholders' equity and reduce common stock and additional paid in capital using the treasury method.

The Company purchased 0 treasury shares in 2001, 800 in 2000 and 548,400 in 1999. The number of treasury shares sold to employees amounted to 10,500 in 2001, 9,760 in 2000 and 9,430 in 1999.

16. Stock Incentive Plans

Stock Option Program 1997 – 1999

In 1997, the Company adopted the Executive Stock Option Program (ESOP), through which certain senior managers and other key employees became eligible to invest in fixed-rate debentures, which have a term of seven years and are convertible into shares of the Company's common stock after three years. Each debenture note (nominal value of one thousand DM) can be exchanged for 200 ordinary shares with payment of a premium. The exercise price for the shares upon conversion is based upon the share price at the time the debentures are issued (base exercise price), which is adjusted upward or downward for the relative change in price of the Company's shares compared to an industry stock index and is only exercisable, if at one of the specified potential measurement dates the Company's stock price increases by at least 8.5% per annum for the first 3 years and does not lag the industry index by more than 3% per annum.

During 2000 the Management Board decided, and the Supervisory Board acknowledged, to repay the fixed-rate debentures at the discretion of each participating key employee in full or in part. The number of shares under option which were repaid was 99,800 in 2001 and 330,800 in 2000. At the end of 2001, the company issued convertible bonds of a nominal value of T€ 8.

The following table summarizes stock option activity in 2001, 2000 and 1999 under the ESOP (number of shares in thousands):

	1999		2000		2001	
	Number of shares under option	Average base exercise price per share (€)	Number of shares under option	Average base exercise price per share (€)	Number of shares under option	Average base exercise price per share (€)
Outstanding at January 1	281	72.30	451	60.72	103	59.36
Granted	201	46.12	0	0	0	0
Canceled	(31)	70.84	(348)	61.11	(100)	59.27
Outstanding at December	451	60.72	103	59.36	3	62.26
Exercisable at December	0		0		0	

Stock Option Program 2000

During 2000, the Company adopted the Executive Stock Option Program 2000 (ESOP 2000), through which certain senior managers and other key employees became eligible to invest in interest bearing fixed-rate debentures, which have a term of ten years and are convertible into shares of the Company's common stock. Each debenture (nominal value of € 2.60) can be exchanged for one ordinary share with the payment of a premium. The exercise price

for the options upon conversion is based on an average share price at the time the debentures are issued (reference price) plus an extra charge of 15 % (exercise hurdle) of the reference price. After two and three years fifty percent of the covered shares will each become exercisable, but only if a participant's date of termination, death, disability or retirement has not occurred before the vesting date.

The following table summarizes stock option activity in 2000 under the ESOP 2000 (number of shares in thousands):

	2000		2001	
	Number of shares under option	Average base exercise price per share (€)	Number of shares under option	Average base exercise price per share (€)
Outstanding at January 1	0		430	27.13
Granted	448	27.13	599	30.46
Canceled	(18)	27.13	(23)	27.63
Outstanding at December 31	430	27.13	1,006	29.10
Exercisable at December 31	0		0	

Stock Appreciation Rights Program 1999 (SAR Plan)

Effective September 1, 1999, the Management Board adopted the SCHWARZ PHARMA Stock Appreciation Rights Plan 1999. Under the SAR Plan, which has a duration of 6 years, the Company, via a committee appointed by the Management Board, (the „Committee“) may grant to eligible employees one or more stock appreciation rights („SARs“). The Committee will specify the number of shares to be subject to each SAR granted to each participant and establish the grant price and grant date for each SAR granted. Under the terms of the SAR Plan, the grant price of the SAR granted shall be the fair market value of the common share of SCHWARZ PHARMA AG on the grant date.

Twenty five percent of covered shares of a participant's SAR will become exercisable on the first, second, third and fourth anniversary of the grant date, but only if a participant's date of termination has not occurred before the vesting date. In the event of a change in control, as defined in the SAR Plan, any unvested SAR held by a participant shall become fully vested and exercisable.

Upon exercise of a SAR, the participant shall receive cash equal to the appreciation of one share of stock under the SAR multiplied by the number of shares of stock as to which it is then being exercised. The appreciation is measured by the excess of the fair market value of stock, as defined in the SAR Plan, on the exercise date over the grant price. The SARs expire upon the earliest of the following:

- The sixth anniversary of the grant date or on August 31, 2005
- The seventh day following the participant's date of termination, if such termination occurs for reasons other than the participant's death
- The twelve month anniversary of the date of termination, if termination occurs by reason of the participant's death.

During the year ended December 31, 1999, 165,700 SARs were issued to senior executives and key employees of the Company. No compensation expense was recognized during the year 1999 as the grant price (€ 38.64) of all SARs issued exceeded the market value of the Company's stock at December 31, 1999.

The development of the SAR Plan throughout 1999, 2000 and 2001 was as follows:

(SARs in thousands) Number of	1999 Number of SARs	2000 Number of SARs	2001 Number of SARs
Outstanding at January 1	0	243	193
Granted	256	0	0
Canceled	(13)	(50)	(7)
Outstanding at December 31	243	193	186
Exercisable at December 31	0	48	93

Stock Appreciation Rights Program 2000 (SAR 2000 Plan)

The Stock Appreciation Rights Program 2000 was established on December 31, 2000. Under the SAR 2000 Plan, the Company may grant to eligible key employees an individually determined number of stock appreciation rights ("SARs"). The grant price of a SAR granted under this program will be € 20. The overall duration of the SAR 2000 Plan is five years and ends on December 31, 2005.

Fifty percent of covered shares of a participant's SAR will become exercisable on the first and the second anniversary of the grant date, but only if a participant's date of termination has not occurred before the vesting date. In the event of a change in control, as defined in the SAR Plan, any unvested SAR held by a participant shall

become fully vested and exercisable. Upon exercise of a SAR, the participant shall receive cash equal to the appreciation of one share of stock under the SAR multiplied by the number of shares of stock as to which it is then being exercised. The appreciation is measured by the excess of the fair market value of stock over the grant price, as defined in the SAR Plan, on the exercise date.

As of December 31, 2000, 275,000 SARs were issued to key employees of the Company. As the fair market value of the Company's stock exceeded the grant price of the SARs at December 31, 2000, compensation expense of € 1.8 million will have to be accrued over the vesting period of which € 1.3 related to 2001.

(SARs in thousands) 2000	2000 Number of SARs	2001 Number of SARs
Outstanding at January 1	0	275
Granted	275	0
Canceled	0	(15)
Outstanding at December 31	275	260
Exercisable at December 31	0	130

The Company accounts for its stock compensation arrangements using the intrinsic value method. If the fair value method of accounting were applied as defined in SFAS No. 123, "Accounting for Stock-

Based Compensation", the Company's total and per share net income would have been as follows (in thousand €, except per share amounts):

	1999	2000	2001
Net income			
As reported	8,254	13,624	40,505
Pro forma	7,330	12,112	35,383
Basic earnings per share			
As reported	0.37	0.62	1.84
Pro forma	0.33	0.55	1.61

The weighted-average fair value per share for options granted in 2001, 2000 and 1999 were estimated at € 18, € 15 and € 9, respectively. The fair value was calculated using the Black-Scholes option

pricing model, modified to reflect the pricing adjustments, based on the following assumptions:

	1999	2000	2001
Dividend yield	4.5%	1.7%	3.4%
Volatility	39.0%	36.0%	50.0%
Risk-free interest rate	5.5%	4.9 – 5.4%	5.2%
Expected term of options (in years)	7	5 – 10%	10
Volatility of pharma index	25.0%	–	–
Correlation to pharma index	20.0%	–	–

17. Financial Instruments

Derivative Financial Instruments

SCHWARZ PHARMA is an international corporation with operations in several countries. As a result, it is subject to foreign currency exposures related to buying, selling, and financing in currencies other than the local currency.

The Company enters into forward exchange and option contracts as well as interest rate swaps to hedge certain firm purchase and sales commitments and certain anticipated but not yet firmly committed transactions denominated in foreign currencies.

Premiums paid or received on purchased or sold options are included in other assets and liabilities and recognized in earnings when the future obligation being hedged is recognized. Deferred gains and losses on forward exchange contracts are generally recognized in earnings when the future purchases and sales being hedged are recognized or when the foreign currency liability is settled. Losses from contracts on anticipated transactions are immediately recognized in income.

As of December 31, 2001 and 2000, the Company had no contracts outstanding with maturities beyond 24 months.

The following table presents the aggregate notional principal amounts, carrying values and fair values of the Company's derivative financial instruments outstanding as of December 31, 2001 and 2000.

	December 31, 2000			December 31, 2001		
	Notional principal amounts	Carrying values	Fair values	Notional principal amounts	Carrying values	Fair values
Forwards Contracts	10,747	–	706	23,726	–	(144)
Cross-Currency Swap	–	–	–	1,190	–	(89)
Options	46,732	–	1,738	–	–	–
Total	57,479	–	2,444	24,916	–	(233)

Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosure of the following information about the fair value of certain financial instruments for which it is practicable to estimate that value. For the purposes of this disclosure, the fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. However, considerable judgement is necessary in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that SCHWARZ PHARMA could realize in a current market exchange or the value that ultimately will be realized by SCHWARZ PHARMA upon maturity or disposition. The financial instruments portfolio of SCHWARZ PHARMA includes cash and cash equivalents, as well as short- and long-term debt instruments. The most significant instrument, long-term debt, had carrying and fair values totaling T€ 45,155 and T€ 45,382 respectively at December 31, 2001. The corresponding amounts at December 31, 2000 were T€ 34,481 and T€ 34,289 respectively. The fair values of the other instruments approximated their carrying values in the aggregate.

The fair value of long-term debt has been estimated using the discounted cash flow method based on SCHWARZ PHARMA's current borrowing rates, currency exchange rates and remaining maturities.

18. Commitments

Capital Leases

In 2001 certain non-cancelable leases relating to office equipment are classified as capital leases and are included in property, plant and equipment. Other leases are classified as operating leases and are not capitalized. Details of the capitalized leased assets are as follows:

T€	Dec. 31, 2001
Other equipment	4,299
Less accumulated depreciation	2,105
Net capitalized leased assets	2,194

As of December 31, 2001 the future minimum lease payments under capital leases are as follows:

T€	Dec. 31, 2001
2002	1,426
2003	720
2004	179
Total minimum lease payments	2,325
Less amount representing interest	(131)
Present value of net minimum lease payments	2,194
Less current maturities	(1,370)
Long-term obligation	824

Operating Leases

The Company leases automobiles, certain equipment, office and warehouse facilities under various lease agreements. Rental expense under these leases were approximately T€ 15,661, T€ 13,933 and T€ 11,044 in 2001, 2000 and 1999, respectively. The Company has certain obligations related to future capital expenditures and other purchase commitments totaling T€ 8,039, as of December 31, 2001. Aggregate future minimum annual rental payments required under the operating leases as of December 31, 2001, are as follows:

T€	31.12.2001
2002	9,201
2003	7,647
2004	5,514
2005	4,229
2006 and thereafter	5,386
Total	31,977

19. Contingencies

The Company is involved in various litigations arising in the normal course of business, including proceedings based on patent infringement and workers' compensation claims. The Company is self-insured for health care, workers' compensation, general liability and product liability up to predetermined amounts, above which third party insurance applies. Management regularly reviews the probable outcome of these proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and the established accruals for uninsured liabilities.

While the outcome of pending proceedings cannot be predicted with certainty, management believes that any liabilities that may result from these proceedings are not reasonably likely to have a material effect on the Company's liquidity, financial condition or results of operations.

20. Subsequent Events

Beyond the developments already described, no events occurred after December 31, 2001, which are of major significance for SCHWARZ PHARMA and would lead to a change in the assessment of the Group.

21. Business Segment Information

See the Management's Discussion and Analysis of this report (p. 28).

22. Significant Differences between German Commercial Code and U.S. GAAP

There are differences in a large number of individual items between U.S. GAAP accounting principles and German Commercial Code (HGB). The following items have particular relevance to SCHWARZ PHARMA:

Depreciation on Property, Plant and Equipment and Product Rights

Movable property, plant and equipment are amortized in the Consolidated Financial Statements according to U.S. GAAP using the straight-line method without exception. Under HGB, in accordance with tax regulations, declining-balance depreciation is permissible to be used in Consolidated Financial Statements. In some cases, estimating longer useful lives for certain product rights following HGB leads to lower depreciation as compared to U.S. GAAP.

Capitalization of Direct Internal General and Personal Expenses

In contrast to HGB but in accordance with U.S. GAAP (SOP 98-1), internal direct general and personal expenses in connection with intangible assets will be included in cost value for the first time in 2001.

Acquired Goodwill

While the costs of purchasing participating interests in third parties and the market values of the identifiable goods (less liabilities) acquired can be netted against revenue or capital reserves, as permitted by the HGB, under U.S. GAAP assets and liabilities are recorded at their fair values and any remaining excess purchase price is recorded as goodwill. Following U.S. GAAP scheduled amortization is computed using estimated useful lives between 15 and 20 years (for acquisitions in 1999; earlier acquisitions: up to 40 years). If goodwill is recorded HGB allows for useful lives of 4 years or any other reasonable estimation.

Inventories/Cost of Sales

Cost of sales in accordance with the HGB only include direct material cost and prime cost with overhead costs to be capitalized at the discretion of the management. On the other hand the presentation in accordance with U.S. GAAP requires that portions of related overheads have to be included in recorded cost of sales.

In 2001, general material and manufacturing costs will be included in the recorded cost of sales for the first time.

Provisions

In the Consolidated Financial Statements according to U.S. GAAP, all pension commitments of the SCHWARZ PHARMA Group are valued uniformly according to FAS No. 87 "Employer's Accounting for Pensions." In contrast, for consolidated accounting purposes under the HGB, the valuation used for domestic companies is based on German tax regulations and the valuation for foreign companies is based on the relevant local regulations.

Under German accounting rules, provisions for deferred maintenance may be recorded as of the balance sheet date if the maintenance measures will be executed within three months of that date.

U.S. GAAP does not allow provisions for such maintenance expenses. Furthermore, in contrast to U.S. accounting rules, reserves must also be recorded for contingent liabilities under German rules when the need for the same is sufficiently probable.

Research and Development Costs

SCHWARZ PHARMA has entered into development contracts with various biotechnology and other technology companies concerning projects at different stages of clinical development. In the majority of cases, down-payments become due at the time of concluding these contracts. According to HGB those payments are regularly capitalized in the balance sheet under intangible assets as purchased product rights. However, according to U.S. GAAP, these costs are in general recorded as ongoing research and development expenses in the income statement.

SCHWARZ PHARMA Affiliates

	Equity capital		Total sales		Employees	
	2000	2001	2000	2001	2000	2001
	€ m.	€ m.	€ m.	€ m.	31.12.	31.12.
Germany						
SCHWARZ PHARMA AG, Monheim	393.7	398.3	110.2	111.8	459	379
SCHWARZ PHARMA Deutschland GmbH, Monheim	7.0	7.4	170.3	179.7	481	510
SANOL GmbH, Monheim	0.3	0.3	0.0	0.0	–	–
SCHWARZ BIOSCIENCES GmbH, Monheim	–	1.2	–	–	–	114
SCHWARZ & Co. Immobiliengesellschaft, Monheim	0.1	0.1	0.4	0.4	–	–
SCHWARZ & Co. Industriegebäudegesellschaft, Monheim	3.5	3.3	1.6	1.7	–	–
SCHWARZ PHARMA Produktions-GmbH & Co. KG, Monheim	78.5	75.2	149.7	137.9	427	427
Foreign companies						
SCHWARZ PHARMA Ltd. UK, Chesham/GB	7.0	7.2	34.5	32.2	102	109
SCHWARZ PHARMA-Gruppe Italy, Milan/I	10.7	11.5	51.2	57.2	185	192
SIFA CHEMICALS AG, Liestal/CH	18.6	24.9	51.9	70.4	6	6
SIFA Ltd., Shannon/IRL	33.2	32.8	40.0	32.2	192	228
LABORATOIRES SCHWARZ PHARMA S. A., Boulogne/F	14.2	12.6	55.0	57.1	192	201
SCHWARZ PHARMA Poland Sp. zo.o., Warsaw/PL	8.1	9.9	17.4	24.0	120	125
SCHWARZ PHARMA-Group USA, Wilmington/USA	269.0	284.1	218.1	231.4	612	628
ZHUHAI SCHWARZ PHARMA Comp., Ltd. ¹⁾ Zhuhai/PRC	3.7	3.0	11.1	8.9	135	158
SCHWARZ PHARMA Hong Kong Ltd., Hongkong/PRC	5.4	8.0	12.0	9.5	11	10
SCHWARZ PHARMA Co. Ltd.,Tokyo/Japan	0.1	0.1	–	–	–	–
SCHWARZ PHARMA-Group Spain, Madrid/ESP	16.9	19.4	44.5	45.4	256	262
SCHWARZ PHARMA Philippines Inc., Manila/PHI	0.2	0.2	1.7	2.1	48	68
SCHWARZ PHARMA BIOSCIENCES Inc., Durham/USA	1.0	2.9	–	–	5	35
Associated companies						
HOYER-MADAUS GmbH & Co.KG ²⁾ , Monheim/D	–	–	28.0	30.2	71	60

The share in the equity capital of the companies is 100% in all cases except for

¹⁾ ZHUHAI SCHWARZ PHARMA Company, Zhuhai: 75%

²⁾ HOYER – MADAUS GmbH & Co. KG 50%

Leading SCHWARZ PHARMA Products

Product Group/Trademarks	Component	Indication	Net sales	
			2000 € m.	2001 € m.
Cardiovascular				
UNIVASC®/FEMIPRES®/UNIVASC®/				
FEMIPRES PLUS®	Moexipril /Moexipril HCTZ	Hypertension	56.8	67.2
ISOKET®/DILATERATE®	Isosorbide dinitrate	Coronary heart disease	51.2	53.0
ELANTAN®	Isosorbide mononitrate	Coronary heart disease	44.2	48.7
PROSTAVASIN®	Alprostadil	Peripheral arterial occlusive disease	37.5	40.5
DEPONIT®	Glyceryl trinitrate (patch)	Coronary heart disease	40.6	36.8
VERELAN PM®	Verapamil HCL	Hypertension	17.1	33.5
PROVAS®	Valsartan	Hypertension	9.5	16.8
NIDREL®/BAYPRESS®	Nitrendipin	Hypertension	13.5	13.0
TENSOBON®/COR TENSOBON®	Captopril	Hypertension, heart failure	14.5	11.0
LIPOSCLER®	Lovastatin	Hypercholesterolemia	7.5	9.3
KERLONE®	Betaxolol	Hypertension	7.9	8.4
DYNACIL®	Fosinopril	Hypertension	8.0	7.6
CLIVARINA®	Reviparine sodium	Venous thrombosis	0.1	5.3
Gastro-intestinal				
RIFUN®	Pantoprazol	Gastro-intestinal ulcers, Reflux esophagitis	31.2	33.5
LEVSIN®	Hyoscyamine	Irritable bowel syndrome	22.5	24.3
PROCTO®	Hydrocortisone	Dermatoses	18.6	19.9
NORPRAMIN®	Omeprazole	Gastro-intestinal ulcers, Reflux esophagitis	21.7	18.6
COLYTE®	Polyethylen glycol, Sodium chloride	Bowel cleansing prior to colonoscopy	13.2	16.2
VOGALENE®	Metopimazine	Nausea	7.7	8.6
Urology				
VIRIDAL®/EDEX®	Alprostadil	Erectile dysfunction	9.4	10.7
HARZOL®	Beta-sitosterol	Benign prostatic hyperplasia	4.2	3.9
Central Nervous System				
TYLEX®	Paracetamol, Codeine	Pain	16.9	15.6
AGIT®/SEGLOR®	Dehydroergotamin	Migraine	13.8	13.2
LORANS®	Lorazepam	Anxiety	9.3	9.6
Other				
FERRO SANOL®	Iron (II)-glycine-sulfate complex	Iron deficiency	14.1	16.0
ATMADISC®	Salmeterol xinafoate	Asthma	1.8	16.0
NIFEREX®	Ferrihydrite	Iron deficiency	10.7	9.2
ZOLIM®/MIZOLLEN®	Mizolastin	Allergies	6.5	5.5

Supervisory Board and Executive Board

Supervisory Board

Rolf Schwarz-Schütte

Honorary Chairman from March 20, 2001

Dr. Hans-Dietrich Winkhaus

Chairman

Member of the shareholder committee of Henkel KGaA

Chairman of the Supervisory Board of Deutsche Telekom AG, Bonn

Member of the Supervisory Board of BMW AG, Munich

Member of the Supervisory Board of Degussa AG, Düsseldorf

Member of the Supervisory Board of Deutsche Lufthansa AG, Cologne

Member of the Supervisory Board of ERGO Versicherungsgruppe AG, Düsseldorf

Ernst Friedlaender

Vice Chairman

Former Chairman of the Board of Management of Prym-Werke GmbH & Co. KG, Stolberg

Chairman of the Advisory Board of Hasenkamp GmbH & Co., Cologne

Chairman of the Supervisory Board of Penarroya Oxide S.A., Rieux, France

Member of the Advisory Board of Prym-Werke GmbH & Co. KG, Stolberg

Member of the Advisory Board of Rabenhorst GmbH, Unkel

Chairman of the Advisory Board of Verpackung & Display

Stabernack Jr. GmbH, Fulda

Heinrich Bergmeier*

Commercial Employee

Dr. Terence Eaves from May 9, 2001

Former Member of the Board of GlaxoWellcome Research and Development Ltd., London, Great Britain

Former Member of the Board of GlaxoWellcome Inc., North Carolina, USA

Dr. Rüdiger Hauffe from May 9, 2001

Member of the Supervisory Board of DIREVO Biotech AG, Cologne

Chairman of the Advisory Board of Genzyme GmbH, Neulsenburg

Klaus Klinkers*

Master Electrician, Technical Employee

Edda Neumann*

Medical Representative

Jürgen Peddinghaus

Chairman of the Advisory Board for Germany, Booz, Allen & Hamilton

Chairman of the Supervisory Board of MAY Holding GmbH & Co. KG, Erfstadt

Member of the Advisory Board of Carl Dan. Peddinghaus GmbH & Co. KG, Ennepetal

Chairman of the Supervisory Board of Faber-Castell AG, Stein

Member of the Supervisory Board of Zwilling J. A. Henckels AG, Solingen

Member of the Advisory Board of Norddeutsche Private Equity, Hamburg

Member of the Supervisory Board of Jungheinrich AG, Hamburg

Chairman of the Supervisory Board of Kühlhaus Zentrum AG, Hamburg

Member of the Advisory Board of Severin Elektrogeräte GmbH, Sundern

Dr. Kurt Rudolf Schwarz

Managing Director of Leifina GmbH, Munich

*Employees' representatives

Executive Board

Dr. Marcel Studer until May 9, 2001

President of the Supervisory Board of Treuco Treuhand-Gesellschaft, Zürich, Switzerland

President of the Supervisory Board of Bourns AG, Baar, Switzerland

President of the Supervisory Board of H & M Trading AG, Neuendorf, Switzerland

President of the Supervisory Board of Magnetic Elektromotoren AG, Liestal, Switzerland

President of the Supervisory Board of Sifa Chemicals AG, Liestal, Switzerland

President of the Supervisory Board of Skandifinanz AG, Zürich, Switzerland

President of the Supervisory Board of SKF (Schweiz), Schwerzenbach, Switzerland

Vice-President and Secretary of the Supervisory Board of UPM-Kymmene AG, Zürich, Switzerland

Member of the Advisory Board of Kächele-Cama Latex GmbH, Eichenzell

Member of the Supervisory Board of LB (Swiss) Privatbank AG, Zürich, Switzerland (formerly Bayerische Landesbank (Switzerland) AG)

Member of the Supervisory Board of Meyerhans & Cie. AG, Weinfelden, Switzerland

Member of the Supervisory Board of Meyerhans Hotz AG, Weinfelden, Switzerland

Member of the Supervisory Board of Xyrofin AG, Zug, Switzerland

Patrick Schwarz-Schütte

Chairman

Jürgen Baumann

Europe

Klaus Langer

Finance, Technical Operations and Human Resources

Prof. Dr. Iris Löw-Friedrich from August 1, 2001

Research & Development

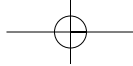
Detlef Thielgen from February 1, 2002

Deputy board member

Controlling, Corporate Finance

Dr. Klaus Veitinger

U.S.A. and Asia



SCHWARZ PHARMA-Group Addresses

SCHWARZ PHARMA AG
Alfred-Nobel-Straße 10
40789 Monheim, Germany
Phone +49/2173/48-0
Fax +49/2173/48-1608
www.schwarzpharma.com

Germany

SCHWARZ PHARMA Deutschland GmbH*
Phone +49/2173/48-0
Fax +49/2173/48-1608
www.schwarzpharma.de
Chief Executive:
Georg Noweski
Jürgen Willas

SCHWARZ PHARMA Produktions-GmbH & Co. KG*
Phone +49/2173/48-0
Fax +49/2173/48-1608
Chief Executive:
Detlef Thielgen

SCHWARZ BIOSCIENCES GmbH*
Phone +49/2173/48-0
Fax +49/2173/48-1608
Chief Executive:
Patrick Schwarz-Schütte
Prof. Dr. Iris Löw-Friedrich

HOYER-MADAUS GmbH & Co. KG*
Phone +49/2173/48-3100
Fax +49/2173/48-3199
www.hoyer-madaus.de
Chief Executive:
Karl Heinz Lüninghöner

Asia

SCHWARZ PHARMA Hong Kong Ltd.
C.M.A. Building
24th Floor
64 Connaught Road Central
Hong Kong, P.R. China
Phone +852/2854-9333
Fax +852/2854-9111
Chief Executive:
Reto Carl Rietmann
Joel Leung

SCHWARZ PHARMA Shanghai Office
Rm 2101 – 2102, LT Square, No. 500
Cheng Du Rd. (N)
Shanghai 200003, P.R. China
Phone +86/21/6361-5980
Fax +86/21/6361-5468
Chief Executive:
Reto Carl Rietmann
Klaus Bitterauf

ZHUHAI SCHWARZ PHARMA
Company Limited
Block A, Changsha Industrial Zone
Qianshan, Zhuhai
519070, Guangdong, P.R. China
Phone +86/21/6361-5980
Fax +86/21/6361-5468
Chief Executive:
Reto Carl Rietmann
Klaus Bitterauf

SCHWARZ PHARMA Philippines Inc.
c/o Zuellig Pharma Corporation
Zuellig Pharma Bldg., Annex II
Mulugay Street
Makati City, Philippines
Phone +632/894-2666
Fax +632/894-2630
Chief Executive:
Reto Carl Rietmann
Pete Miranda

SCHWARZ PHARMA Japan K. K.
2-14, Nihonbashi Ohdemma-cho
Chuo-ku
Tokyo 103-0011, Japan
Phone +81/3/56422126
Fax +81/3/56422127
Representative Director:
Tetsuo Okada

France

LABORATOIRES SCHWARZ PHARMA S.A.
Le Mail du Point du Jour
235, Avenue Le Jour se Lève
92651 Boulogne Billancourt Cedex,
France
Phone +33/1/46106666
Fax +33/1/46216610
www.schwarzpharma-lab.fr
Chief Executive:
Marie-Laure Pochon

Great Britain

SCHWARZ PHARMA Ltd.
Schwarz House
East Street, Chesham
Bucks HP5 1DG, Great Britain
Phone +44/1494/797500
Fax +44/1494/773934
www.schwarzpharma.co.uk
Chief Executive:
Konstantin von Alvensleben

Ireland

SIFA Ltd.
Shannon, Industrial Estate
Shannon, County Clare,
Republic of Ireland
Phone +353/61/714100
Fax +353/61/714101
Chief Executive:
Dr. Conor O'Brien

Italy

SCHWARZ PHARMA S.p.A.
Via Gadames, 57
20151 Milano, Italy
Phone +39/02/300791
Fax +39/02/3086359
www.schwarzpharma.it
Chief Executive:
Dr. Giancarlo Civita

Poland

SCHWARZ PHARMA Sp.zo.o
Ul. Dolna 21
05-092 Lomianki, Poland
Phone +48/22/7511328
Fax +48/22/7518796
Chief Executive:
Peter Spermer

Russia/CIS

SCHWARZ PHARMA AG
Representative Office Moscow
Ul. Ussatcheva 33/2, Building 5
119048 Moskova, Russia
Phone +7/095/9330282
Fax +7/095/9330283
Chief Executive:
Kurt Diekmann

Switzerland

SIFA CHEMICALS AG
Industriestraße 7
4410 Liestal, Switzerland
Phone +41/61/9069050
Fax +41/61/9069044
www.sifachem.com
Chief Executive:
Werner J. Schnyder

Spain

CEPA SCHWARZ PHARMA, S.L.
Paseo de la Castellana, 141
15th Floor
28046 Madrid, Spain
Phone +34/91/5703444
Fax +34/91/5702962
www.cepaschwarzpharma.es
Chief Executive:
Dr. Antonio Martin

Czech Republic/ Slovak Republic

SCHWARZ PHARMA AG
Representative Office Prague
Norbortov 130/3
16200 Praha 6, Czech Republic
Phone +420/2/24315238
Fax +420/2/24316240
Chief Executive:
Dr. Radim Petrás

U.S.A.

SCHWARZ PHARMA, Inc.
6140 West Executive Drive
Mequon, WI 53092, U.S.A.
Phone +1/262/2385400
Fax +1/262/2380311
www.schwarzpharma.com
Chief Executive:
Dr. Klaus Vettinger
President: Dr. Ron Stratton

SCHWARZ BIOSCIENCES, Inc.
4101 Research Commons Building
Suite 100
79 T.W. Alexander Drive
Research Triangle Park
NC 27709, U.S.A.
Phone +1/919/767-2555
Fax +1/919/767-2570
Chief Executive:
Patrick Schwarz-Schütte
Prof. Dr. Iris Löw-Friedrich

SCHWARZ PHARMA Manufacturing, Inc.
P.O. Box 328
1101 "C" Avenue West
Freeman Field
Seymour, IN 47274, U.S.A.
Phone +1/812/522-3915
Fax +1/812/522-1887
Chief Executive:
Leo Katalinas

* Address is identical with that of
SCHWARZ PHARMA AG

