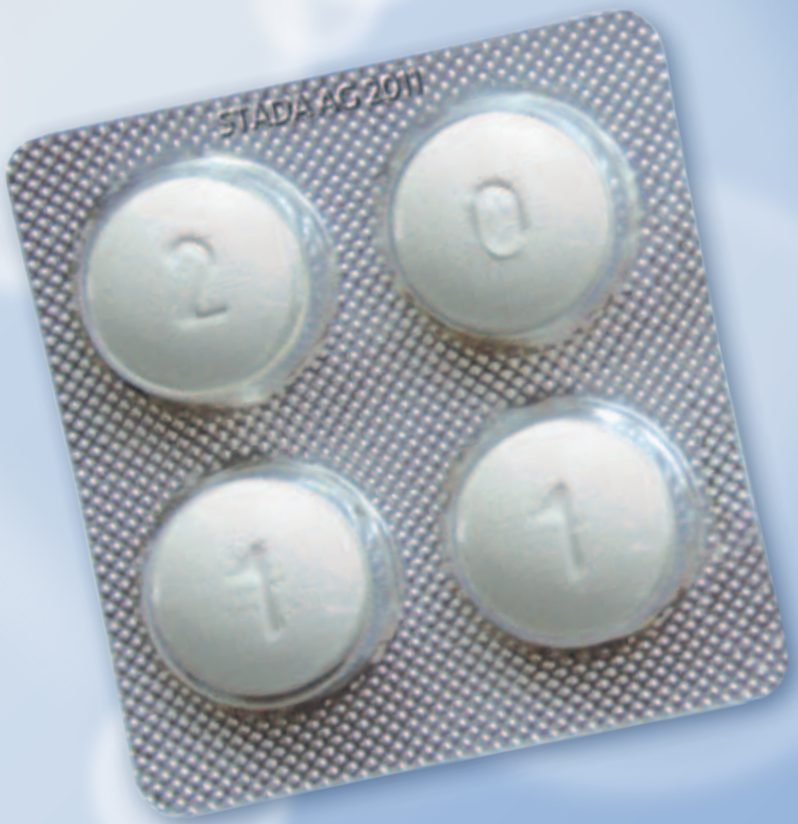
STADA Annual Report 2011



STADA
Arzneimittel

STADA KEY FIGURES

Key figures for the Group in € million	2011	Previous year	± %
Group sales	1,715.4	1,627.0	+5%
• Generics (core segment)	1,188.3	1,124.2	+6%
• Branded Products (core segment)	471.9	425.0	+11%
Operating profit	120.1	161.8	-26%
Operating profit, adjusted[1)]	*257.6*	*239.3*	*+8%*
EBITDA (Earnings before interest, taxes, depreciation and amortization)	223.2	268.8	-17%
EBITDA (Earnings before interest, taxes, depreciation and amortization), adjusted[1)]	*337.2*	*315.9*	*+7%*
EBIT (Earnings before interest and taxes)	121.2	162.1	-25%
EBIT (Earnings before interest and taxes), adjusted[1)]	*258.7*	*239.6*	*+8%*
EBT (Earnings before taxes)	69.5	109.0	-36%
EBT (Earnings before taxes), adjusted[1)]	*205.8*	*186.2*	*+11%*
Net income	22.0	68.4	-68%
Net income, adjusted[1)]	*146.6*	*133.3*	*+10%*
Cash flow from operating activities	169.0	194.8	-13%
Capital expenditure	286.6	109.3	+162%
Depreciation and amortization (net of write-ups)	102.1	106.7	-4%
Employees (average number for the year calculated on the basis of full-time employees)[2)]	7,826	8,080	-3%
Employees (as of the balance sheet date calculated on the basis of full-time employees)	7,900	8,024	-2%

Key share figures	2011	Previous year	± %
Market capitalization (year-end) in € million	1,135.1	1,494.3	-24%
Year-end closing price (XETRA®) in €	19.25	25.38	-24%
Number of shares (year-end)	58,966,360	58,876,360	0%
Average number of shares (without treasury shares)	58,830,209	58,763,492	0%
Earnings per share in €	0.37	1.16	-68%
Earnings per share in €, adjusted[1)]	*2.49*	*2.27*	*+10%*
Diluted earnings per share in €	0.37	1.14	-68%
Diluted earnings per share in €, adjusted[1)]	*2.44*	*2.22*	*+10%*
Dividend per share in €	0.37[3)]	0.37	0%
Total dividend payments in € million	21.8[3)]	21.7	0%
Distribution ratio as a percentage	99%[3)]	32%	+209%

1) The deduction of such effects which have an impact on the presentation of STADA's earnings situation and the derived key figures aims at improving the comparability of key figures with previous years. To achieve this, STADA uses adjusted key figures, which, as so called pro forma figures, are not governed by the accounting requirements in accordance with IFRS. As other companies may not calculate the pro forma figures presented by STADA in the same way, STADA's pro forma figures are only comparable with similarly designated disclosures by other companies to a limited extent.
2) This average number includes initial consolidations on a pro-rata basis.
3) Proposed.

STADA AT A GLANCE

The business model

- Focus on products with off-patent active pharmaceutical ingredients in the health care and, in particular, in the pharmaceutical market
- Core segments
  - Generics (69% of Group sales)
  - Branded Products (28% of Group sales)
- Strategic success factors
  - Positioning in long-term growth markets
  - Traditionally strong presence in Europe and continuous internationalization with a focus on Eastern Europe
  - Extensive Generics portfolio complemented by high-margin branded products business
  - Functionally organized Group with close to market sales companies
  - Successful product development with the "time and cheap to market" strategy
  - Organic growth complemented by acquisitions with concentration on high-growth emerging markets and high-margin branded products segment
  - Efficient cost management and further consistent implementation of the program "STADA – build the future" with the aim of strengthening the mid and long-term earnings potential

Financial year 2011 – good operating earnings development with high burdening one-time special effects

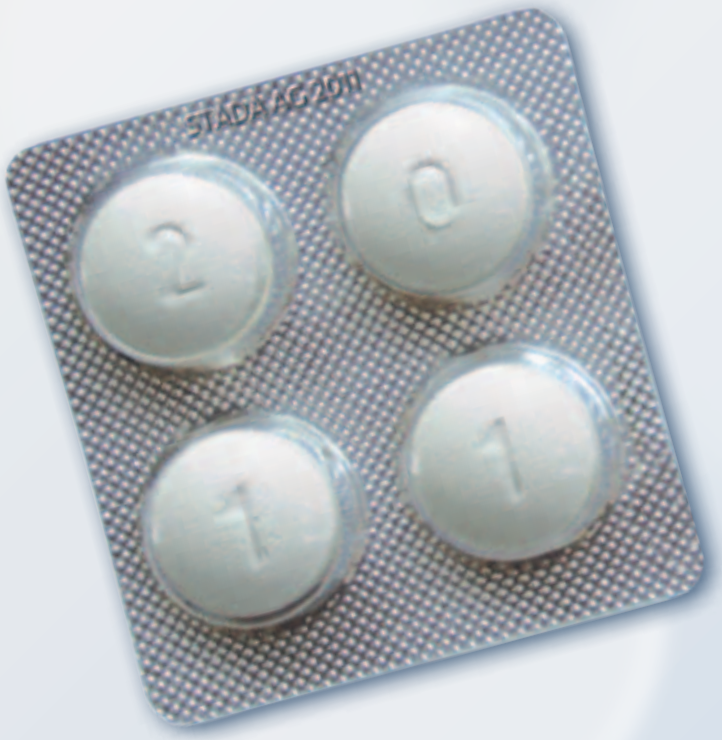
- Group sales € 1.72 billion (+5% – adjusted +5%)
- Net income € 22.0 million (-68% – adjusted +10%)
- EBITDA € 223.2 million (-17% – adjusted +7%)
- Earnings per share € 0.37 (-68% – adjusted +10%)
- High burdening special effects totaling € 136.3 million before taxes or € 124.5 million after taxes
- Operational key earnings figures, i.e. excluding one-time special effects, all above level of previous year
- Net debt to adjusted EBITDA ratio 2.7 (December 31, 2010: 2.7)
- International business activities expanded to 72% of Group sales
- Strong product development with 600 product launches worldwide – cooperative development for biosimilar products
- Accelerated acquisition policy with attractive purchases
- Further consistent implementation of the cost efficiency program "STADA – build the future" with the aim of strengthening the mid and long-term earnings potential
- Successful securing of promissory notes in the amount of € 400 million
- Dividend proposal of € 0.37 per STADA common share unchanged from the previous year

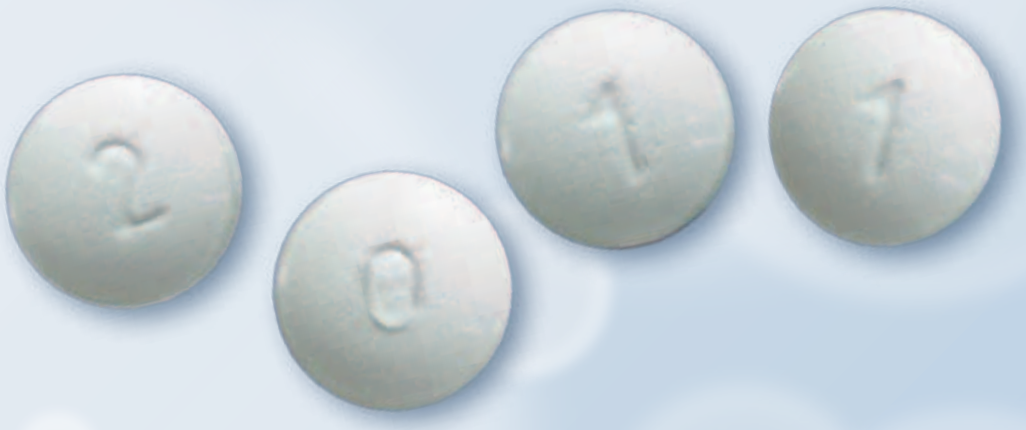
Outlook

- Further growth in Group sales and adjusted key earnings figures in 2012 and 2013
- Opportunities in 2012 for an increase in adjusted EBITDA in the high single-digit percentage area
- Clear increase in Group sales and very significant increase in reported net income expected in 2012 in comparison with 2011
- Long-term targets for 2014[1)] affirmed: Group sales of approx. € 2.15 billion, adjusted EBITDA of approx. € 430 million and adjusted net income of approx. € 215 million.

1) See the Company's ad hoc releases of June 7, 2010 and March 1, 2012.

STADA ANNUAL REPORT 2011





LETTER TO SHAREHOLDERS FROM THE CHAIRMAN OF THE EXECUTIVE BOARD

Dear shareholders,

In financial year 2011, the sales and operating earnings development at STADA was within the scope of our expectations. It was possible to increase not only Group sales, but also all operational key earnings figures, i.e. without consideration of high burdening one-time special effects, in the reporting year.

We recorded positive developments, for example, in several of our ten largest national markets. Several STADA subsidiaries in Germany achieved very strong results in numerous tenders for discount agreements, also including large-volume agreements such as in the sixth and seventh rounds with the AOK, and thus we see a moderate chance for growth in the German market in 2012. We were able to significantly increase sales in Russia, our second largest national market. We also achieved pleasingly strong sales growth in Italy and Spain, the so-called emerging generics markets, which due to a still relatively low penetration of generics promise continued growth in the future as well.

In Serbia, unfortunately, we unexpectedly had to report high one-time special effects that burden earnings in 2011, because we had to come to the estimation that outstanding receivables due to our Serbian subsidiary Hemofarm from various Serbian pharmaceutical wholesalers were presumably no longer recoverable. However, following intensive discussions with Serbian highest-level government representatives, the Serbian government issued a letter of comfort in the meantime for the payment of deliveries from drug manufacturers to government agencies so that we now once again see, within the Serbian health care system, the opportunity for more trust in the supplier relationships among all participants and, therefore, also positive effects for our subsidiary Hemofarm.

In addition to a still high number of successful product launches in the area of product development in the reporting year, we succeeded in signing license and collaboration agreements for the development and subsequent marketing of biosimilar products for both monoclonal antibodies Rituximab and optionally Trastuzumab. A view to this agreement shows that we were correct in our strategic decision to refrain from our own cost-intensive biosimilar development and to instead rely on cooperations and licenses for these biosimilar projects. As a consequence we have secured marketing access to two biosimilars with particularly high sales potential for our European core markets at substantially more favorable conditions than what would have been possible with a development of our own.

We successfully implemented our accelerated acquisitions policy as well. One particular example includes the purchase of a branded product portfolio including the associated sales structures for numerous national markets in Central and Eastern Europe as well as the Middle East, which includes, among others, such well-known branded products as Tramal® (active pharmaceutical ingredient: tramadol) and Zaldiar® (active pharmaceutical ingredient combination: tramadol/paracetamol). For this transaction that was concluded in two installments on December 30, 2011 and on January 31, 2012, we were able to push the original purchase price of € 360 million for the entire package down by € 48 million to a final price of only € 312 million thanks to successful subsequent negotiations. With this acquisition, we have strengthened our presence in Central and Eastern Europe, one of the largest growth regions in the world, and have further expanded our basis in the Middle East and thus our international presence overall. We are also opening up new strategic distribution channels for appropriate products from the comprehensive Group portfolio which in future can also be marketed as branded products via the acquired sales structures in the respective markets in Central and Eastern Europe as well as the Middle East.

In addition to the purchase of the British branded product Cetraben®, we were also able to further strengthen our Generics segment with the acquisition of a generics business in Switzerland including the associated sales structures. This transaction contractually agreed in 2011, was successfully concluded in January of this year.

We further reinforced our stable financing structure in 2011 by successfully securing new promissory notes in the amount of € 400 million with favorable interest rates at an average of 4.27% with maturities of three to five years and, as a result, have also smoothed out the debt maturity profile of the Group's liabilities over the coming years. The strong interest in these most recent financing instruments has demonstrated that the investors continue to have great confidence in the viability and long-term performance of STADA.

We continually make further progress in the implementation of the Group-wide cost efficiency program "STADA – build the future" which aims at strengthening mid and long-term earnings potential – and last year this progress once again contributed to raising the Group's adjusted EBITDA to a new record level in the Company's history. In addition to numerous measures to improve internal efficiency in the areas of production, procurement and the supply chain, as well as development, quality management, and marketing and sales, the Group's Irish production facility was also sold in the first quarter of the current financial year. Besides reducing the number of employees by approx. 180 as a result, the goal of this sale was to improve local utilization at other STADA-owned production facilities, with the commenced, successive transfer of the production volumes of the Irish production facility to these facilities, and thereby lower unit costs of the respective products on the medium term. The resulting one-time burden due to the sale of the Irish factory, however, lies below the expenses that were originally calculated for it in the scope of the "STADA – build the future" program.

The STADA share price was very volatile and decreased significantly on occasion in 2011. In addition to global stock market turbulence and the resulting high level of general volatility in worldwide share prices from which even the STADA share price could not escape, the significant price decrease in our share during the third quarter was attributable to the previously mentioned high burdening one-time special effects. Nevertheless, the share price stabilized in the fourth quarter – among other reasons, as a result of the letter of comfort issued by the Serbian government.

Turning to the outlook, we expect a successful development in the future as well. For 2012 and 2013, we anticipate further growth in Group sales and adjusted key earnings figures. And we again see the opportunity for an increase in the high single-digit percentage area for adjusted EBITDA for 2012. This would once again mean record results in these key figures for 2012.

Moreover, we affirm our long-term forecast envisaged for 2014, according to which we aim to achieve, at a minimum, Group sales of approx. € 2.15 billion, at an adjusted level, EBITDA of approx. € 430 million and net income of approx. € 215 million.

All of this – including the successes in 2011 as well as our future goals – has only been and will only be possible to achieve thanks to the tremendous commitment and extraordinary performance of our employees, and for this I wish to sincerely thank them in the name of the entire Executive Board. We also extend our gratitude to the Supervisory Board and the Advisory Board for their professional cooperation characterized by mutual respect.

Hartmut Retzlaff
Chairman of the Executive Board

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In financial year 2011, the Supervisory Board of STADA Arzneimittel AG carefully executed the duties imposed on it in accordance with the law and the Articles of Incorporation. The Supervisory Board monitored the management of the Company and advised the Executive Board in the execution of its duties. In all decisions of fundamental importance for the Company, the Executive Board involved the Supervisory Board directly and in a timely manner. The Executive Board informed the Supervisory Board promptly and comprehensively through monthly oral and written reports on the progress of business, the strategy and the planning as related to the Company and the STADA Group. The Executive Board briefed the Supervisory Board – also outside of meetings – on the progress of business including the sales development and profitability, important business events and issues of particular importance. In addition, the Supervisory Board reviewed and monitored the risk situation and the measures taken by the Executive Board for risk management. The Executive Board explained in detail to the members of the Supervisory Board eventual deviations in the business development from the plans and objectives.

All Executive Board procedures requiring consent in accordance with the Articles of Incorporation and rules of procedure were submitted to the Supervisory Board. The Supervisory Board treated and reviewed these procedures in detail and discussed them with the Executive Board, whereby the focus was regularly placed on the benefits, the risks and effects of the respective procedure.

Meetings of the Supervisory Board and focus of activities

The Supervisory Board convened for a total of eight meetings in financial year 2011 (on February 25, March 25, May 10, June 15, August 9, October 5, November 8, and December 14).

These meetings focused on the following themes, among others:

- the company strategy and its operative implementation,
- the acquisitions policy, particularly in Central and Eastern Europe, the Middle East and Switzerland,
- the economic situation of the Group, its segments and subsidiaries and, in particular, their respective sales, sales volume, costs and earnings development, the development of working capital, the cash flow, inventories, the balances and terms of receivables as well as the effects of the global financial and economic crisis,
- the situation of the Group in Serbia as a result of liquidity problems of local pharmaceutical wholesalers,
- the market structures, development of demand, the competitive situation and the price, conditions and discount development in the individual national markets and in particular the development of market shares of the Group and the relevant competitors,
- the assets situation of the Group and its finance and liquidity situation considering especially the investment plans in the Group, the financing structures and refinancing strategies (including corporate bond and promissory notes, among other things) as well as the development of the debt-to-equity ratio,
- the risk and opportunities management and the significant risks for the Group that were revealed as a result as well as the internal control and auditing systems, contemplated, planned and executed acquisitions and cooperations of the Group as well as the integration of acquired companies in the Group,
- the effects of regulatory state interventions on the Group and/or on the individual subsidiaries and the necessary reactions to these, especially in the German home market with regard to discount agreements with health insurance organizations,
- all significant aspects in the context of the implementation of the “STADA – build the future” Group project carried out in 2011, in particular measures taken to improve internal efficiency in the areas of production, procurement and supply chain, development, quality management as well as marketing and sales,
- the product development and product portfolio of the Group,

- STADA's capital market position,
- issues on the composition and the efficiency of the Supervisory Board (including the execution of an efficiency review),
- themes of corporate governance,
- the Annual Report as well as the interim reports of the Group prior to their respective publication,
- the (random sample) audit of STADA's Consolidated Financial Statements of December 31, 2010 and of the Group Management Report 2010 in accordance with Section 342b (2) sentence 3 HGB by the German Financial Reporting Enforcement Panel, and
- against the backdrop of the social responsibility of the Group, the increasingly important issue of sustainability.

Composition of the Executive Board and the Supervisory Board

The composition of the Executive Board and the Supervisory Board remained unchanged in the year 2011.

Work of the committees

The committees established by the Supervisory Board, the Audit Committee and the Human Resources Committee, supported the Supervisory Board in its duties in the reporting year.

The Audit Committee convened for six meetings in financial year 2011 (on March 23, May 9, August 8, September 27, October 5 and November 7). Within the framework of these meetings, it dealt primarily with the results, key figures, accounting, Group financing principles, internal risk management, internal auditing and compliance, as well as the situation of the Group in Serbia as a result of liquidity problems of local pharmaceutical wholesalers. Furthermore, the auditor reported to the Supervisory Board in a meeting on the audit of the condensed interim consolidated financial statements of June 30, 2011 and the interim group management report. Moreover, the Audit Committee dealt with the (random sample) audit of STADA's Consolidated Financial Statements of December 31, 2010 and of the Group Management Report 2010 in accordance with Section 342b (2) sentence 3 HGB by the German Financial Reporting Enforcement Panel.

The Human Resources Committee dealt with those thematic areas of relevance to it in two meetings (on March 31 and November 7) in financial year 2011.

Due to the size of STADA's Supervisory Board with six shareholder representatives, the Supervisory Board believes that a Nomination Committee as recommended by the German Corporate Governance Code in the version of May 26, 2010 is structurally superfluous. The Supervisory Board created a Nomination Panel in the reporting year, consisting of the Chairmen of the Human Resources Committee and the Audit Committee. The Nomination Panel had the task of developing objectives and a profile for the composition of the future Supervisory Board. The full Supervisory Board decided upon the goals presented by the Nomination Panel as well as an appointment plan for the composition of the members of the Supervisory Board to be elected in financial year 2013 as representatives of the shareholders. Further details on the goals decided upon by the full Supervisory Board, as well as the appointment plan, can be found in the Corporate Governance Report.

The Chairmen of the committees informed the Supervisory Board Plenum at its ordinary meetings regularly and thoroughly on their work.

Corporate governance

In financial year 2011, too, the Supervisory Board and Executive Board dealt in detail with the further development of corporate governance in the Company while taking the current version of the German Corporate Governance Code into account. The new joint Declaration of Compliance pursuant to Article 161 of the German Stock Corporation Act issued by the Executive Board and the Supervisory Board on September 1, 2011 on the basis of the German Corporate Governance Code as amended on May 26, 2010 is printed in this Annual Report in the chapter "Corporate Governance Report" and is publicly available on the Company's website at www.stada.de or www.stada.com.

In the reporting year, the Supervisory Board once again carried out an efficiency review of its activities with the aid of an external consultant (as it already had in the years 2007 and 2009).

No conflicts of interest arose in the reporting year which had to be disclosed to the Supervisory Board and about which the Annual General Meeting must be informed.

Annual and consolidated financial statements, audit

The Supervisory Board satisfied itself that the Company is being properly managed. The financial statements of STADA Arzneimittel AG and the consolidated financial statements as well as the Company's Management Report for financial year 2011 were audited by PKF Deutschland GmbH, Wirtschaftsprüfungsgesellschaft, Hamburg, and issued with an unqualified audit opinion. The main areas of the audit were established by the Supervisory Board within the scope of the commissioning of the auditor. The Audit Committee reviewed the financial statements and consolidated financial statements as well as the Management Report and the Group Management Report as well as the proposal for the appropriation of profits and also included the reports of the auditor on the audit of the financial statements in its review. The auditor reported on significant results of the audit in a meeting of the Audit Committee and was available for questions to the members of the Committee. The members of the Audit Committee dealt intensively with the submissions from the Executive Board and the audit reports and discussed these with the auditor. The Audit Committee raised no objections and recommended to the Supervisory Board to approve the financial statements and the Management Report as well as the Group Management Report and assent to the Executive Board's proposal for the appropriation of profits.

On the basis of the preparation by the Audit Committee, the Supervisory Board examined the financial statements and the consolidated financial statements prepared by the Executive Board, the Management Report and the Group Management Report of the Executive Board on the financial year 2011 as well as the Executive Board's proposal for the appropriation of profits. The Chairman of the Audit Committee reported to the Supervisory Board on the work and the audit results of the Audit Committee. The auditor reported to the Supervisory Board on significant results of the audit and was available to for questions the members of the Supervisory Board. The Supervisory Board discussed the submissions mentioned above and the conclusions of the auditor in detail with the auditor and the Executive Board. Following the final results of the Supervisory Board's own examination, the Supervisory Board had no objections to the financial statements, the Management Report, the consolidated financial statements and the Group Management Report on the financial year 2011 and concurred with the outcome of the audit.

The Supervisory Board approved the financial statements and the consolidated financial statements prepared by the Executive Board. The financial statements are thus adopted. The Supervisory Board concurred with the individual assessments of the business situation and the outlook as given in the Management Report of the Executive Board. Furthermore, the Supervisory Board concurred with the proposal of the Executive Board for the appropriation of profits that provides for a dividend of € 0.37 per STADA common share. The Supervisory Board shares the assessment of the Executive Board that the high extraordinary burdens on earnings in Serbia reported in the year 2011 were of a one-time character, and that STADA's sustainable earnings and dividend potential is not influenced by this.

The Supervisory Board wishes to express its gratitude to all of the Group's employees, the Executive Board and management for their commitment to their work and the good result in the challenging financial year 2011.

Bad Vilbel, March 22, 2012

Dr. Martin Abend
Chairman of the Supervisory Board

OVERVIEW OF 2011

Five-year comparison in € million	2011	2010	2009	2008	2007
Group sales	1,715.4	1,627.0	1,568.8	1,646.2	1,570.5
Operating profit	120.1	161.8	191.9	176.4	215.5
Operating profit, adjusted	*257.6*	*239.3*	*211.1*	*221.4*	*249.5*
EBITDA[1)]	223.2	268.8	280.1	255.4	288.6
EBITDA, adjusted	*337.2*	*315.9*	*287.5*	*294.3*	*315.5*
EBIT[2)]	121.2	162.1	192.5	175.2	186.8
EBIT, adjusted	*258.7*	*239.6*	*210.8*	*219.0*	*249.0*
EBT[3)]	69.5	109.0	141.5	105.5	149.8
EBT, adjusted	*205.8*	*186.2*	*163.0*	*164.8*	*209.5*
Net income	22.0	68.4	100.4	76.2	104.2
Net income, adjusted	*146.6*	*133.3*	*115.8*	*116.0*	*144.9*

Good operating earnings development with high burdening one-time special effects

In financial year 2011, the sales and operating earnings development of the STADA Group, i.e. without consideration of high burdening one-time special effects, was within the scope of the outlook given by the Executive Board at the beginning of the year.

Group sales rose in the reporting year – with varying development in the individual national markets – by 5% to € 1,715.4 million (previous year: € 1,627.0 million).

When effects on sales based on changes in the Group portfolio and currency effects are taken into account, Group sales increased by 5% in 2011.

The reported key earnings figures in financial year 2011 decreased significantly due to the high burdening one-time special effects – primarily as a result of impairments on receivables from various Serbian pharmaceutical wholesalers (see "Earnings Situation – Development of Earnings and Costs") – operationally, i.e. excluding one-time special effects, however, they all exceeded the key earnings figures, adjusted accordingly, of the previous year.

The reported operating profit decreased in the reporting year by 26% to € 120.1 million (previous year: € 161.8 million). Reported net income decreased by 68% to € 22.0 million (previous year: € 68.4 million). EBITDA recorded a decrease of 17% to € 223.2 million (previous year: € 268.8 million).

Adjusted for influences distorting the period comparison resulting from one-time special effects and non-operational effects from interest rate hedge transactions (previous year: adjusted for one-time special effects as well as non-operational effects from currency influences and interest rate hedge transactions), adjusted operating profit recorded a plus of 8% in 2011 to € 257.6 million (previous year: € 239.3 million), and thereby reached a new record value in Company history. Adjusted net income recorded growth of 10% to € 146.6 million (previous year: € 133.3 million). Adjusted EBITDA increased by 7% to € 337.2 million (previous year: € 315.9 million).

1) Earnings before interest, taxes, depreciation and amortization.
2) Earnings before interest and taxes.
3) Earnings before taxes

Excluding the high burdening one-time special effects, the Group, in the assessment of the Executive Board, achieved a good operating profit in the reporting year overall. This is based on STADA's sustainable business model which proved itself even with an accumulation of burdening factors and generated significantly positive earnings.

Stable financial position

In the Executive Board's assessment, the STADA Group's financial position continues to be stable.

As of December 31, 2011, the equity-to-assets ratio was 30.9% (December 31, 2010: 34.6%) and thereby remained above the intended minimum rate strived for by the Executive Board. Net debt amounted to € 900.3 million as of the balance sheet date (December 31, 2010: € 864.1 million).

The net debt to adjusted EBITDA ratio amounted to 2.7 in 2011 (previous year: 2.7) and was thus below the maximum value of 3 envisaged by the Executive Board. Thus, this value remained the same – despite the burdening balance sheet date effect, where the completion of the partial acquisition of the branded product portfolio in Eastern Europe and the Middle East immediately prior to year-end on December 30, 2011 had already increased the debt as of the balance sheet date without this being able to first generate a contribution to EBITDA. Excluding this balance sheet date effect, the accordingly adjusted net debt to adjusted EBITDA ratio only amounted to 2.5.

The Group was able to further strengthen the long-term refinancing structure in the reporting year by successfully securing new promissory notes in the amount of € 400 million. Therefore, in addition to a five-year corporate bond that was placed in 2010 of € 350 million with an interest rate of 4.00% p.a. for the long-term refinancing of the Group, there were long-term promissory notes with maturities in the area of 2012–2016 in the total amount of € 729.5 million as of December 31, 2011.

Cash flow from operating activities amounted to € 169.0 million in the reporting year (previous year: € 194.8 million). Free cash flow amounted to € -18.1 million (previous year: € 102.4 million). Free cash flow adjusted for payments for significant acquisitions and proceeds from significant disposals decreased to € 123.3 million (previous year: € 135.0 million).

Off-balance sheet assets

In addition to the recognized assets, the Group has only partially quantifiable off-balance sheet assets, such as the high international reputation of STADA Arzneimittel AG and the individual national subsidiaries, which, among other things, is an important success factor in the framework of new business or in health care policy discussions.

Another significant off-balance sheet asset, whose value can be approximated by means of estimations, lies in consolidated Group companies' goodwill which, in part, cannot be recognized in the balance sheet according to IFRS. Every reduction in goodwill determined in the context of continuous impairment tests does result in a write-down and thus in a reduction of the corresponding balance sheet item. However, any goodwill increases determined in this connection may not be used for write-ups. In addition, no goodwill can be recognized according to IFRS in the case of Group companies which are founded by STADA itself. By applying the criteria for impairment testing that are usual at STADA to all consolidated companies with goodwill, the result is that the value in use of just these companies totals over € 500 million which cannot be reported as assets in the balance sheet.

Successful product development and cooperation in biosimilar activities

With further expansion of the product portfolio and the introduction of 600 individual products worldwide in individual national markets (previous year: 572 product launches), the Group once again demonstrated the strength of STADA's product development in the reporting year.

Furthermore in the area of product development in 2011, STADA, together with Gedeon Richter Plc., was able to sign license and collaboration agreements for the development and marketing of two biosimilar products for the monoclonal antibodies Rituximab and optionally Trastuzumab.

Accelerated acquisition policy with attractive purchases

With the goal of supplementing the Group's organic growth with external growth impulses, STADA pursued an accelerated acquisitions policy in financial year 2011. The focus was, thereby, on the one hand on the regional expansion of business activities with concentration on high-growth emerging markets and, on the other hand, on the expansion and internationalization of the Branded Products core segment.

One particular example includes the purchase of a product portfolio of primarily prescription branded products including the associated sales structures for numerous national markets in Central and Eastern Europe as well as the Middle East, which includes, among others, the branded products Tramal®[1], Zaldiar®[2], Transtec®[3] and Palexia®[4].[5] For this transaction that was concluded in two installments on December 30, 2011 and in the current financial year on January 31, 2012, it was possible to push the original purchase price of approx. € 360 million for the entire package down to just approx. € 312 million thanks to subsequent negotiations. With this acquisition, STADA has further expanded its international presence and has strategically opened up new distribution channels for appropriate products from the comprehensive Group portfolio which in future can also be marketed as branded products via the acquired sales structures in the respective markets in Central and Eastern Europe as well as the Middle East.

In addition to the purchase of the British branded product Cetraben® for approx. € 34.6 million[6], the Group's Generics segment was also further strengthened with the acquisition of a generics business in Switzerland including the associated sales structures.[7] This transaction, contractually agreed in 2011, was successfully concluded in the current financial year on January 31, 2012 at a purchase price of approx. € 78 million.

Continued consistent and successful execution of "STADA – build the future"

In addition, STADA has continually made further progress in the implementation of the Group-wide cost efficiency program "STADA – build the future", scheduled for the period of 2010 to 2013, which aims at strengthening mid and long-term earnings potential.

In addition to numerous measures to improve internal efficiency in the areas of production, procurement and the supply chain, as well as development, quality management, and marketing and sales, the Group's Irish production facility was also sold in the first quarter of the current financial year (see "Supplementary Report").[8]

In order to strengthen the mid and long-term earnings potential, STADA will continue to implement the Group-wide cost efficiency program "STADA – build the future" scheduled for the period of 2010 to 2013. Thereby the expected project-related costs[9] will continue, as planned, to be reported as one-time special effects according to the progress of the project in each case; this also includes the one-time burden incurred from the sale of the factory in Ireland[10] in the first quarter of 2012.

1) Active pharmaceutical ingredient: Tramadol for the treatment of pain.
2) Active pharmaceutical ingredient: Tramadol/Paracetamol for the treatment of pain.
3) Active pharmaceutical ingredient: Buprenorphin for the treatment of pain.
4) Active pharmaceutical ingredient: Tapentadol for the treatment of pain.
5) See the Company's ad hoc release of May 12, 2011 as well as the Company's ad hoc updates of July 22, 2011, December 30, 2011, January 1, 2012, January 27, 2012 and January 31, 2012.
6) See the Company's ad hoc release of May 26, 2011.
7) See the Company's ad hoc release of May 19, 2011 and the Company's ad hoc updates of November 9, 2011 and January 31, 2012.
8) See the Company's ad hoc release of February 6, 2012.
9) See the Company's ad hoc release of June 7, 2010.
10) See the Company's ad hoc release of February 6, 2012.

Already in the current financial year and thus one year earlier than planned, STADA expects, on the whole, to achieve the personnel reductions planned for the period of 2010 to 2013 of approx. 10% of the workforce at the time in the amount of approx. 800 employees.

STADA also achieved its interim goals for 2011 regarding the sought-after improvements in EBITDA at the level adjusted for one-time special effects. This made a significant contribution, in the opinion of the Executive Board, to STADA again recording a record value for adjusted EBITDA in 2011.

Successful securing of promissory notes

In order to finance acquisitions made in 2011 and to refinance expiring promissory notes, STADA successfully secured promissory notes in the amount of € 400 million in the reporting year. The newly secured promissory notes consist of four tranches with terms between three and five years that are partially furnished with a variable interest rate and partially with a fixed interest rate. At an average of 4.27% p.a., the fixed interest rate is clearly below the interest rate at which STADA could have secured financing with the alternatively considered placement of a corporate bond with the market conditions at the time. By securing the new promissory notes, STADA was able to smooth out the debt maturity profile of the Group's liabilities over the coming years and further strengthen the stable financing structure.

Very high volatility in the STADA share price

The STADA share price was very volatile and temporarily decreased significantly in 2011. In addition to global stock market turbulence and the resulting high level of general volatility in worldwide share prices from which even the STADA share price could not escape, the significant price decrease in the third quarter of 2011 was attributable to a previously published ad hoc release on high burdening one-time special effects due to the increased risk of default on outstanding receivables from various Serbian pharmaceutical wholesalers. In the fourth quarter of 2011, the STADA share price stabilized and closed at € 19.25 at the end of the year. Thus, the closing price for 2011 was 24% below the previous year and 34% above than the lowest price of the year.

Dividend proposal

The STADA Executive Board proposes to the Supervisory Board to recommend to the next Annual General Meeting on May 30, 2012 an unchanged dividend of € 0.37 per common share (previous year: € 0.37) for financial year 2011 despite the reduced net income reported due to the high burdening one-time special effects. The resulting total dividend payments of € 21.8 million (previous year: € 21.7 million) reflect a significantly higher distribution ratio than the previous year at approx. 99% of reported net income. In this dividend proposal, the Executive Board was guided by the estimation that the high burdens on earnings in Serbia reported in 2011 were of a one-time character, and that STADA's sustainable earnings and dividend potential is not influenced by this.

Established, comprehensive risks and opportunities management

The established, comprehensive risks and opportunities management system in the STADA Group aims to continuously identify important risks that may jeopardize the Company's continued existence, to assess their effects to the Group and to determine possible measures that can be initiated in due time if necessary.

With a view to the current status of the risks and opportunities management system, the Executive Board expects that STADA will continue to be confronted with challenging framework conditions; however, at the same time, from today's perspective no risks are discernible which alone or in combination could jeopardize the continued existence of the Group – particularly in consideration of the opportunities available at the same time.

Outlook

The sales and earnings development of the STADA Group will continue to be characterized by partially stimulating, but also in part very challenging framework conditions in the various national markets in which STADA is active. In the overall assessment of opposing influence factors, the Executive Board, from today's perspective, nevertheless expects a further clear increase in Group sales for 2012 and 2013, in particular with the inclusion of the current acquisitions, the purchase of the branded product package from Grünenthal[1)] for various national markets as well as the purchase of Spirig Healthcare's generics business[2)].

The Executive Board thus expects, from today's perspective, that in 2012 and 2013 both core segments can achieve sales growth. The Branded Products segment is expected to grow at a disproportionate rate, so that the share of branded products in Group sales will thereby continue to grow.

In order to strengthen mid and long-term earnings potential, STADA will continue in the implementation of the Group-wide cost efficiency program "STADA – build the future" scheduled for the period of 2010 to 2013. Thereby the expected planned project-related costs[3)] will continue to be reported as one-time special effects according to the progress of the project in each case; this also includes the one-time burden resulting from the sale of the factory in Ireland in the first quarter of 2012.[4)]

Despite these earnings burdening one-time special effects from the further implementation of the "STADA – build the future" program, the Executive Board expects a significant increase in reported net income for 2012 as compared to 2011.

The STADA Executive Board also expects continued growth in the key earnings figures adjusted for one-time special effects in the Group for 2012, as well as 2013, and also sees, from today's perspective, the opportunity for an increase in the high single-digit percent area in EBITDA adjusted for one-time special effects for 2012. This would mean that record results are once again targeted for these key figures in 2012.

Furthermore, the Executive Board affirms its long-term prognosis envisaged for 2014[5)], according to which Group sales of approx. € 2.15 billion, at an adjusted level, EBITDA of approx. € 430 million and net income of approx. € 215 million should be reached, at a minimum. The Group's recent acquisitions, which STADA finances organically, i.e. without a capital increase, give the Executive Board a high level of confidence that these long-term growth targets will, at a minimum, be reached despite the operating challenges that still remain in individual national markets.

1) See the Company's ad hoc release of May 12, 2011 as well as the Company's ad hoc updates of July 22, 2011, December 30, 2011, January 1, 2012, January 27, 2012 and January 31, 2012.
2) See the Company's ad hoc release of May 19, 2011 and the Company's ad hoc updates of November 9, 2011 and January 31, 2012.
3) See the Company's ad hoc release of June 7, 2010.
4) See the Company's ad hoc release of February 6, 2012.
5) See the Company's ad hoc releases of June 7, 2010 and March 1, 2012.

BOARDS OF THE COMPANY

The STADA Supervisory Board (as of March 1, 2012)

Dr. Martin Abend, Dresden (Chairman)
Manfred Krüger[1)], Mühlheim am Main (Deputy Chairman)

Dr. Eckhard Brüggemann, Herne
Heike Ebert[1)], Niddatal
Dr. K. F. Arnold Hertzsch, Dresden
Dieter Koch, Kiel
Constantin Meyer, Seelze
Carl Ferdinand Oetker, Düsseldorf
Karin Schöpper[1)], Bad Vilbel

The Supervisory Board members can be contacted via STADA Arzneimittel AG's business address.

1) Employee representative.

The STADA Executive Board (as of March 1, 2012)

Hartmut Retzlaff
Chairman of the Executive Board
Executive Board member since 1993
Chairman of the Executive Board since 1994
Contract until August 31, 2016

Helmut Kraft
Chief Financial Officer
Executive Board member since 2010
Contract until December 31, 2014

Dr. Axel Müller
Chief Production and Development Officer
Executive Board member since 2010
Contract until December 31, 2014

The Executive Board members can be contacted via STADA Arzneimittel AG's business address.

The STADA Advisory Board (as of March 1, 2012)

Members of the STADA Advisory Board are appointed by the Chairman of the Supervisory Board on the recommendation of the Executive Board and the Supervisory Board. According to the Company's Articles of Incorporation, the duty of the Advisory Board is to support and advise the Executive and Supervisory Boards. Furthermore members of the Advisory Board are available to act as proxy for shareholders who do not wish to exercise their voting rights in person at the Annual General Meeting. The Advisory Board, newly appointed for five years from 2009 through 2013, currently includes the following orderly members:

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

Rika Aschenbrenner, Mainburg
Wolfgang Berger, Gießen
Gerd Berlin, Haßloch
Alfred Böhm, Munich
Jürgen Böhm, Kirchhain
Axel Boos, Darmstadt
Reimar Michael von Kolczynski, Stuttgart
Dr. Frank-R. Leu, Gießen
Dr. Hanns-Dietrich Rahn, Wiesbaden
Dr. Wolfgang Schlags, Mayen
Jürgen Schneider, Offenbach

The Advisory Board members can be contacted via STADA Arzneimittel AG's business address

THE STADA SHARE

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

Capital structure

As of December 31, 2011, the subscribed share capital of STADA Arzneimittel AG was at an amount of € 153,312,536 (December 31, 2010: € 153,078,536) consisting of 58,966,360 registered shares with restricted transferability[1], each with an arithmetical share in share capital of € 2.60 (December 31, 2010: 58,876,360 registered shares). Changes from the previous year resulted from the exercising of 4,500 warrants 2000/2015[2]. As of December 31, 2011, 171,193 warrants 2000/2015 for the subscription of 3,243,860 STADA registered shares with restricted transferability were thus still outstanding.

Capital structure of STADA Arzneimittel AG	Dec. 31, 2011	Dec. 31, 2010
Number of issued registered shares with restricted transferability	58,966,360	58,876,360
Number of outstanding warrants 2000/2015[2]	171,193	175,693
Number of potential shares from warrants 2000/2015[2]	3,423,860	3,513,860

Price development of the STADA share characterized by very high volatility

In 2011, the STADA share price was very volatile and temporarily decreased significantly. In addition to global stock market turbulence and the resulting high level of general volatility in worldwide share prices from which even the STADA share price could not escape, the significant price decrease in the third quarter of 2011 was attributable to a previously published ad hoc release[3] on high burdening one-time special effects due to the increased risk of default on outstanding receivables to the Serbian subsidiary Hemofarm from various Serbian pharmaceutical wholesalers. In the fourth quarter of 2011, the share price stabilized – also as a result of the letter of comfort issued by the Serbian government for the payment of deliveries from drug manufacturers to government agencies[4]. The STADA share was listed at € 27.34 on March 31, 2011, was € 27.00 on June 30, 2011, and reached € 15.81 on September 30, 2011. At year-end 2011, the share price was € 19.25, while the 2010 year-end price amounted to € 25.38. The STADA share thus decreased by approx. 24% in the course of 2011, and was 34% higher than the year's lowest price of € 14.40.

The relevant national comparative indices for STADA decreased in the course of 2011. The German benchmark index DAX®[5] decreased by 15% in 2011 compared to the previous year. The MDAX®[6], of which the STADA share is part, saw a minus of 12% in the same period (respectively XETRA®[7] closing prices).

At year-end 2011, the STADA market capitalization amounted to € 1.135 billion. At the previous year-end it had been € 1.494 billion. Based on Deutsche Börse AG's index system, which only considers free float, STADA, in terms of market capitalization, took place 22 in the MDAX® in 2011. STADA had also occupied position 22 in this category in the previous year.

1) Under the Company's Articles of Incorporation, STADA's registered shares with restricted transferability can only be transferred in the share register with the consent of the Company and, pursuant to the statutes, grant one vote each in the Annual General Meeting. Shareholders are only those who are registered as such in the share registry and only such persons are authorized to participate in the Annual General Meeting and to exercise voting rights. No shareholder and no shareholder group shall have any special rights.
2) The legally binding option terms and conditions are published on the Company website under www.stada.de and www.stada.com.
3) See the Company's ad hoc release of September 21, 2011.
4) See the Company's corporate news of November 10, 2011.
5) DAX® is the index of Deutsche Börse AG, largely consisting of the 30 biggest companies by market capitalization and order book volume.
6) MDAX® is the index of Deutsche Börse AG for midcap companies, largely consisting of the 50 next-biggest companies by market capitalization and order book volume below the DAX®, thus also including the STADA share.
7) XETRA® is the electronic trading system of Deutsche Börse AG.

The average daily volume of the STADA share in the trading volume at the XETRA® trading and the Frankfurt Stock Exchange amounted to a total of € 10.0 million in 2011. In 2010, the average trading volume per day of the STADA share had been € 12.4 million. Thus in trading volume based on Deutsche Börse AG's index system, STADA occupied place 19 in 2011. In the previous year, STADA had occupied position 11 in this area.

STADA key share data	2011	Previous year
Number of shares (year-end)	58,966,360	58,876,360
Number of treasury shares (year-end)	96,391	100,706
Resulting number of voting shares (year-end)	58,869,969	58,775,654
Average number of shares (without treasury shares)	58,830,209	58,763,492
Year-end closing price (XETRA®) in €	19.25	25.38
High (XETRA® closing price) in €	31.22	32.10
Low (XETRA® closing price) in €	14.40	20.70
Market capitalization (XETRA®) in € million (year-end)	1,135.1	1,494.3
Earnings per share in €	0.37	1.16
Adjusted earnings per share in €	*2.49*	*2.27*
Diluted earnings per share in €	0.37	1.14
Adjusted diluted earnings per share in €	*2.44*	*2.22*
Dividend per share in €	0.37[1)]	0.37

Broad distribution of shareholder structure

On December 31, 2011, a total of approx. 44,000 shareholders held share capital of STADA Arzneimittel AG. Based on results of regularly carried out analyses of the Company's shareholder structure, STADA assumes that at least approx. 57% of STADA's shares are held by institutional investors and that approx. 13% of STADA's capital is held by pharmacists and doctors.

In 2011, STADA sold 4,315 treasury shares at an average price of € 20.76 as part of the employee stock ownership program. As of December 31, 2011, 96,391 treasury shares were thus held by the Company, compared to 100,706 shares which STADA had held as of December 31, 2010.

As of December 31, 2011, STADA assumes, in accordance with the announcements on exceeding or falling below reporting thresholds available to the Company pursuant to Section 21 (1) of the German Securities Trading Act (WpHG), that SKAGEN AS[2)], Stavanger, Norway, and Gryphon International Investment Corporation[3)], Toronto/Ontario, Canada, hold a stake that exceeds the legal reporting threshold of 3%. Of the shareholding of Gryphon International Investment Corporation, 3.15% is attributable to Gryphon International Investment Corporation, Toronto/Ontario, Canada, and 0.05% to Gryphon Investment Counsel Inc., Toronto/Ontario, Canada. Furthermore, STADA assumes, in accordance with the announcements on exceeding or falling below reporting thresholds available to the Company, pursuant to Section 21 (1) of the German Securities Trading Act (WpHG), that DWS Investment GmbH[4)], Frankfurt am Main, Germany, a subsidiary of Deutsche Bank AG[4)], London, United Kingdom, holds a stake that exceeds the legal reporting threshold of 5%, namely 5.381%. In accordance with Deutsche Börse AG's regulations, the free float of STADA Arzneimittel AG thus remains 100%.

1) Proposed.
2) See the Company's disclosure of August 11, 2009.
3) See the Company's disclosure of January 14, 2011.
4) See the Company's disclosure of November 23, 2011.

Directors' Dealings

In financial year 2011, STADA reported, according to information available to the Company, a total of three Directors' Dealings in the form of purchases.

- Helmut Kraft, Chief Financial Officer, purchased 3,000 STADA shares at a price of € 17.505 per share on September 23, 2011.
- Hartmut Retzlaff, Chairman of the Executive Board, purchased 5,000 STADA shares at a price of € 17.1766 per share on September 23, 2011.
- Dr. Eckhard Brüggemann, member of the Supervisory Board, purchased 3,000 STADA shares at a price of € 14.725 per share on October 5, 2011.

There were no sales in the reporting year in the context of Directors' Dealings according to information available to the Company.

CORPORATE GOVERNANCE REPORT

The Corporate Governance Report pursuant to Section 3.10 of the German Corporate Governance Code and the Declaration of Corporate Governance pursuant to Section 289a of the German Commercial Code (HGB) are available on the STADA website at www.stada.de/cg and www.stada.com/cg.

Declaration of Corporate Governance

The Declaration of Corporate Governance according to Section 289a of the German Commercial Code includes the declaration on the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG), the relevant information on corporate management practices and a description of the working practices of the Executive Board and the Supervisory Board as well as the composition and working practices of the Supervisory Board committees.

1. Declaration of Compliance 2011

The Executive Board and the Supervisory Board dealt in detail with the German Corporate Governance Code and submitted the following Declaration of Compliance. It is published on the STADA website, as with previous declarations of compliance, at www.stada.de/cg and www.stada.com/cg.

Joint Declaration of the Executive and Supervisory Board of STADA Arzneimittel AG concerning the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG)

STADA Arzneimittel AG complies with the recommendations of the German Corporate Governance Code in the version of May 26, 2010 (published on July 2, 2010 in the electronic Federal Gazette) with the following exceptions:

Section 5.3.3: Nomination Committee for Supervisory Board elections

In view of the size of STADA's Supervisory Board, with six shareholder representatives, the Supervisory Board believes that such an additional committee is structurally superfluous, but it did assign the tasks of a Nomination Panel to the chairmen of the Human Resources Committee and the Audit Committee; the additional compensation, which pursuant to the Articles of Incorporation would be payable to Supervisory Board members involved in such a committee, is thus avoided.

Section 5.4.1 (2): Designating goals for the composition of the Supervisory Board

The Supervisory Board began the task of designating concrete goals for its composition and will submit these in due time before the next election of Supervisory Board members.

Section 6.6 (1) and (2): Shares held by members of the Executive Board and Supervisory Board

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

Since the most recent Declaration of Compliance issued in the fourth quarter of 2010, STADA Arzneimittel AG has complied with the recommendations of the German Corporate Governance Code in the version applicable at the time, with the following exceptions:

Section 4.2.3 (5): Arrangements for payments in the case of early termination of Executive Board mandate

The regulations in existing Executive Board contracts with regard to payments in the case of early termination of the Executive Board mandate only do not comply with the German Corporate Governance Code in the case of the Chairman of the Executive Board. For the future, the Supervisory Board will also not rule out concluding Executive Board contracts with regulations which, in this regard, do not comply with the German Corporate Governance Code. It is the position of the Supervisory Board that, for the completion of Executive Board contracts, detailed individual regulations may not be prejudged, but rather that the Supervisory Board must be able to take advantage of the full legal framework in the configuration of Executive Board contracts in order to achieve a situationally optimal filling of Executive Board positions.

Section 5.3.3: Nomination committee for Supervisory Board elections

In view of the size of STADA's Supervisory Board, with six shareholder representatives, the Supervisory Board believes that such an additional committee is structurally superfluous; but assigned the tasks of a Nomination Panel to the chairmen of the Human Resources Committee and the Audit Committee; the additional remuneration, which pursuant to the Articles of Incorporation would be payable to Supervisory Board members involved in such a committee, is thus avoided.

Section 5.4.1 (2): Designating goals for the composition of the Supervisory Board

The Supervisory Board began the task of designating concrete goals for its composition and will submit these in due time before the next election of Supervisory Board members.

Section 6.6 (1) and (2): Shares held by members of the Executive Board and Supervisory Board

The purchase and sale of STADA shares and options by members of the Executive Board and Supervisory Board and by closely related persons mentioned in the law are reported to the Company itself and to the German Federal Financial Supervisory Authority (BaFin) in accordance with legal requirements and are published in accordance with legal requirements. However, the shares and the options to purchase and sell such shares held by individual members of the Executive Board and Supervisory Board are not published in the Notes to the Consolidated Financial Statements. The Supervisory Board and the Executive Board are of the opinion that compliance with the legal requirements provides sufficient transparency. Accordingly, details are also not given in the Corporate Governance Report.

For STADA, the recommendations of the German Corporate Governance Code serve as a general basis for the Company's activity. In daily practice, however, individual situations can occur in which the application of the Code could lead to limitations in the flexibility of the Company or in the proven corporate practice. In these individual cases, contrary to the Declaration of Compliance, deviations from the recommendation of the Code may take place. STADA will, however, regularly review and, if necessary correct compliance with the Code and the above mentioned exceptions.

Bad Vilbel, September 1, 2011

signed	signed
Dr. Martin Abend	Hartmut Retzlaff
Chairman of the Supervisory Board	Chairman of the Executive Board

2. Relevant information on Company practices

Corporate governance

STADA Arzneimittel AG is a joint stock corporation under German law and has a dual management and monitoring structure which consists of the Executive Board and the Supervisory Board. The third body of the Company is the Annual General Meeting. Furthermore, there is an Advisory Board according to the Articles of Incorporation.

In the Executive Board and Supervisory Board's view, good corporate governance is an important basis for the Company's success. The Executive Board and the Supervisory Board of STADA view corporate governance as a comprehensive concept of responsible, transparent and value-based corporate management. The Executive Board, Supervisory Board and management staff ensure that corporate governance is actively approached and continuously developed in all areas at STADA. In addition to legal and regulatory requirements as well as the German Corporate Governance Code, corporate governance at STADA also comprises the standards of the internal control system and compliance, the regulations on organizational and supervisory duties in the Company, as well as STADA's internal business guidelines and shared principles and values.

Risk Management and Internal Auditing

The responsible handling of risks is an element of good corporate governance. STADA has a systematic risk management and control system that puts the Executive Board in the position to recognize risks and market trends at an early stage and to immediately react to relevant changes in the risk profile. STADA's risk management and control system thus contributes to the success of the Company. Risk management is part, in regular intervals, of the annual audit of financial statements as well as Internal Auditing. Details hereof can be found in the Management Report under "Opportunities and Risk Report".

Furthermore, Internal Auditing supports the Executive Board as an independent department outside of the daily operational business. The department evaluates internal procedures and processes from an objective perspective and with the distance necessary. The goal is to maintain optimized business processes, reduced costs and increased efficiency, and to achieve internally determined goals, by way of improved internal controls.

Strong compliance culture

STADA's Code of Conduct details Group-wide, binding behavioral guidelines for the entire management and staff of the STADA Group and provides the basis for all compliance activities. The goal of the Code of Conduct is to support all employees in legal and ethical challenges in their daily work and to provide them orientation for correct behavior. Furthermore, internal guidelines, the so-called Corporate Policies, make these behavioral guidelines more concrete for specific topics. Accordingly, all business processes and Group activities are carried out exclusively within the framework of respective laws in force. The Chief Compliance Officer who is responsible for the Compliance Management System reports directly to the Executive Board, coordinates the entire system and receives complaints and information – also anonymously. The officer is supported by an external Ombudsman in Germany, and by Compliance Managers outside of Germany. In order to guarantee the adherence to external legal regulations and internal company policies of compliance in an effective manner, STADA regularly controls and further develops the Compliance Management System.

Quality and safety, sustainability and environment, and the STADA mission statement

Details on the topics of “quality and safety”, “sustainability and environment” and the mission statement of STADA can be found in this Annual Report in the chapters “Product Development” and “Responsibility and Sustainability”.

3. Description of the working practices of the Executive Board and the Supervisory Board as well as the composition and working practices of their committees

The Executive Board and the Supervisory Board of STADA work in close cooperation for the good of the Company and make fundamental strategic decisions together after extensive consultation. The Executive Board briefs the Supervisory Board – in the context of its legal obligation to make reports – regularly, promptly and comprehensively regarding all Company-relevant questions of planning, business development, the risk situation, risk management and compliance. The Executive Board confirms the strategic orientation of the Company with the Supervisory Board and discusses the status of the implementation of the strategy at regular intervals. Furthermore, the Chairman of the Supervisory Board maintains regular contact with the Executive Board, particularly with the Chairman of the Executive Board, and discusses with them the strategy, business development and risk management of the Company and the Group. The Executive Board and the Supervisory Board adhere to the rules of proper corporate management and have each established their own rules of procedure.

a) Executive Board

The Executive Board is appointed and dismissed in accordance with legal regulations. The Articles of Incorporation do not provide special provisions on the appointment or dismissal of individual and all members of the Executive Board. Only the Supervisory Board is responsible for the appointment and dismissal. It appoints Executive Board members for a maximum period of five years. A repeated appointment or extension of the term is allowed, for a maximum of five years each.

Tasks and responsibilities

The Executive Board manages the Company with the goal of sustainable added value in its own responsibility in consideration of the concerns of the shareholders, its employees and other groups connected to the Company. The members of the Executive Board are jointly responsible for corporate governance. The Executive Board runs the businesses in accordance with the legal requirements, the Articles of Incorporation, the rules of procedure and the schedule of responsibilities.

The Executive Board of STADA Arzneimittel AG comprises at least two people according to the Articles of Incorporation.

As of the balance sheet date, the Executive Board consisted of three members responsible for the following areas:

- Hartmut Retzlaff, Chairman of the Executive Board (under contract until August 31, 2016), is the Executive Board member responsible for the areas of Marketing and Sales, Corporate Development, Corporate Strategy, Legal, Personnel, Compliance, Corporate Communications and Risk Management.

- Helmut Kraft, Chief Financial Officer (under contract until December 31, 2014), is responsible for, in addition to the area of finance (Controlling and Accounting, Treasury and Taxes), the areas of Internal Audit, IT and Investor Relations.

- Dr. Axel Müller, Chief Production and Development Officer (under contract until December 31, 2014), is responsible in STADA's Executive Board for the areas of Production, Research and Development, Purchasing and Procurement, Portfolio Management, Facility Management as well as Quality Assurance and Quality Control.

Working practices of the Executive Board

Despite the overall responsibility of the Executive Board, each member of the Executive Board manages his area of the business in his own responsibility. The distribution of the business areas to individual members of the Executive Board results from a schedule of responsibilities that is a component of the rules of procedure for the Executive Board. The Executive Board as a whole decides upon all matters of fundamental and/or strategic significance or of particular importance for the Company. All members of the Executive Board are to inform themselves of the significant proceedings within the business areas. Regarding proceedings that also impact the business area of another member of the Executive Board, a member of the Executive Board must first confer with other affected members of the Executive Board.

According to the rules of procedure for the Executive Board, the Chairman of the Executive Board is responsible for the coordination of the Executive Board as a whole. The Chairman of the Executive Board represents the Executive Board and the Company in public matters, in particular concerning authorities, associations, economic organizations and publication outlets. He can delegate this task to another member of the Executive Board for particular areas or in individual cases.

The Executive Board regularly holds Executive Board meetings that are convened by the Chairman of the Executive Board. Upon request of a member of the Executive Board, the Chairman must convene an Executive Board meeting. The Executive Board can make resolutions when all members have been invited and at least half of the members take part in the resolution. The Executive Board passes resolutions with a simple majority of votes cast. Absent members of the Executive Board can cast their votes in written form, via text or telephone. The use of a representative is not permitted. Resolution by circulation procedure is also possible provided no member of the Executive Board objects. In case of a tie, the Chairman of the Executive Board shall have the deciding vote. If the Chairman of the Executive Board is absent or delayed, the proposed resolution is rejected in the case of a tie.

For certain business defined in the Executive Board's rules of procedure, the Executive Board must first obtain the approval of the Supervisory Board.

The Executive Board of STADA Arzneimittel AG has not established any Executive Board committees.

Conflicts of interest

According to the rules of procedure of the Executive Board, every member of the Executive Board is required to disclose conflicts of interest without delay to the Supervisory Board and to inform the other members of the Executive Board of this. Carrying out ancillary activities, particularly taking on Group-external Supervisory Board positions, requires the prior approval of the Supervisory Board.

Remuneration report

The remuneration report, which can be found in the Management Report of the Executive Board, presents the principles of the remuneration system of the Executive Board of STADA Arzneimittel AG as well as individual details of the remuneration of individual members of the Executive Board.

b) Supervisory Board

In accordance with the provisions of the One-Third Participation Act, the Supervisory Board of STADA Arzneimittel AG is comprised of nine members of which six are representatives of the shareholders and three represent the employees. The Annual General Meeting elects the representatives of the shareholders, and the employees elect the employee representatives.

Tasks and responsibilities

The Supervisory Board appoints the members of the Executive Board. Furthermore, the Supervisory Board monitors and advises the Executive Board in the running of its business operations. Through a regular dialog with the Executive Board, the Supervisory Board is informed of the business development, strategy and company planning. It agrees the company planning and approves the annual financial statements of STADA Arzneimittel AG and the consolidated financial statements of the STADA Group.

The Supervisory Board included the following members on the balance sheet date:

- Dr. Martin Abend, Attorney, Dresden (Chairman)
- Manfred Krüger, Member of Worker's Council released from duty, Mühlheim am Main (Deputy Chairman) (Employee Representative)
- Dr. Eckhard Brüggemann, Doctor, in retirement, Herne
- Heike Ebert, Head of Packaging, Niddatal (Employee Representative)
- Dr. K. F. Arnold Hertzsch, Self-employed pharmacist, Dresden
- Dieter Koch, Pharmacist, Kiel
- Constantin Meyer, Self-employed pharmacist, Seelze
- Carl Ferdinand Oetker, Banker, Düsseldorf
- Karin Schöpper, Head of Market Research, Bad Vilbel (Employee Representative)

The term of all of the shareholder representatives on the Supervisory Board ends with the completion of the Annual General Meeting 2013.

Working practices of the Supervisory Board

The Chairman of the Supervisory Board is responsible for the coordination of work, chairing Supervisory Board meetings and handling the external matters of the Supervisory Board.

The Chairman of the Supervisory Board convenes the Supervisory Board in writing at least 14 days prior to a meeting according to need. Meetings of the Supervisory Board should convene at least once per quarter and must convene twice within a half year. The meetings of the Supervisory Board and its committees shall as a rule be by personal attendance. In exceptional cases with good reason, the Chairman of the Supervisory Board can elect to hold the meetings of the Supervisory Board and its committees in the form of a telephone or video conference, or permit individual members of the Supervisory Board to participate via telephone or video connection.

The Supervisory Board generally passes resolutions in meetings. Outside of meetings, resolutions in the written form, via telegraph, telephone or fax are also permitted provided no member objects to this procedure within the deadline as determined by the Chairman of the Supervisory Board. The Supervisory Board shall constitute a quorum if at least two thirds of its members, including the Chairman of the Supervisory Board or the deputy, are present, or absent members have another member of the Supervisory Board submit their written vote. Supervisory Board resolutions are passed with a simple majority of votes cast. In case of a tie, the chairman of the meeting shall have the casting vote.

Composition and working practices of the Supervisory Board committees

According to the rules of procedure of the Supervisory Board, the following Supervisory Board committees exist: the Audit Committee and the Human Resources Committee. Other committees, such as a Nomination Committee, are created as needed.

- Audit Committee

  The Audit Committee is composed of two members from the shareholders and one from the employees.

  The Audit Committee deals in particular with questions of accounting, risk management, compliance, the required independence of the auditor, the award of the audit contract to the auditor, the determination of the main areas for the audit and the fees agreement with the auditor. In addition, it discusses the annual and interim reports with the Executive Board prior to their publication.

  The Chairman of the Audit Committee must have specialist knowledge and experience in the application of accounting principles and internal control processes. Furthermore, the Chairman of the Audit Committee shall be independent and neither the Chairman of the Supervisory Board, nor a former member of the Executive Board whose position ended less than two years ago.

  The members of the Audit Committee on the balance sheet date were:
  Carl Ferdinand Oetker (Chairman), Dr. Martin Abend and Karin Schöpper.

- Human Resources Committee

  The Human Resources Committee is composed of two members from the shareholders and one from the employees.

  The Chairman of the Supervisory Board is also the Chairman of the Human Resources Committee. The Human Resources Committee prepares the personnel decisions of the Supervisory Board. The committee discusses, in particular, the conditions of the employment contracts for the members of the Executive Board and prepares the resolutions of the Supervisory Board regarding the remuneration system of the Executive Board in that it recommends to the Supervisory Board the structure of the remuneration system and the ranges of the fixed and variable components of the remuneration of the Executive Board. In addition, it ensures together with the Executive Board that long-term succession planning takes place.

  Moreover, the Human Resources Committee consults with the Executive Board regarding the strategic development of STADA Arzneimittel AG and prepares the decisions of the Supervisory Board in this area.

  The members of the Human Resources Committee on the balance sheet date were:
  Dr. Martin Abend (Chairman), Dieter Koch and Manfred Krüger.

- Other committees

As the declaration on the German Corporate Governance Code submitted on September 1, 2011 describes in more detail, the Supervisory Board appointed a Nomination Panel, consisting of the Chairmen of the Human Resources Committee and the Audit Committee, to develop objectives and a profile for the composition of the future Supervisory Board.

The members of the Nomination Panel on the balance sheet date were:
Dr. Martin Abend and Carl Ferdinand Oetker.

Goals for composition

In the reporting year, the Nomination Panel presented to the Supervisory Board Plenum goals as well as an appointment plan for the composition of the members of the Supervisory Board to be newly elected in financial year 2013 as representatives of the shareholders.

In the first quarter of the current financial year, the Supervisory Board concluded the following goals for its composition at its meeting on January 23, 2012 in accordance with Section 5.4.1 of the German Corporate Governance Code (GCGC):

1. General goals

The Company's Supervisory Board is to be composed in a manner that its members as a whole have the required knowledge, abilities and specialist experience in order to appropriately assume the tasks (Section 5.4.1. GCGC), so that all competencies required for the Company's Supervisory Board are actually represented within the Supervisory Board, or rather among the representatives of the shareholders.

The general knowledge of the Supervisory Board members includes, in particular, theoretical knowledge and practical experience in the areas: legal principles and compliance, accounting and risk controlling.

Supervisory Board members are to be familiar with the core segments of the operations of the Company, the development and marketing of products with, generally, active pharmaceutical ingredients which are free of commercial property rights, particularly patents, and regularly also prescription drugs and products required to be or only sold in pharmacies.

Furthermore, the international activities of STADA Arzneimittel AG are to be considered in the composition of the shareholder representatives in the Supervisory Board. Here, criteria include, in addition to fluency in written and spoken English, the understanding of global economic connections and an international Group structure.

In particular, candidates should be recommended who, as a result of their integrity and personality, are in the position to take on the tasks of a Supervisory Board member of the publicly listed STADA Arzneimittel AG. Furthermore, diversity is to be considered.

2. Concrete goals, appointment plan

a) required knowledge, abilities and specialist experience

Each member of the Supervisory Board is to fulfill the following requirements – in addition to the general requirements of reliability and the specific knowledge required to assume the control function as well as to evaluate, monitor and consult the Executive Board of STADA Arzneimittel AG:

- general understanding of the business activities carried out by STADA Arzneimittel AG, the industry and market environment, and the strategic positioning of the Company,
- the ability to understand and evaluate the reports submitted to the Supervisory Board in order to draw independent conclusions from these; additionally the ability to evaluate and asses the decisions of the Executive Board and the transactions arising as well as to be able to analyze economic connections,
- the ability to understand the documentation submitted for the financial statements and to be able to evaluate these in consideration of company-specific issues, if necessary, with the support of an auditor,
- communicative abilities.

Each member of the Supervisory Board is to contribute as particular in-depth specialist knowledge and sound experience as possible in one or several areas, in order to support the Supervisory Board as a whole in the task of monitoring and consulting.

The above-mentioned specialist knowledge and experience is to be widely represented as possible.

b) personal requirements

Candidates are to be recommended who fulfill the determined personal requirements of the most current version of the German Corporate Governance Code. The personal requirements according to the most current version of the German Corporate Governance Code are also to be upheld during the active term of a Supervisory Board member.

It is also to be ensured that the Supervisory Board members are independent. For candidate recommendations to the Annual General Meeting, it is to be ensured that the individual candidate does not hold a management or consultory function at, nor is in the supervisory bodies of competitor companies, suppliers, significant lenders or customers, so that conflicts of interest can be avoided from the start.

c) appointment plan

Diversity is to be considered in the recommendation of candidates for the election of shareholder representatives by the Annual General Meeting. Diversity in the Supervisory Board is reflected, among other things, in the various occupational careers and areas of activity, as well as with respect to the internationality of STADA Arzneimittel AG, in the diverse spectrum of experience of the shareholder representatives in the Supervisory Board.

The chairmen of the Human Resources Committee and of the Audit Committee will provide the Supervisory Board the following appointment plan for the new election of shareholder representatives at the Annual General Meeting in June 2013:

- a practicing pharmacist,
- an experienced and knowledgeable pharmacist, in particular in the areas of medicinal care – patent-protected and generic RX and OTC products – at pharmacies, of advise on self-medication and of resulting opportunities thus available for STADA Arzneimittel AG,
- a pharmacist with many years of experience in the pharmaceutical industry, e.g. as the head of production and quality control (e.g. qualified person in the sense of Section 14f of the German Pharmaceutical Act, AMG),
- an independent financial specialist with expertise in the areas of accounting and financial report auditing,
- an attorney experienced in corporate and industrial law.

For further candidates, expertise in the areas of future treatment methods, biotech, health care trends, health care systems (in and out patient care), among other things, is desirable.

Furthermore, the Supervisory Board decided against the determination of an age limit and against a fixed diversity quota. Specific age limits or fixed diversity quotas would only limit the selection of appropriate candidates.

Conflicts of interest

According to the rules of procedure of the Supervisory Board, members of the Supervisory Board shall not be a member of any board at, or provide consulting services to, significant competitors of the Company. Furthermore, the Supervisory Board members are required to disclose conflicts of interest to the Supervisory Board, particularly those which may arise as a result of consultation or board membership with customers, suppliers, banks or other business partners. Significant and not only temporary conflicts of interest for an individual in the Supervisory Board shall result in termination of the position. In its report, the Supervisory Board informs the Annual General Meeting whether conflicts of interest were recognized and how they were handled.

Efficiency review

The Supervisory Board regularly reviews the efficiency of its activities. The subject of the efficiency review includes, in addition to the qualitative criteria to be established by the Supervisory Board, in particular the procedural flows in the Supervisory Board and the flow of information between the committees and the plenary as well as the prompt and sufficient internal distribution of information.

Remuneration report

The remuneration report, which can be found in the Management Report of the Executive Board, presents the principles of the remuneration system of the Supervisory Board of STADA Arzneimittel AG as well as individual details of the remuneration of individual members of the Supervisory Board.

c) Advisory Board

The Chairman of the Supervisory Board convenes the members of the Advisory Board of STADA Arzneimittel AG upon recommendation of the Executive and Supervisory Boards. According to the Company's Articles of Incorporation, the duty of the Advisory Board is to support and advise the Executive and Supervisory Boards. Furthermore, members of the Advisory Board are available to act as proxy for shareholders who do not wish to exercise their voting rights in person at the Annual General Meeting. The Advisory Board currently consists of 13 members. The remuneration report, which can be found in the Management Report of the Executive Board, presents the principles of the remuneration system of the Advisory Board of STADA Arzneimittel AG.

Shareholders and the Annual General Meeting

The shareholders[1] assume their rights in the Annual General Meeting and exercise their voting rights. Every STADA Arzneimittel AG share[2] has one vote. Shareholders have the option to exercise their voting right themselves in the Annual General Meeting or to have their voting right exercised by an authorized representative of their choice or by way of a voting representative from the Company, but bound by instructions. Every shareholder is entitled to participate in the Annual General Meeting, to speak on individual agenda items there and to request information about Company issues, if this is required for the appropriate assessment of an item on the agenda.

The Annual General Meeting passes resolutions, among other things, on the allocation of profits, the approval of the Executive Board and Supervisory Board, the selection of the auditor as well as on any changes to the Articles of Incorporation and capital-changing measures.

Transparent Corporate Governance

In order to ensure transparent corporate governance, STADA informs shareholders, financial analysts, other capital market participants, the media and the interested public regularly and promptly about the situation of the company and about any significant business changes.

In order to ensure the equal treatment of all users and to provide market participants the same information in terms of content and in due time, STADA provides all the important documentation on the STADA website at www.stada.de and www.stada.com. There, all interested individuals are provided access, in particular, to all compulsory information such as financial reports (annual or interim reports) and ad hoc releases, voting rights notices, information on the Annual General Meeting, as well as other comprehensive Company and share information such as corporate news, Company profile, financial calendar, presentations and current share price information on STADA (including peer group comparisons). The Company generally publishes up-to-date presentations on its website for the capital markets.

The reporting about the situation and results of STADA Arzneimittel AG and the STADA Group is delivered by the Annual Report, the interim reports and at press and analysts' conferences which can generally be followed live and can be viewed for some time as a recording on the STADA website at www.stada.de and www.stada.com.

1) For capital and shareholder structure see "The STADA Share".
2) Under the Company's Articles of Incorporation, STADA's registered shares with restricted transferability can only be entered into the share register with the consent of the Company and, pursuant to the statutes, grant one vote each in the Annual General Meeting. Shareholders are only those who are registered as such in the share registry and only such persons are authorized to participate in the Annual General Meeting and to exercise voting rights. No shareholder and no shareholder group shall have any special rights.

Financial Reporting and Financial Statement Audit

STADA prepares the consolidated financial statements and the consolidated interim financial statements in accordance with the relevant international financial reporting standards and the annual financial statements in accordance with the rules and regulations of the German Commercial Code.

The auditor and Supervisory Board audit the consolidated financial statements and the consolidated interim financial statements for the first half of the year provided by the Executive Board. The Audit Committee discusses the interim financial reports with the Executive Board prior to their publishing.

STADA publishes the annual financial statements of STADA Arzneimittel AG (including the Management Report) and the consolidated financial statements of the STADA Group (including the Group Management Report) within 90 days of the end of the respective financial year and, in addition, informs shareholders and third parties during the year via interim financial reports within 45 days of the end of the reporting period. The interim financial report for the first half of the year is voluntarily audited by the auditor elected by the Annual General Meeting for this purpose.

STADA Arzneimittel AG does not have a stock option plan or similar share-based incentive systems.

The significant investments of STADA Arzneimittel AG as well as the related parties are presented in the notes to the consolidated financial statements.

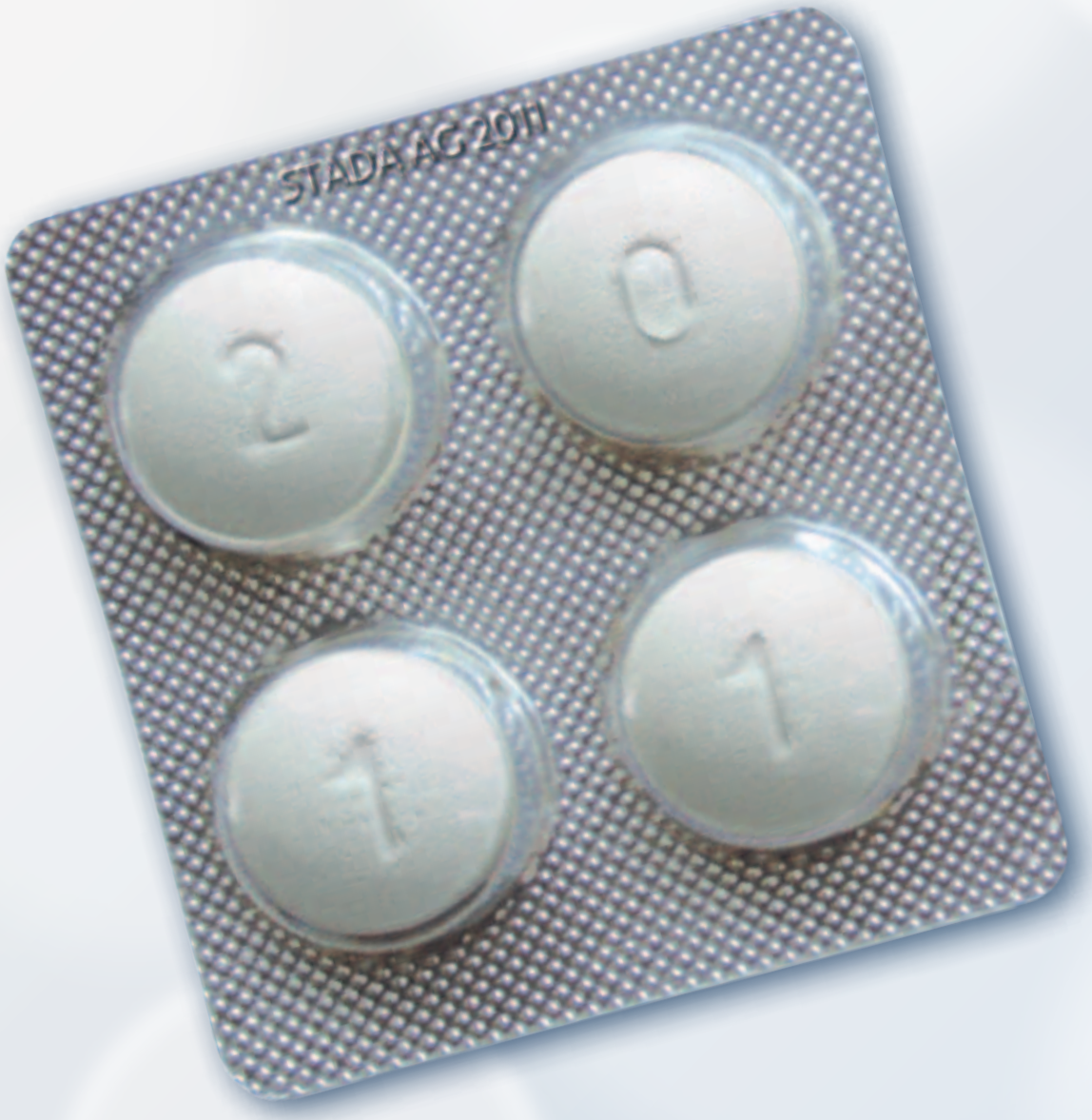
Prior to submitting the nomination, the Audit Committee receives a declaration from the selected auditor of whether and to what extent commercial, financial, personal or other relationships exist between the auditor, its board members and head auditors, on one side, and STADA and its board members on the other side, which could represent any doubts regarding the independence of the auditor. The declaration has also expanded to include to what extent in the past financial year other services were provided – or have been contractually agreed upon for the following year – to the Company, in particular in the area of consultancy.

The Supervisory Board agreed with the auditors that the Chairman of the Supervisory Board or Audit Committee shall be informed without delay of any possible grounds for exclusion or bias arising during the audit insofar as these are not remedied immediately.

Furthermore, the Supervisory Board agreed with the auditors that the auditor shall report without delay on all facts and events of importance for the tasks of the Supervisory Board which arise during the performance of the audit, as well as that the auditor shall disclose and/or note in the Auditor's Report if, during the performance of the audit, the auditor comes across facts which show a misstatement by the Management Board and Supervisory Board in the declaration on the German Corporate Governance Code.

The auditor participates in the meetings of the Supervisory Board regarding the annual and consolidated financial statements and reports the significant results of the audit.

MANAGEMENT REPORT OF THE EXECUTIVE BOARD



Business and General Conditions

Business Model, Core Segments and Structural Environment

STADA business model

STADA's business model focuses on the health care market. At the center of the internationally oriented business activities is the pharmaceutical market with obvious growth potential.

The international health care and pharmaceutical markets thus recorded further growth in 2011 as well. Sales in the global pharmaceutical market increased in 2011 by approx. 5.0%, as compared to 2010, to € 732.4 million.

Numerous national health care markets will develop high and relatively market-independent growth opportunities also in the future according to the estimation of the Executive Board. These opportunities are based, on the one hand, on general growth drivers such as global population growth, an aging society in industrialized countries as well as medical progress, and on the other, on specific growth drivers such as progressive generics penetration as a result of increasing spending restraints in individual national markets and continuous patent expiries. In view of this continually increasing demand in the health care market and in view of the fact that in the health economy comparison, drugs continue to be viewed as very efficient, relatively speaking, in comparison to other treatment methods, further growth rates is still expected for the international pharmaceutical market in the future. According to forecasts, sales in the international pharmaceutical market should increase by 4% to 6% per year by 2016.[1)]

STADA has focused on selected segments within the health care and pharmaceutical market. With regard to costs and risks, STADA deliberately does not conduct any own research on, or marketing of new active pharmaceutical ingredients, but rather focuses on the development and marketing of products with active ingredients – generally active pharmaceutical ingredients – which are free from commercial property rights, particularly patents. These products from STADA are then commercially positioned in the two core segments of Generics and Branded Products.

The strategic success factors of the STADA Group include, in particular, a comprehensive product portfolio, strong product development, an international sales structure with a local focus, a high degree of flexibility due to short decision-making processes and functional centralized reporting structures. In addition, efficient cost management and an accelerated acquisition policy, including long-standing experience in integration management, are part of STADA's success story.

STADA's business activities in this context are focused on Europe and Asia/Pacific Region.

Core segments and non-core activities

According to the Group's strategic positioning, STADA focuses its business activities on products with off-patent active pharmaceutical ingredients, which are positioned in the two core segments of **Generics** and **Branded Products**.

While the sales and marketing focus for Generics is based on a low pricing and/or a cross-product and cross-indication marketing concept, with Branded Products, the focus of marketing is on the specific product characteristics and, in particular, on the brand name of individual products.[2)]

1) IMS MIDAS, 2011; IMS Market Prognosis, September 2011; IMS Institute For Healthcare Informatics analysis prepared for STADA, Feb. 2012. Data based on the 32 leading pharmaceutical markets.
2) For a detailed segment definition see "Notes to the Consolidated Financial Statements – 43".

STADA's two core segments are differentiated from one another, in addition to this different sales positioning, by a number of other basic factors such as, for example, by different demand structures, different growth and margin expectations as well as different requirements regarding portfolio expansion and development strategies.

As a result, the requirements of the product portfolio in the Generics segment are highly characterized by the regulatory structures of the various national markets and the relative market power of the Group in an individual market. In the national markets, such as Germany, Belgium, Italy, Spain and France, which are among STADA's top ten markets measured by sales, the Group in the Generics segment is positioned as a so-called full-portfolio concept. This product portfolio generally includes numerous dosage forms and strengths for the most relevant active pharmaceutical ingredients and thus partly also products with an only low significance for Group sales. In a few national markets, such as the United Kingdom, STADA offers only a selected product portfolio and thereby only specific active pharmaceutical ingredients with good sales prospects in the respective national market. The Group adopts this selected portfolio structure if it seems to be promising based on specific local market conditions, and in particular taking earnings aspects into consideration.

STADA generally relies on a selective portfolio approach in the Branded Products core segment and sells these branded products depending on availability and market responsiveness in selected local markets. STADA focuses on the concept of so-called "strong brands", which – as they are very well known and ideally as the local market leader – have growth opportunities largely independent of local market trends with comprehensive promotional and sales support.

In financial year 2011, the two core segments Generics and Branded Products had a share of 96.8% (previous year: 95.2%) of Group sales.

Generics, which continues to be the significantly larger core segment, thus contributed 69.3% (previous year: 69.1%) to Group sales in the reporting year. STADA Generics at 91% (previous year: 91%) include primarily prescription products.

The core segment Branded Products had a share of Group sales of 27.5% (previous year: 26.1%) in the reporting year. STADA's Branded Products at 70% (previous year: 60%) consist primarily of non-prescription products.[1)]

STADA recognizes business and investments in areas outside the two core segments under **non-core activities**.

The Commercial Business segment includes activities with primarily trading character such as wholesaling activities. In 2011, this segment had a share of 1.9% of Group sales (previous year: 4.1%).

Other non-core activities not presented separately are included in the Group holdings/other segment. In 2011, this item contributed 1.3% (previous year: 0.7%) to Group sales.

Core segment Generics

According to the estimate of the STADA Executive Board, the Generics segment, in particular, will benefit from growth opportunities within the pharmaceutical market, as generics guarantee a cost-effective medicative therapy without any loss in quality and thus counteract the increasing cost pressure in the individual national health care systems. In addition, the market potential available for generics is constantly being expanded due to the continuous expiration of patents or other commercial property rights.

1) At Group level, prescription products contributed approx. 74% (previous year: approx. 77%) and non-prescription products approx. 26% (previous year: approx. 23%) to Group sales (according to national categorization).

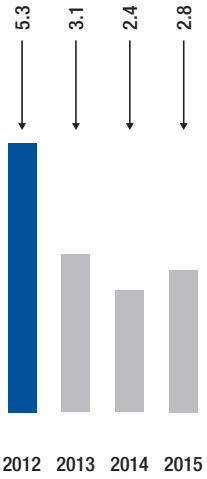
Sales in the global generics market in 2011 thus grew by approx. 9.3%[1] to approx. € 116.4 billion[2] in comparison to 2010. The market share of generics in the international pharmaceutical market amounted to approx. 15.9% in 2011.

For the future, IMS Health, a leading international pharmaceutical market research institute, has forecast an annual growth rate for the global generics market of up to 9.6%[3] until 2016.

The STADA Group is well-positioned in the Generics growth segment with its unchanged position, according to its own estimate, as number 5[4] in terms of sales among global classical generics companies. In a large number of the Group's important national markets, the individual STADA subsidiaries occupied leading positions in the relevant market segments in 2011 as in the past.

With a view to the sales volume for newly available active pharmaceutical ingredients for generics competition between 2012 and 2015 in the largest national markets of Europe by sales – Germany, France, Italy, Spain and the United Kingdom – which, according to current market research figures, will amount to more than € 13 billion, the STADA Executive Board expects that the European generics market, in particular, holds sustainable growth potentials.[5]

Newly available sales volumes for generics marketing in the five countries Germany, France, Italy, Spain and United Kingdom in € billion per year[5]



This view is confirmed by estimates from IMS Health as well, according to which average annual generics growth in the EU will amount to an average of 6.1%[6] from 2011 to 2013. For selected Eastern European markets[7], IMS Health[8] forecast an average annual Generics increase of 8.2% until 2016. According to estimates from IMS Health, expected generics growth in Russia from 2012 to 2016 amounts on average to 12.3%.[9]

With a share in sales of 23% currently generated by STADA in Eastern European markets with generics, the Executive Board continues to expect to be able to participate appropriately in the growth potential of this region.

STADA has further growth potential in the generics market by way of the expansion of this core segment into national markets where the Group is not yet present. In the current financial year 2012, STADA's activities in the generics area have been expanded in this manner with an acquisition in Switzerland and the founding of a subsidiary in Australia (see "Supplementary Report").

Core segment Branded Products

The Executive Board strives, in order to take advantage of further growth opportunities, to further expand and increasingly internationalize the branded products business as well, as this area is generally characterized by less regulatory intervention and by better margins than the Generics segment.

Against this backdrop STADA has expanded the strong margin Branded Products segment with targeted acquisitions.

1) IMS MIDAS 2011; IMS Market Prognosis, Sep. 2011; IMS Institute For Healthcare Informatics analysis prepared for STADA, Feb. 2012.
2) Data based on the 32 leading generics markets and a projection for the other generics markets.
3) IMS MIDAS 2011; IMS Market Prognosis, Sep. 2011; IMS Institute For Healthcare Informatics analysis prepared for STADA, Feb. 2012. The market data on Generics fluctuates – in some cases substantially – due to differing market definitions from source to source.
4) Source: STADA estimate.
5) STADA estimate of sales volumes in 2011 at ex-factory prices for active pharmaceutical ingredients for which STADA from today's perspective expects the patents or other commercial property rights relevant for generics competition to expire by 2015, based on data provided by various international market research institutes. STADA's expectations as to the date of availability of active pharmaceutical ingredients for Generics competition are continuously being reviewed from a legal perspective and may in the future significantly differ from today's expectations (as of: March 1, 2012) as expressed in this data. The actual sales volumes becoming available for generics competition at the respective dates are subject to fluctuations as a result of changing market success, legal situations or market structures, among other factors.
6) Own calculation based on the analysis from IMS Institute For Healthcare Informatics, Feb. 2012; the calculation is based on the five leading West European generics markets.
7) Poland, Russia, Slovakia, the Czech Republic and Hungary.
8) Data from IMS Institute For Healthcare Informatics (2011); own calculation based on the IMS estimates for Poland, Russia, Slovakia, the Czech Republic and Hungary.
9) IMS MIDAS 2011; IMS Market Prognosis, Sep. 2011; IMS Institute For Healthcare Informatics analysis prepared for STADA, Feb. 2012.

One particular example includes the purchase of a portfolio of primarily prescription branded products including the associated sales structures for numerous national markets in Central and Eastern Europe, as well as the Middle East, which includes, among others, the branded products Tramal®[1], Zaldiar®[2], Transtec®[3] and Palexia®[4] (see "Financial Situation" and "Supplementary Report").[5] With this acquisition that was concluded in two installments on December 30, 2011 and in the current financial year on January 31, 2012, STADA has further expanded its international presence and has strategically opened up new distribution channels for appropriate products from the comprehensive Group portfolio which in future can also be marketed as branded products via the acquired sales structures in the respective markets in Central and Eastern Europe as well as the Middle East.

In addition, the branded product Cetraben® could successfully be acquired for the British market in 2011; the product was already marketed via in-licensing by the local STADA sales company (see "Financial Situation" as well as "Earnings Situation – Development of Segments – Information by Region – United Kingdom").

Effects of overall economic and industry-specific framework conditions

2011 was marked by a difficult worldwide financial and economic crisis, which made itself visible in an economic slowdown – especially in Europe and the USA – as well as in a high degree of volatility in share prices.

According to the International Monetary Fund, global economic output actually increased overall by 3.8%[6] in 2011. This growth was attributable, however, essentially to the strong development in the so-called emerging markets, especially in China. In the European Union gross domestic product (GDP) showed an increase of 1.6%[6] in the same time period. In this context, however, the individual EU countries exhibited quite variable growth rates. While GDP in Germany and France increased by 3.0% and 1.6%, the increase was significantly less in Spain and Italy with 0.7% and 0.4%.[6]

Since the business model of STADA is oriented toward the health care market with demand that is relatively independent of the economy, the world-wide economic conditions generally have less influence on the business development of the Group than the respective regulatory environment in the individual national markets in which the Group is active.

Economic activity does, however, have an effect on the business development of the Group in the form of currency and interest rate volatility. In view of this, STADA continually takes adequate precautionary measures in order to appropriately counteract strong volatility in interest ratess and Group-relevant currency relationships (see "Opportunities and Risk Report" as well as "Notes to the Consolidated Financial Statements – 46.").

With a view to currency influences, the Group was slightly burdened in the reporting year in its translation of sales and earnings from STADA's important national market Russia to the Group currency euro by weak development of the Russian ruble in relation to the euro. The appreciation of the Serbian dinar had an offsetting effect in 2011. The currency relationships in other national markets relevant for STADA only had a small influence on the translation of sales in local currencies into the Group currency euro.

In addition, economic conditions also influence the operational business development of Group activities because STADA is partly active in markets which belong to the so-called self-pay markets and thus the demand for STADA products, in part, also depends on the financial means of the patients. Furthermore, depending on particular economic developments, individual national health care systems are characterized, to a greater or lesser extent, by forced cost savings, which also commonly leads to regulatory measures, which can also affect generics

1) Active pharmaceutical ingredient: Tramadol for the treatment of pain.
2) Active pharmaceutical ingredient: Tramadol/Paracetamol for the treatment of pain.
3) Active pharmaceutical ingredient: Buprenorphin for the treatment of pain.
4) Active pharmaceutical ingredient: Tapentadol for the treatment of pain.
5) See the Company's ad hoc release of May 12, 2011 as well as the Company's ad hoc update of July 22, 2011, December 30, 2011, January 1, 2012, January 27, 2012 and January 31, 2012.
6) Source: International Monetary Fund: World Economic Outlook update of January 24, 2012.

suppliers (see “Earnings Situation – Development of Segments – Information by Region”). Finally, macro-economic influences can also directly affect STADA’s business results when state health care systems are no longer able to generate enough funds for adequate public health care.

Similarly in Serbia in 2011 – against the background of a once again worsening financial and economic crisis and its impact on the Serbian economy – STADA saw itself confronted with increasing liquidity bottlenecks in the Serbian National Health Care Fund (RZZO) and with an increased risk of default on outstanding receivables from various Serbian pharmaceutical wholesalers and, as a result, had to carry out impairments that led to high one-time special effects[1)] (see “Earnings Situation – Development of Earnings and Costs” as well as “Earnings situation – Development of Segments – Information by Region – Serbia”). At the end of 2011, STADA was informed by the embassy of the Republic of Serbia in Germany, however, that the Serbian government issued a letter of comfort for the payment of deliveries from drug manufacturers to government agencies.[2)]

Operative alignment

In its operative alignment, STADA has a predominantly functionally centralized organizational structure in the areas of Finance, Development, Production including Procurement and Quality Management, Risk Management, Compliance, Corporate Governance as well as overall responsibility for the Group strategy. The sole targeted exception is sales functions, which are primarily locally and regionally organized in order to ensure a high degree of market proximity according to Group strategy. On the basis of agreed targets, the sales responsibility related to sales and earnings of the individual local sales company, its product portfolio and its personnel management lies with the respective local management.

Based on this operative alignment, STADA pursues the goal of maintaining the necessary flexibility and market proximity for the business model to be able to react quickly to changing framework conditions at the same time, despite the Group-wide harmonization and centralization that is needed in order to increase efficiency.

In this regard, the classification into the core segments Generics and Branded Products as well as the non-core activity Commercial Business is carried out essentially on sales aspects. The different sales requirements of the respective product categories are thus also reflected in the operational management of the Group.

Key performance indicators

In the context of the growth strategy generally followed by STADA, which is based on organic growth complemented by acquisitions, STADA manages the corporate areas based on strategic and operative guidelines as well as various financial indicators. The financial performance indicators, according to which the Group manages the individual corporate areas and in particular the local sales companies, are in principle the same for all Group segments. This also applies below the segment level, as they are as a rule organized by mainly segment-specific local sales companies.

The key figures used for the operational management of the STADA Group are Group sales, operating profit – particularly the local level of operating profitability as compared to the Group average – adjusted EBITDA, free cash flow, and the net debt to adjusted EBITDA ratio.

1) See the Company’s ad hoc release of September 21, 2011.
2) See the Company’s corporate news of November 10, 2011.

The development of **Group sales** is a key element to ensure business success. Top-line programs to increase sales in the STADA Group are thus a key pillar for the Group's future development. In 2011, Group sales increased by 5% to € 1.715 billion (previous year: € 1.627 billion).

The **operating profit**, which is achieved in the context of normal business activities, decreased in the financial year by 26% to € 120.1 million (previous year: € 161.8 million) – essentially because of high burdening one-time special effects. The adjusted operating profit increased in the reporting year, however, by 8% to € 257.6 million (previous year: € 239.3 million).

The **adjusted EBITDA** in the STADA Group corresponded to the EBITDA adjusted for one-time special effects and non-operational effects from interest rate hedge transactions or in 2010 the EBITDA adjusted for one-time special effects and non-operational effects from currency influences and interest rate hedge transactions. The development of adjusted EBITDA is used by the Group to measure the operational performance and the success of the individual business areas. In 2011 adjusted EBITDA increased by 7% to € 337.2 million (previous year: € 315.9 million).

Free cash flow is the Group's measure for the potential of further development of the Company in the form of organic and non-organic growth as well as of the ability to distribute a dividend and repay liabilities. Free cash flow in the financial year 2011 amounted to € -18.1 million (previous year: € 102.4 million).

The **net debt to adjusted EBITDA ratio** is an indication of the financial stability of the Group and is accordingly used as a benchmark for the borrowing of funds. In 2011, this key performance indicator was 2.7 (previous year: 2.7) and thus below the maximum value of 3 envisaged by the Executive Board. Thus, this value remained constant – despite the burdening balance sheet date effect, where the completion of the partial acquisition of the branded product portfolio in Eastern Europe and the Middle East immediately prior to year-end on December 30, 2011 had already increased the debt as of the balance sheet date without this being able to first generate a contribution to EBITDA. Excluding this balance sheet date effect, the accordingly adjusted net debt to adjusted EBITDA ratio only amounted to 2.5.

Key performance indicators of the STADA Group

in € million	2011	2010
Group sales	1,715.4	1,627.0
Operating profit	120.1	161.8
EBITDA, adjusted	337.2	315.9
Free cash flow	-18.1	102.4
Net debt to adjusted EBITDA ratio	2.7	2.7

Further details on the development of these key performance indicators can be found in the chapters "Earnings Situation", "Financial Situation" and "Assets Situation".

Group-wide program to increase cost efficiency "STADA – build the future"

In the context of the further consistent implementation of the Group-wide cost efficiency program "STADA – build the future" started in 2010 to strengthen the mid and long-term earnings potential, STADA made continued progress in financial year 2011 in numerous areas of the Group:

- In the **area of production**, the successive transfer of a large amount of production volumes from contract manufacturing to Company-owned plants, as well as the transfer of production volumes among own plants, concentrates the production processes more strongly in selected own locations, in particular in Serbia, Bosnia-Herzegovina, Russia and Vietnam, in order to benefit from the structural cost advantages of these locations. At the same time, local capacities are undergoing further improvement, and the unit prices of individual products are thereby reduced as well.

  For plants that give up significant production volumes in the context of the concentration process, a sale will be evaluated at the same time, which resulted in the sale of the Irish factory in Clonmel in the first quarter of the current financial year. The resulting one-time burden[1)] lies below the expenses that were originally calculated for it in the scope of the "STADA – build the future" program. In 2011, the Group also disposed of a small chemical plant in Serbia that does not belong to the core business as well as the the Dutch packaging unit as early as 2010. The sale of two production facilities in Russia is still being evaluated in the context of "STADA – build the future"; if this were realized, a burden on earnings in the higher single digit million euro area to be reported as a one-time special effect would, from today's perspective, be expected.

  Finally, comprehensive new or optimized IT programs were introduced in the production area that facilitate a more transparent management of Group-wide production processes.

- In the area of **product development** activities are being increasingly pooled and expanded in a targeted manner in low-cost Group locations.

  Thus, STADA no longer undertook Group-wide development projects starting in 2011 primarily in the German development center, but rather it also particularly focused on the development center in Vrsac, Serbia, and in the meantime approx. 50% of ongoing Group-wide development projects are processed there.

  Furthermore in financial year 2011, the awarding of two development projects to external developers in India was also prepared, and these were started there in the current first quarter of 2012.

  Finally, the approval activities, which are included in product development, of the various German Group companies were consolidated at the Bad Vilbel location in the context of extensive functional consolidation.

- Also in the area of **procurement and supply chain**, STADA introduced in the course of 2011 comprehensive new or optimized IT models for central planning and controlling, which should facilitate a more efficient use of resources in the Group.

  In addition, the procurement of active ingredients and auxiliary materials, as well as the purchase of bulk or finished goods, was further centralized and internationalized with the goal of optimizing stock levels in the Group. In this connection in 2011, STADA established a new procurement office in Shanghai, the People's Republic of China, as China is developing into an ever-more important resource land for low-cost active ingredient procurement for the Group.

- STADA is increasingly positioning itself as more centralized, more international and more cost-effective in the area of **quality management** as well.

  In 2011 a newly built laboratory building was therefore commissioned in Romania, so that the Group from now on has the opportunity to carry out laboratory tests on its own for the release of products, which was previously awarded to external entities, at this low-cost location. The selection of the location here was, in addition to cost aspects, also influenced by the fact that Timisoara, on the one hand, is

1) See the Company's ad hoc release of February 6, 2012. STADA will report the one-time burden in the amount of € 16.6 million before and € 16.5 million after taxes as a one-time special effect in the first quarter of 2012.

located within the EU and, as a result, EU-wide releases are generally possible from there, and on the other hand, it is also located very close to the important Serbian Vrsac production location, so that the new laboratory can be easily called upon for process controlling of products manufactured in Vrsac.

Furthermore, there was also an extensive functional consolidation of all German activities in the Bad Vilbel location in the area of quality management in 2011.

- In the area of **marketing and sales** in 2011, STADA restructured the local Russian sales model, through which a reduction in the number of Russian sales employees could be achieved as a result of an increased concentration of local sales activities. In the third quarter of 2010, furthermore, a restructuring implemented in the sales of branded products in Italy led to a corresponding reduction in the sales force as of December 31, 2010, which had an effect on the number of employees as of January 1, 2011.

- The Serbian subgroup was still a focus of measures to improve earnings in 2011, which led to a reduction in the number of employees there too, in particular in the area of **general administration**.

In order to strengthen the mid and long-term earnings potential, STADA will continue to implement the Group-wide cost efficiency program "STADA – build the future" scheduled for the period of 2010 to 2013. Thereby the expected project-related costs[1)] will continue, as planned, to be reported as one-time special effects according to the progress of the project in each case; this also includes the one-time burden incurred from the sale of the factory in Ireland[2)] in the first quarter of 2012.

Already in the current financial year and thus one year earlier than planned, STADA expects, on the whole, to achieve the personnel reductions planned for the period of 2010 to 2013 of approx. 10% of the workforce at the time or 800 employees.

STADA also achieved its interim goals for 2011 regarding the sought-after improvements in EBITDA at the level adjusted for one-time special effects. This made a significant contribution, in the opinion of the Executive Board, to STADA again achieving a record value for adjusted EBITDA in 2011.

General statements of the Executive Board on business development in 2011

In financial year 2011, the sales and operating earnings development of the STADA Group, i.e. without consideration of high burdening one-time special effects, was within the scope of the outlook given by the Executive Board at the beginning of the year.

In the outlook for financial year 2011, the Executive Board expected, as in the prognosis report of the annual report 2010, further growth in Group sales and earnings. In this context, the Executive Board saw the opportunity for an increase in adjusted EBITDA in the high single-digit percentage range.

With varying development in the individual national markets, Group sales rose in the reporting year by 5% to € 1,715.4 million. The reported key earnings figures in financial year 2011 decreased significantly due to high burdening one-time special effects – primarily as a result of impairments on receivables from Serbian pharmaceutical wholesalers – operationally, i.e. excluding one-time special effects, however, they all exceeded the key earnings figures, adjusted accordingly, of the previous year. The adjusted EBITDA increased by 7% to € 337.2 million in the reporting year.

In view of this increase in the adjusted key figures for the Group, financial year 2011, in the view of the Executive Board, can again be considered operationally successful for STADA.

1) See the Company's ad hoc release of June 7, 2010.
2) See the Company's ad hoc release of February 6, 2012.

Product Development

Strategic and organizational focus of development activities

In view of strategic positioning, the STADA Group deliberately does not conduct any own research for new active pharmaceutical ingredients, but rather focuses on the development (and later marketing) of products with active ingredients – generally pharmaceutical active ingredients –, which are no longer subject to any commercial property rights, particularly patents.

The clear focus of development activities at STADA is on the development of new products for international marketing using own sales companies. Further Group development activities concentrate on the expansion of the existing product portfolio through additional dosage forms or strengths, the internationalization of nationally successful products, the support of transfer projects in the production area by means of know-how transfer, for example, as well as the optimization of products already launched in order to reduce cost of sales or achieve better application potentials.

Development activities for new products therefore generally aim at achieving market readiness. In the case of pharmaceuticals this usually involves obtaining a national approval from the responsible regulatory authorities in the scope of differentiated, partly supranational approval processes. Here STADA prefers supranational processes as a general rule, particularly the EU-wide approval process, as this allows for nearly simultaneous multiple national approvals for a product in various EU countries. Approval procedures outside of the EU are carried out if possible based on the EU dossier of the respective products, so that the Group can thereby fall back on a standardized formulation. Based on optimized batch sizes, STADA aims at generating economy of scale effects with the international orientation of development activities.

The Group development activities are focused on long-term objectives in order to guarantee a continuous flow of new product launches in the core segment Generics and thus advance organic growth. In view of this STADA is now already working on the development of generic products with potential launch dates beyond 2020. In the planning processes, STADA assumes a regulatory preparation time including an approval period for generics with Group-wide relevance of currently at least three years. For this reason products which the Group wants to launch within this time frame are thus generally already in the approval process today. Thus STADA pursues a “time and cheap to market” strategy with the goal of generally launching new products not only at the earliest possible time in the respective national markets, but also at the best possible cost of sales.

As strong product development plays an important role in the success of the Group, the planning and organization of STADA’s development activities is primarily centrally structured. The individual projects are generally realized either in the Group’s own development centers or through subcontracted development. Additionally in some projects, the Group also partially or fully acquires dossiers or approvals from third parties.

In the scope of development activities STADA makes use of an international network of internal and external development partners and – as is usual in this sector in some cases – also does not rule out joint development projects with competitors. Against this backdrop, long-standing expertise in managing such a network cost-effectively and, in terms of the respective commercial property rights, in a timely manner ranks as one of Group’s strategic success factors.

With the goal of increasing the number of in-house developments of strategically important and high-sales products the Group's internal development activities in recent years have gained increased importance. At the same time, in the first few years of marketing, this is associated with the optimization of the procurement and production costs of new products, as STADA can reduce the acquisition of dossiers and the associated initial supply commitments. To that end, in-house product developments increasingly pooled and expanded in low-cost Group locations in a targeted manner. In certain cases, however, individual local business units pursue their own development activities for new products that are not significant for the Group.

In the context of the Group-wide cost efficiency program "STADA – build the future", STADA no longer undertook Group-wide development projects in 2011 primarily in the German development center, but rather it also particularly focused on the development center in Vrsac, Serbia, and in the meantime approx. 50% of ongoing Group-wide development projects are processed there. Furthermore in 2011, the awarding of two development projects to external developers in India was also prepared, and these were started in the current first quarter of 2012. Finally, the approval activities, which are included in product development, of the various German Group companies were consolidated at the Bad Vilbel location in the context of extensive functional consolidation.

In view of the significantly larger sales share of Generics of 69% of Group sales and the associated importance, the clear focus of STADA's development activities is on this core segment. Depending on the local patent and approval situation and depending on the relevant market strategy, STADA or the STADA sales company responsible decides which active pharmaceutical ingredients are to be launched into a national market and at what time. As the long-term success of a generic drug also depends on its time of launch, STADA generally aims to have completed the development of all sales-relevant, in the view of the Group, strengths and dosage forms of an active pharmaceutical ingredient as early as possible, in order to make these and all required approvals available to individual sales companies as punctually as possible after the expiration of the respective patent and/or commercial property right.

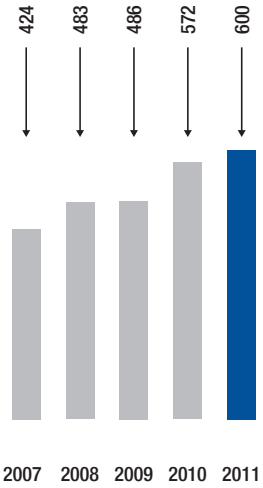
In determining a concrete launch date for a generic in a national market, the expertise regarding the commercial property rights that have to be observed play a very important role as their scope and duration can be very different depending on the respective market. As a precautionary measure, the management and STADA Group management regularly receive legal recommendations on commercial property rights from both internal and external experts. Independent of this, before and after the launch of new generics, there are, in some cases, legal disputes commenced by initial suppliers, especially concerning the validity of commercial property rights such as patents, which stand in contrast to the Group's assessment and, in exceptional cases, can even result in a negative result for STADA.

In the Branded Products core segment the development can be better targeted towards individual markets and have a more flexible time frame than is the case for Generics, as development activities for new branded products are oriented towards product and country-specific growth and/or earnings opportunities as well as compatibility with the existing product range and Group structures.

Sustainable development and approval strength

The Group's sustainable development and approval strength is evident in the large number of product launches every year. In 2011 too, STADA again demonstrated the success of this department with the introduction of 600 individual products worldwide in the individual national markets (previous year: 572 product launches) – the highest number in the Company history.

Five-year development: Number of product launches



The significant importance of this successful product development is shown in a share in sales of 9%, that the Group achieved with products introduced by STADA in the last two years[1) 2)] (previous year: 10%).

Overall, the Group continues to have a well filled product pipeline. This assessment is confirmed by, among other things, the high number of running approval procedures as of December 31, 2011 totaling over 1,100 for over 130 active pharmaceutical ingredients and active ingredient combinations for more than 50 countries. This applies in particular to generics in the EU markets. In addition the Group conducts further approval activities also in countries outside of the EU where STADA has its own subsidiaries or is active in the export business.

In addition to the high number of successful new launches in the area of classic generics the high level of expertise in STADA product development can also be seen through a few specific projects.

In 2011 STADA and Gedeon Richter Plc., Budapest, Hungary, signed license and collaboration agreements for the development and marketing of biosimilar products for the two monoclonal antibodies Rituximab and optionally Trastuzumab.[3)]

For the biopharmaceutical active ingredient Rituximab, which Richter is currently developing as a biosimilar and whose approval can be expected for the end of 2017 from today's perspective, STADA will thereafter receive non-exclusive distribution rights for the area of geographical Europe and the CIS area – but due to regulatory reasons, however, excluding Russia. In addition to STADA and eventual own marketing, Richter may grant a maximum of one additional partner a relevant distribution license in the contract area. If such a partially exclusive license marketing in Russia became regulatory possible, STADA would also receive such a distribution license there from Richter.

Under the terms of the agreement in addition to a payment at the signing of the contract, STADA is obliged to make further payments each depending on the progress of the project which amount in total to a low double-digit million euro figure. STADA will exclusively obtain the Rituximab biosimilar from Richter for which the major commercial terms have already been agreed on.

1) Reporting year and previous year.
2) Without products and sales from acquisitions.
3) See the Company's corporate news of August 30, 2011.

STADA, as is known, has done preparatory work for a biosimilar for the biopharmaceutical active ingredient Trastuzumab, which, however, was stopped at the end of 2010 because STADA made the strategic decision to pursue the lower-cost approach of an in-licensing. The stage of development that STADA had reached up until that point was acquired by Richter as part of the contracts for a low single-digit million euro figure, in order to thus accelerate the ongoing own development for a Trastuzumab biosimilar. The earnings before tax of € 1.8 million or € 1.3 million after tax were recorded as a relieving one-time special effect (see "Earnings Situation – Development of Earnings and Costs" as well as "Financial Situation"). In addition, STADA receives, at the time of the beginning of the clinical studies, a unilaterally for STADA exercisable option from Richter to also acquire a distribution license for the Trastuzumab biosimilar at commercial conditions analogous to those of the Rituximab biosimilar.

The development of both biosimilars will now be continued under the leadership of Richter. A supporting function from STADA for specific patent rights questions in both projects has also already been agreed upon with the signing of the agreement. STADA will also support if necessary the relevant approval processes with its own expertise in the area of central approvals of biosimilars in the EU.

Expenses for research and development costs

The research and development costs amounted to € 50.4 million in the reporting year (previous year: € 54.9 million) (see "Earnings situation – Development of Earnings and Costs"). Since STADA does not carry out any research into new active pharmaceutical ingredients due to its business model, it is only a matter of development costs. In addition the Group capitalized development costs for new products in the amount of € 12.3 million in financial year 2011 (previous year: € 13.3 million) (see "Notes to the Consolidated Financial Statements – 15.")

Procurement, Production and Quality Management

Global procurement of active ingredients and auxiliary materials

For reasons of flexibility and cost STADA has generally abstained from manufacturing any active ingredients or auxiliary materials necessary for pharmaceutical production, but utilizes a worldwide network of raw materials suppliers. Particularly for the procurement of active pharmaceutical ingredients the Group is focusing on low-priced suppliers from low-cost countries, mainly from Asia. STADA, however, has still not ruled out cooperations in the area of active pharmaceutical ingredient production with the goal of achieving greater vertical integration in future.

In 2011 the procurement of active ingredients and auxiliary materials, as well as the purchase of bulk or finished goods, was further centralized and internationalized with the goal of optimizing stock levels in the Group. In this connection in 2011, STADA established a new procurement office in Shanghai, the People's Republic of China, as China is developing into an ever-more important resource country for low-cost active ingredient procurement for the Group.

If STADA products are produced in the context of contract manufacturing, the Group is dependent on global developments with respect to purchase prices for the necessary raw and auxiliary materials and on the prices negotiated with contract manufacturers, which may fluctuate significantly depending on the product. In order to reduce the risk of market-related margin losses due to falling selling prices, STADA involves suppliers where possible in this market price risk, for example, by using price escalation clauses in which procurement prices are linked to current selling prices, subsequent negotiations or the agreement of special procurement prices for special sales volumes, such as volumes that that are put out to tender by public health insurance organizations in the context of discount agreements (see "Earnings Situation – Development of Segments – Information by Region – Germany").

High flexibility and continuous cost optimization in supply chain and pharmaceutical production

In view of the comprehensive product portfolio of over 900 active pharmaceutical ingredients and over 13,000 product packagings marketed by the Group, each different in terms of its active ingredient and/or quantity of the active ingredient and/or dosage form and/or package size, STADA has access to an international network of internal and external resources in the supply chain and pharmaceutical production.

In the area of procurement and supply chain, STADA introduced comprehensive new or optimized IT modules for central planning and controlling in the course of financial year 2011, which should allow for the more efficient utilization of resources within the Group.

In the context of continuing cost optimization the focus for in-house production here is on the production facilities acquired or expanded over the last few years in low-cost countries such as South East Europe, Russia and Vietnam.

With a view to the significant potentials to reduce costs in the area of manufacturing and production facilities and through the successive transfer of a large amount of production volumes from contract manufacturing to Company-owned plants, as well as the transfer of production volumes among own plants, the production processes are concentrated more strongly in selected own locations, in particular in Serbia, Bosnia-Herzegovina and Vietnam, in order to benefit from the structural cost advantages of these locations. At the same time, local capacities are undergoing further improvement, and the unit prices of individual products are thereby reduced as well.

For plants that give up significant production volumes in the context of the concentration process, a sale will be evaluated at the same time, which resulted in the sale of the Irish factory in Clonmel in the first quarter of the current financial year. The resulting one-time burden[1] lies below the expenses that were originally calculated for it in the scope of the "STADA – build the future" program.

In 2011, the Group also disposed of a small chemical plant in Serbia that does not belong to the core business.

The sale of two production facilities in Russia is still being evaluated in the context of "STADA – build the future"; if this were realized, a burden on earnings in the higher single digit million euro area to be reported as a one-time special effect would, from today's perspective, be expected.

Finally, comprehensive new or optimized IT programs were introduced in the production area in 2011 that facilitate a more transparent management of Group-wide production processes. At the same time, the roll-out of the SAP software, which STADA initiated in the German Group headquarters in 2007, was also continued in the reporting year and from today's perspective, should be fully completed by 2014.

As of March 1, 2012 the pharmaceutical production facilities in the following locations belong to the Group:

- Bad Vilbel (Germany)
- Banja Luka (Bosnia-Herzegovina)
- Beijing[2] (China)
- Dubovac (Serbia)
- Ho Chi Minh City (two production sites in the greater metropolitan area)[3] (Vietnam)
- Moscow (Russia)
- Nizhny Novgorod (Russia)
- Obninsk (Russia)
- Pfaffenhofen (Germany)
- Podgorica (Montenegro)
- Ryazanskaya obl. (Russia)
- Sabac (Serbia)
- Vrsac (Serbia)

Through appropriate annual investments STADA maintains all Group-owned production sites at the level required by legal stipulations and technical production considerations. For the expansion and renewal of production sites and facilities the Group invested a total of € 13.6 million in 2011 (previous year: € 20.7 million).

Highest safety and quality standards

At STADA, as a health care company, product quality and product safety have always had the highest priority. Besides the finished products, this also relates to the raw materials used by STADA, the Group's services and the working conditions.

In the scope of comprehensive audits that take place regularly, Group Quality Management examines the quality standards established by the Group, which in part go clearly beyond the provisions required by law, in the Group's own production sites as well as in the facilities of suppliers and contract manufacturers.

1) See the Company's ad hoc release of February 6, 2012. STADA will report the one-time burden in the amount of € 16.6 million before and € 16.5 million after taxes as a one-time special effect in the first quarter of 2012.
2) A production unit which is not integrated and consolidated in the Group, solely aimed at the local market demand.
3) Both production sites are operated within the framework of a 50:50 joint venture with a local partner.

The Group strives to secure, also in countries outside of the European Union, EU quality standards for drugs, which often go beyond local requirements. The Group-owned non-EU-based production sites in Banja Luka, in the greater Ho Chi Minh City area, in Nizhny Novgorod, in Obninsk, in Podgorica, in Sabac and in Vrsac are thus designed for the production of particular pharmaceutical dosage forms for EU countries and have also been approved for this by the responsible EU supervisory authorities after on-site inspection of individual sites for delivery to the EU economic area.

In addition to legal provisions STADA also holds international certifications in accordance with external quality management systems. At numerous production sites the Group, for example, follows not only the Good Manufacturing Practice (GMP) standards, but also the relevant ISO standards, and holds various ISO certificates at several locations, such as ISO-9001:2008, ISO-14001:2004 and ISO-13485:2007.

The Group's quality management also has proactive procedures in place for the event that individual quality problems appear despite all the preventative and controlling measures. The Serbian subsidiary Hemofarm thus decided in the third quarter of 2011 to discontinue the distribution of several batches of various injection substances in various European markets as well as the US market after technical problems were uncovered in part of the Serbian production for injection substances, which is primarily used for contract manufacturing. This proactive discontinuation of distribution, which was carried out in agreement with the customers, was able to avoid a market recall. This production line for injection substances was able to re-commence manufacturing for Group-internal approvals in the fourth quarter of 2011. The preparations for the resumption of production in the framework of contract manufacturing for various markets in Europe have been successfully completed. Production is planned to resume in the current first quarter of 2012. Production for the US market should resume again in the second quarter of 2012. Overall in this connection, in 2011 an extraordinary burden on earnings accrued of € 1.4 million before or € 1.3 million after taxes (see "Earnings Situation – Development of Earnings and Costs").

STADA is increasingly positioning itself as more centralized, more international and more cost-effective in the area of quality management as well. In 2011 a newly built laboratory building was therefore commissioned in Romania, so that the Group from now on has the opportunity to carry out laboratory tests itself for the release of products, which were previously awarded to external entities, at this low-cost location. The selection of the location here was, in addition to cost aspects, also influenced by the fact that Timisoara, on the one hand, is located within the EU and, as a result, EU-wide releases are generally possible from there, and on the other hand, it is also located very close to the important Serbian Vrsac production location, so that the new laboratory can be easily called upon for process controlling of products manufactured in Vrsac.

Furthermore, there was also an extensive functional consolidation of all German activities in the Bad Vilbel location in the area of quality management in 2011.

Sales and Marketing

Functionally organized Group with local and close to market sales companies

STADA's international sales infrastructure consists of many nationally aligned sales companies, therefore providing them with market proximity, which are supported and managed by the central functions of the Group.

Depending on the local market structure and the corresponding demand relevance, the STADA subsidiaries in the area of national sales and marketing concentrate on various target groups such as patients and/or consumers, doctors, doctors' cooperatives, pharmacies, pharmacy cooperatives, hospitals, wholesalers and other service providers in the health care market as well as on cost bearers in the form of public health insurance organizations or private insurances.

In order to differentiate by specific target groups, STADA is actively involved in selected markets sometimes also with parallel sales companies. Taking into account Group guidelines, the individual subsidiaries can thereby structure their local product portfolio differently in order to be able to optimally meet respective local requirements.

This market-oriented sales concept enables STADA to respond promptly to changes in the individual national markets and to quickly adapt its respective local commercial presentation to the corresponding requirements. These could include, for example, a different product assignment, a modified market presentation, or the diversification, expansion or reduction of local sales structures.

In addition, sales activities in the STADA Group are also coordinated on an international level; this applies, for example, for the structuring of the product portfolio for the purpose of the further internationalization of individual products, or for other sales activities such as wholesaling cooperative agreements. On the other hand, STADA separates marketing and sales activities of various sales companies within individual markets, if this is advantageous or necessary due to structural or legal framework conditions, such as to maintain so-called "confidential tenders" in the context of tenders for discount agreements in the German generics market.

Continuous expansion and further internationalization of the Group-wide sales network

Generally, the Group continues to pursue the objective to constantly expand the existing sales network. On the one hand, this is to further reduce the dependence on national markets such as Germany whose health care system is still characterized by difficult local framework conditions for generics. On the other hand STADA thereby intends to optimally use the arising growth opportunities.

In financial year 2011 the Group complimented the existing international sales structures through two further acquisitions. STADA thus acquired a branded product portfolio including the associated sales structures for numerous national markets in Eastern Europe and the Middle East in two installments on December 30, 2011 and in the current financial year on January 31, 2012 (see "Financial Situation" as well as "Supplementary Report").[1)] Furthermore, STADA signed a contract in 2011 for the purchase of a generics business in Switzerland including the respective sales structures, which was concluded in the first quarter of 2012 (see "Supplementary Report").[2)]

As of March 1, 2012, the Group was operating with 54 sales companies in 33 countries (March 1, 2011: 44 sales companies in 31 countries). The Group's sales focus continued to be on Europe in 2011. There, as of March 1, 2012, STADA was represented by 48 sales companies in 27 national markets (March 1, 2011: 38 sales companies in 25 national markets).

Furthermore, in Asia, as of March 1, 2012, the Group was operating with own sales companies in China, Kazakhstan, the Philippines, Thailand and Vietnam as well as in Africa with an own sales company in Egypt. STADA is also active in sales with local distributors in 52 countries, particularly in the Middle East.

In addition in the first quarter of 2012, STADA began preparatory activities for the establishment of an Australian generics business by founding an own subsidiary, STADA Pharmaceuticals Australia Pty Ltd, which should already lead to a start in the market within 2012.

More information on the development of Group activities in the individual national markets is published under "Earnings Situation – Development of Segments – Information by Region".

1) See the Company's ad hoc release of May 12, 2011 as well as the Company's ad hoc updates of July 22, 2011, December 30, 2011, January 1, 2012, January 27, 2012 and January 31, 2012.
2) See the Company's ad hoc release of May 19, 2011 and the Company's ad hoc update of November 9, 2012.

STADA sales structure (as of March 1, 2012)[1]

Europe

Belgium	S.A. Eurogenerics N.V., Brussels S.A. Neocare N.V., Brussels
Bosnia-Herzegovina	Hemofarm Banja Luka d.o.o., Banja Luka (91.5%) Grünenthal d.o.o.[2], Mostar
Bulgaria	STADA PHARMA Bulgaria EOOD, Sofia
Denmark	PharmaCoDane ApS, Herlev
Germany	STADApharm GmbH[3], Bad Vilbel STADA GmbH[3], Bad Vilbel ALIUD PHARMA GmbH, Laichingen cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Bad Vilbel Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg
Finland	Oy STADA Pharma Ab, Helsinki
France	EG Labo - Laboratoires Eurogenerics SAS, Boulogne-Billancourt LABORATOIRES D´ETUDES ET DE RECHERCHES EN OLIGO ELEMENTS THERAPHIE SA, Colombes
United Kingdom	Genus Pharmaceuticals Ltd., Newbury
Ireland	Clonmel Healthcare Limited, Clonmel
Italy	EG S.p.A., Milan Crinos S.p.A., Milan
Croatia	Grünenthal d.o.o., Zagreb
Lithuania	UAB STADA-Nizhpharm Baltija[4], Vilnius
Macedonia	Hemofarm Komerc d.o.o.[2], Skopje (99.18%)
Montenegro	Hemomont d.o.o., Podgorica (71.02%)
The Netherlands	Centrafarm Pharmaceuticals B.V., Etten-Leur Healthypharm B.V., Etten-Leur Centrafarm B.V., Etten-Leur Neocare B.V., Etten-Leur
Austria	STADA Arzneimittel Gesellschaft m.b.H., Vienna Grünenthal Central Europe GmbH, Mödling
Poland	STADA HEMOFARM Poland Sp. z o.o., Warsaw GT Pharma sp. z o.o., Warsaw
Portugal	Ciclum Farma, Unipessoal, LDA, Paco de Arcos
Romania	STADA HEMOFARM S.R.L., Temisvar
Russia	OAO Nizhpharm[5], Nizhny Novgorod ZAO Makiz-Pharma[5], Moscow ZAO Skopinpharm[5], Ryazanskaya obl. OOO Hemofarm[5], Obninsk Grunenthal OOO, Moscow
Switzerland	Spirig HealthCare AG, Egerkingen
Serbia	Hemofarm A.D.[6], Vrsac
Slovakia	STADA PHARMA Slovakia s.r.o., Bratislava Grünenthal Slovakia s.r.o., Bratislava
Slovenia	Grünenthal d.o.o., Ljubljana
Spain	Laboratorio STADA, S.L., Barcelona STADA Consumer Health, S.L.[4], Barcelona
Czech Republic	STADA PHARMA CZ, s.r.o., Prague Grünenthal Czech s.r.o., Roztoky
Ukraine	Nizhpharm-Ukraine DO, Kiev Grunenthal Ukraine LLC.[2], Kiev

Asia/Pacific Region

Australia	STADA Pharmaceuticals Australia Pty Ltd[2][7], Sydney
China	STADA Pharmaceuticals (Asia) Ltd., Hong Kong
Kazakhstan	Nizhpharm-Kazakhstan TOO DO, Almaty
The Philippines	Croma Medic, Inc., Manila
Thailand	STADA Asiatic Company, Ltd., Bangkok (60%)
Vietnam	STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City (50%)

Africa

Egypt	Germa Pharm Ltd.[2], Cairo

Export

Worldwide	in more than 50 countries, among others, through Hemofarm A.D., Vrsac, Serbia

1) All companies with a STADA share of at least 50% have been listed. Unless indicated otherwise, the companies are wholly-owned by the STADA Group.
2) Currently not consolidated.
3) Acting as commission agents on behalf of STADA Arzneimittel AG.
4) Consolidated since January 1, 2012.
5) Bundled under the umbrella brand STADA CIS.
6) Including various local sub-labels.
7) In Australia in the current first quarter of 2012, STADA began preparatory activities for the establishment of an Australian generics business by founding an own subsidiary, STADA Pharmaceuticals Australia Pty Ltd, which should already lead to a start in the market within 2012.

Employees

STADA's employees, with their extensive expertise, their experience and their strong commitment, play an important part in the long-standing success of the Group. The organization and management of a complex network of internal and external resources of the Group, particularly in the areas of product development, procurement and production as well as sales and marketing, can only succeed with employees that have proven expertise and a high level of commitment.

In view of this, STADA's personnel management generally pursues a long-term personnel policy with the goal of optimally developing employees, maintaining their loyalty to the Group and implementing the necessary personnel changes for the continued success of the Group.

Decentralized organization of personnel management

The Group's personnel management is organized in a decentralized way, allowing the Group to better meet the employees' various needs at the individual locations. This applies in particular to the international STADA sales companies, which in accordance with Company guidelines are largely independent in many areas of personnel policy such as recruitment, training and remuneration policy – this, however, is always done in consideration of the Group's strategic and operational guidelines and, in particular, compliance regulations.

Background information regarding the personnel policy of the Group companies that are located in Bad Vilbel is published annually in the STADA personnel and social report, which is also published on the Company website at www.stada.de.

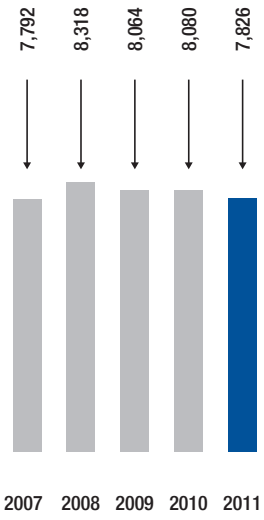
Continual personnel development

In view of the great importance of STADA's employees, their training and development take on great importance. STADA offers various career training programs at the pharmaceutical level and in the areas of administration and warehouse logistics. In addition, young people can obtain their first insights into the processes of a company in the pharmaceutical industry in the form of work placements. Further training for managers, foreign language training as well as specialized workshops and seminars provide general support to Group employees and ensure up-to-date knowledge in the respective specialist areas.

Development of the number of employees

In 2011 the average number of employees in the STADA Group decreased to 7,826 (previous year: 8,080). When considered in relation to the balance sheet, the number of employees as of December 31, 2011 decreased – despite the purchase of a branded product portfolio in Eastern Europe and the Middle East including the associated sales structures and employees in the amount of approx. 70 – to 7,900 (December 31, 2010: 8,024).

STADA's development in the number of employees on an annual average



The reduction in the number of employees within the Group is predominantly due to the continuous implementation of the „STADA – build the future" project and the associated planned staff reductions. Taking into account outsourcing and disposals, a total of approx. 800 full-time positions and thus approx. 10% of the existing Group-wide personnel level at the beginning of financial year 2010 are to be reduced – mainly outside Germany (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Further Consistent Implementation of 'STADA – build the future'"). The restructuring of the sales of branded products in Italy carried out on October 31, 2010, that was also followed by a corresponding reduction in the sales force there as of January 1, 2011, contributed to the reduction in the number of employees in the Group in financial year 2011 among other things. Furthermore in the reporting year in Russia, STADA implemented a restructuring of the local sales model, which on the basis of a strong concentration of the sales activities led to a reduction in the number of local employees in the sales area. The implementation of "STADA – build the future" continues to focus on measures to improve earnings at STADA's Serbian subgroup, these include a further optimization in the number of employees there in the coming years.

The regional breakdown of employees in the Group shows that there was an average of 1,226 employees in Germany in 2011 (previous year: 1,192). Of these, an average of 979 employees were under contract at the Group's headquarters in Bad Vilbel in the reporting year (previous year: 929). The average number of persons employed at international Group locations in financial year 2011 amounted to 6,600 (previous year: 6,888).

A breakdown of the average number of employees in 2011 according to their function shows that there were no significant changes as compared to the previous year.

With regard to the Group's average total number of employees, the following percentage distributions resulted for the individual functional areas as of December 31, 2011:

- Marketing/Sales 27% (previous year: 31%)
- Production/Procurement 49% (previous year: 47%)
- Product Development 7% (previous year: 6%)
- Administration 17% (previous year: 16%)

The Group-wide share of women in management positions amounted to approx. 49% in financial year 2011.

In view of the health care policy framework conditions in the German market – especially as a result of the health insurance organization tenders – in financial year 2011, a 40-hour week with no wage increase was introduced effective until the end of 2012 in Bad Vilbel and Florstadt – in the context of a company agreement with the Works Council and with approval of the parties to the wage agreement – in the course of implementing a cost efficiency program to ensure the long-term competitiveness of the STADA Group locations in Germany. In return, for the first time in the Company's history, STADA gave the affected employees a commitment effective until December 31, 2012 that no dismissals for operational reasons will take place.

At the beginning of the financial year 2011, STADA carried out a functional consolidation of all German activities in the area of product development and quality management at the Bad Vilbel location. In this context, STADA negotiated with the Works Council a balancing of interests and social compensation plan for 15 employees at the Laichingen location. The associated expenses were reported in 2011 as one-time special effects (see "Earnings Situation – Development of Earnings and Costs"). With a view to the centralization in logistics, 12 employees from the drug sample area were also transferred from Laichingen to the Distribution and Service Center location in Florstadt in financial year 2011. STADA has also given the remaining employees at the Laichingen location a commitment effective until December 31, 2012 that no dismissals for operational reasons will take place.

Personnel expenses

Personnel expenses in the reporting year were € 272.2 million (previous year: € 268.6 million) and also included severance compensation for employees affected by the personnel measures in the context of the "STADA – build the future". The ratio of personnel expenses to sales amounted to 15.9% in 2011 (previous year: 16.5%).

In view of the personnel measures introduced in the Group in the context of the further consistent implementation of the cost efficiency program, STADA expects a reduction in the ratio of personnel expenses to sales in the coming years (without the inclusion of severance compensation).

Personnel structure by national markets and functional areas

Average number of STADA employees in 2011

	Sales / Marketing	Production / Procurement	Product Development	Administration	2011 Total	Previous year Total
Belgium	107	5	9	14	135	152
Bosnia-Herzegovina	25	100	2	26	153	159
China	6	2	0	5	13	13
Denmark	1	17	0	4	22	24
Germany	299	428	187	312	1,226	1,192
Finland	5	0	0	2	7	12
France	48	13	8	14	83	91
United Kingdom	76	16	15	25	132	108
Ireland	24	188	9	17	238	234
Italy	27	8	6	19	60	145
Kazakhstan	82	6	0	4	92	88
Macedonia	5	0	1	0	6	6
Montenegro	10	125	1	23	159	162
The Netherlands	18	16	6	11	51	130
Austria	27	4	3	7	41	41
The Philippines	62	4	4	22	92	116
Poland	27	0	0	1	28	32
Portugal	28	4	3	6	41	42
Romania	18	15	0	5	38	34
Russia	613	1,134	135	397	2,279	2,317
Serbia	149	1,513	104	315	2,081	2,187
Slovakia	22	2	0	2	26	25
Spain	127	3	9	16	155	165
Thailand	15	5	1	3	24	27
Czech Republic	39	3	1	5	48	40
Ukraine	150	2	0	7	159	148
Vietnam	7	251	13	66	337	321
Rest of world	94	0	2	4	100	69
Total Group	**2,111**	**3,864**	**519**	**1,332**	**7,826**	**8,080**

Responsibility and Sustainability

STADA's mission statement – established in the Group and practiced daily

In the STADA mission statement which is based on the term "all the best" it states: "Care for people's health and well-being is at the center of STADA's activities. From this, the Group's philosophy and overall concept are developed." In view of the explicitly expressed acknowledgment of its responsibility to society, the STADA Executive Board works continuously towards ensuring that this maxim and the responsibility it demands from all employees are practiced daily. Generally the economic success of the Group shall be linked with responsible action and in particular the topic of corporate social responsibility (CSR), that is gaining increased importance in the business world and deals with the role and responsibilities of companies in society and solving social problems, becoming integrated into the business process. In order to meet these requirements, the Group supports, both in Germany and in numerous other countries, – usually via the respective national subsidiaries – selected social and cultural projects, which consist for the most part of sponsoring, charitable donations and foundations.

Selected commercial and charitable activities

STADA supports numerous commercial and charitable activities in the framework of its social responsibility:

- The "Kinderzukunft" (Children's Future) Foundation, which was honored as Foundation of the Year in 2009 by the Hessian state government, has been helping Romanian children in need since 1994. The primary task of the foundation is to offer children on the streets decent future prospects. Toward this aim, a home for 200 children aged 3 to 18 was built on an eight-hectare property in the city of Timisoara. The children's village includes eleven apartment buildings, a kindergarten, a school and a hospital ward, as well as various sport and play areas. The children find not only love and a feeling of security, but also all requirements for basic schooling and career-oriented education in order to financially support themselves in the future and not to fall back into poverty. In order to improve the life and future opportunities of these children, STADA supports the children's village through an annual donation to this transparently led aid organization that has been audited by the German Central Institute for Social Questions (DZI).

- The RTL-telethon is a 24-hour pledge drive from the commercial broadcaster RTL that has taken place since 1996. All of the proceeds go to the RTL non-profit foundation "Wir helfen Kindern" (we help children). Grippostad® C from STADA has supported this aid project for many years.

- RED NOSE DAY has its origins in the United Kingdom. The first television was broadcast in 1988 by the British broadcaster BBC in which celebrities asked the public to make donations. In the United Kingdom and Northern Ireland RED NOSE DAY is almost treated like a public holiday. The idea of RED NOSE DAY was brought to Germany by the commercial broadcaster ProSieben in 2003. Donations for various aid agencies for the benefit of needy children are collected through the sale of red plastic noses and further campaigns. On RED NOSE DAY STADA also shows its commitment to charity. The brand Grippostad® C supported this children's aid campaign in 2011 as well.

- The German sales company STADA GmbH and the parent company STADA Arzneimittel AG have been a main sponsor of the non-profit association dolphin aid e.V., Düsseldorf since 2007, which promotes alternative therapies for ill and handicapped children, while also enabling these children to undertake "dolphin therapy". In this therapy, children are closely exposed to dolphins in a nature-oriented environment, which should then enable them to find an improvement of their individual physical or psychological conditions. With the help of its sponsorship of dolphin aid, STADA deliberately decided in favor of supporting a therapy method that is not based on drugs and also wants to demonstrate an understanding of health which is holistic and not exclusively focused on drugs.

- In 2011, STADA set up a fund that provides financial support for STADA employees in Germany, along with their families, who have come into difficulties through no fault of their own. The decision of who can take advantage of this aid and to what extent will be made in coordination with the Works Council and Human Resources management. In the context of this provision, seven STADA employees have already received aid in 2011.

- In cooperation with the Hochschule Fresenius in Idstein, STADA established the STADA foundation professorship "health management" in 2003 in order to provide new impulses to the discussion regarding cost optimization in the health care system. The foundation professorship is aimed at the promotion of practice-related care research to optimize quality and efficiency in the health care system. One focus is thereby on the development of saving potential of transsectoral supply models which allow for a holistic provision of services by means of complex services. The foundation professorship includes the teaching areas health management, health care policy, health care system research, international comparison of health care systems, prevention and health promotion for economists and business administration for health care professions (speech therapy, occupational therapy and physiotherapy).

- Since the start of the castle festivals in Bad Vilbel more than 20 years ago, STADA has set an example for reliable partnership with its annual support in appreciation of the city's cultural achievements and commitment, as well as to show its solidarity with the city.

Strong compliance culture

STADA's Code of Conduct details Group-wide, binding behavioral guidelines for the entire management and staff of the STADA Group and provides the basis for all compliance activities. The goal of the Code of Conduct is to support all employees in legal and ethical challenges in their daily work and to provide them orientation for correct behavior. Furthermore, internal guidelines, the so-called Corporate Policies, make these behavioral guidelines more concrete for specific topics. Accordingly, all business processes and Group activities are carried out exclusively within the framework of respective laws in force. The Chief Compliance Officer who is responsible for the Compliance Management System reports directly to the Executive Board, coordinates the entire system and receives complaints and information – also anonymously if needed. The officer is supported by an external Ombudsman in Germany, and by Compliance Managers outside of Germany. In order to guarantee the adherence to external legal regulations and internal company policies of compliance in an effective manner, STADA regularly controls and further develops the Compliance Management System.

Furthermore, STADA also lives up to – wherever sensible and reasonable from a cost perspective – the demand for excellence ("best practice") and continuously reviews and optimizes business processes in this respect. The Group has its own administrative department named "Development of Group Organization" for this purpose.

High importance of sustainability and environment

The STADA Group's strategic positioning is already focused on sustainability, since Generics – which represents by far the larger of the two core segments – contributes significantly to a more efficient health care and thus to a sustainable utilization of resources in an area of life that is of great importance for people.

In general, STADA commits itself to the protection of people and the environment and works continuously to improve procedures and processes in order to minimize negative environmental impact and health risks. In view of this, all employees in the STADA Group are obliged to take responsibility for dealing with these resources in a conserving, sustainable manner and to observe the relevant regulations on the protection of people and the environment.

Within the Group, the responsibility for sustainability, especially with regard to environmental matters, is operatively met in a project-related way beyond the legal framework.

The subject of responsibility and sustainability will continue to occupy an important place in the STADA Group in the future, in order to meet the requirements of socially and environmentally responsible behavior.

Remuneration Report

This remuneration report explains, in accordance with the legal requirements and the recommendations of the German Corporate Governance Code in the version of May 26, 2010, the principles of the remuneration system for the Executive Board, Supervisory Board and Advisory Board of STADA Arzneimittel AG and includes disclosures on the remuneration of individual Executive Board and Supervisory Board members.

Remuneration of the Executive Board

The full Supervisory Board determines the Executive Board remuneration system and the remuneration of individual Executive Board members upon the proposal of the Human Resources Committee and reviews these regularly.

Executive Board remuneration system

With regard to the newly formulated requirements on the Executive Board remuneration system in relation to the Law for the Appropriateness of Executive Board Remuneration (VorstAG), which is valid for Executive Board service contracts newly concluded after August 5, 2009, in financial year 2010 the Supervisory Board fundamentally revised the Executive Board remuneration system in line with the new VorstAG regulations, particularly Sections 87 and 93 of the German Stock Corporation Act (AktG).

The objective of the revised remuneration system is to allow the members of the Executive Board to participate appropriately in the sustainable development of the company according to their personal tasks and performance, the overall performance of the Executive Board as well as successes in the alignment of the economic and financial situation of the Company under consideration of the competitive environment.

Overall, remuneration of the Executive Board in the framework of this revised remuneration system which was developed with the support of an independent external remuneration expert, is performance oriented and assessed in a way that is competitive in domestic and international comparison and offers incentives for committed and successful performance in a dynamic environment.

The remuneration of the Executive Board in the framework of this revised remuneration system is made up of remuneration not related to performance and a performance related remuneration. Stock option plans and other comparable components with a long-term incentive effect do not exist.

The **non-performance related remuneration** consists of an agreed basic salary paid out in twelve equal monthly installments. This annual fixed salary is determined in accordance with the requirements of stock company law under consideration of usual market remuneration. The members of the Executive Board receive other remuneration only in the form of fringe benefits which consist for the most part only of the private use of a company car, contributions to health and nursing care insurance and other insurance services (accident insurance, among other things).

In the framework of the revised remuneration structure, individual contractual commitments also still remain fundamentally possible for individual Executive Board members, in accordance with VorstAG regulations, regarding additional non-performance related remuneration components, e.g. pension commitments or commitments in case of termination of activity.

In the revised remuneration structure, the **performance related remuneration** is, in principle, similarly structured for all Executive Board members; it can, however, differentiate in the individual arrangement and amount for individual Executive Board members due to individual contractual agreements.

The performance related remuneration is made up of the following components for each Executive Board member in the revised remuneration structure:

- the variable annual bonus, which consists of an earnings related and an objectives related bonus component and for which a cap has been agreed upon. While the earnings related bonus component of this variable annual bonus is oriented on the Company's adjusted EBITDA of the respective financial year, the objectives related bonus component of the variable annual bonus remunerates for the achievement of specific pre-determined goals, which are individually agreed upon in writing with individual Executive Board members for the respective financial year (personal goal agreement).

- the variable long-term special remuneration, for which defined annual progress payments are to be rendered by the Company upon the reaching of annual interim goals set out in individual contracts and which target the Company's overall business success in a defined target year. The long-term goal thereby taken as a basis in individual contracts, as well as the annual interim goals, are geared to a challenging adjusted Group EBITDA under the assumed framework conditions for the period under consideration; the target year for the variable long-term special remuneration should, at the earliest, generally be the third whole financial year after the beginning of the contract of the respective Executive Board contract. If the long-term goal agreed upon for the variable special long-term remuneration is not reached in consideration of the agreed corridor of a degree of goal attainment, the Company is entitled to the repayment of rendered progress payments in the case that the interim goals of the agreed corridor are not reached. A cap for the variable special long-term remuneration must also be agreed upon.

STADA's Annual General Meeting approved this new remuneration system on June 16, 2011.

The current Executive Board contracts of acting Executive Board members reflect the revised remuneration system. This did not include the Executive Board contract of Hartmut Retzlaff, valid until August 31, 2011, as it was concluded before the VorstAG came into effect.

Within the concrete arrangement of the Executive Board contracts concluded in 2010, both the long-term goal for the variable long-term special remuneration, as well as the respective interim goals for all three Executive Board members, orient on the Group's long-term targets for adjusted EBITDA in financial year 2014 as published in financial year 2010.

Executive Board remuneration for financial year 2011

The remuneration of the individual members of the Executive Board who were active for the Company in financial year 2011 are as follows:

- Hartmut Retzlaff: € 2,317,161.51 (thereof € 1,654,450.87 non-performance related including € 31,880.78 other remuneration and € 662,710.64 performance related[1)]) (previous year: € 2,485,572.71, thereof € 1,415,572.71 non-performance related including € 29,059.16 other remuneration and € 1,070,000.00 performance related)

- Helmut Kraft: € 1,126,028.16 (thereof € 831,848.16 non-performance related including € 41,492.66 other remuneration and € 294,180.00 performance related[1)]) (previous year: € 895,643.54, thereof € 609,182.85 non-performance related including € 38,542.75 other remuneration and € 286,460.69 performance related[1)])

- Dr. Axel Müller: € 1,081,895.38 (thereof € 787,715.38 non-performance related including € 20,450.04 other remuneration and € 294,180.00 performance related[1)]) (previous year[2)]: € 294,027.87, thereof € 230,692.18 non-performance related including € 6,490.34 other remuneration and € 63,335.69 performance related[1)])

1) Excluding the contractually agreed performance related progress payments of long-term special remuneration upon achieving the respective interim goals, which are reported as advances below.
2) For the period since joining the Company on September 16, 2010 to December 31, 2010.

In addition to the above-listed remuneration, the Executive Board received performance related **advances**[1] in the total amount of € 1,106,250.00 (previous year: € 87,500.00) in financial year 2011; thereof € 806,250.00 was attributable to Hartmut Retzlaff, € 150,000.00 to Helmut Kraft (previous year: € 43,750.00), and € 150,000.00 to Dr. Axel Müller (previous year: € 43,750.00).

The percentage ratio between non-performance related and performance related[2] remuneration of members of the Executive Board ranges in the area of approx. 53% to approx. 65% non-performance related and approx. 35% to approx. 47% performance related[2] remuneration.

Commitments to members of the Executive Board

Commitments to members of the Executive Board in case of premature or regular termination of their activity and any associated benefits

The Chairman of the Executive Board's current pension agreement contains commitments to an annual pension, which, depending on the duration of the Executive Board position, is calculated as a percentage of the basic remuneration and additionally takes into consideration a percentage of the variable remuneration, which was granted during the last five years before the beginning of pension payments. With the new Executive Board contract valid as of September 1, 2011, annual pension is set at a fixed annual amount, whereby after the provision commences, the monthly pension payment is adjusted on July 1 of every year by the percentage of the increase in the current level of pension in the German statutory pension scheme in comparison to the previous year. Payments from the pension commitments generally begin on request as pension payments after completion of the Executive Board contract, valid from September 1, 2011 to August 31, 2016, to the extent that it is not renewed or as disability pension if employment ends before this due to an occupational disability. The service cost in accordance with IFRS for the creation of provisions for benefit claims earned in financial year 2011 was € 983,342.00. The present value of the pension commitments, in accordance with IFRS, is € 23,827,945.00.

For the Chairman of the Executive Board, a supplementary agreement to the employment contract valid until August 31, 2011 contained a severance pay regulation for the case that the Executive Board contract, as a result of a closely defined change of control within the context of a takeover, is terminated. The severance payment thereby consisted of a one-time payment of an amount equal to five times the gross annual income of the Chairman of the Executive Board in the last full year prior to the takeover, including bonus paid-out. Moreover, it determined that the Chairman of the Executive Board would receive remuneration including the bonus as agreed in his employment contract for the entire term of the contract. The bonus was calculated based on the average of the previous two bonuses paid prior to the termination of the contract.

The new Executive Board contract of the Chairman of the Executive Board contains a severance pay regulation for a closely defined change of control, which, in accordance to the German Corporate Governance Code, is not higher than the remaining term of the Executive Board contract, and is limited in amount to a maximum of three years' remuneration.

Other commitments

The employment contract for the Chairman of the Executive Board valid until August 31, 2011 foresaw that, in the case of illness or accident, the Company would continue to pay the salary of the Chairman of the Executive Board, and that the amount of the continued payment, in the first year after the occurrence of either case, corresponds to a basic salary plus bonus and to a basic salary in the following two years. According to the Executive Board contract of the Chairman of the Executive Board valid as of September 1, 2011, in the case of illness or accident, the Company will continue to pay the salary of the Chairman of the Executive Board, whereby the amount of the continued payment, in the first year after the occurrence of either case, corresponds to the fixed annual salary and the variable remuneration and, in the second or third year, to the fixed annual salary.

1) Contractually agreed performance related progress payments of long-term special remuneration upon achieving the respective interim goals.
2) Including the contractually agreed performance related progress payments of long-term special remuneration upon achieving the respective interim goals, which are reported as advances above.

For both the Chief Financial Officer and the Chief Production and Development Officer, there exists accident insurance, which, in the case of inability to work due to illness, provides for monthly income for up to one year, up to a maximum period however until completion of the contract and taking third-party payments into account. In the case of inability to work for more than three months, the variable remuneration will be reduced on a pro-rata basis.

In the context of a group insurance for all three Executive Board members, there exists a so-called D&O insurance with a deductible for the Executive Board members within the legal framework.

Benefits from third parties outside the Group, which were promised or granted to members of the Executive Board in the reporting year with regard to their position in the Executive Board

To the Company's knowledge, third parties outside the Group have neither promised nor granted benefits to Executive Board members in financial year 2011 with regard to their position in the Executive Board in the reporting year.

Supervisory Board remuneration

Remuneration system for the Supervisory Board according to the Articles of Incorporation

Remuneration of the Supervisory Board is as follows pursuant to Section 18 of STADA Arzneimittel AG's Articles of Incorporation:

For the relevant financial year, in addition to reimbursement of expenses, Supervisory Board members receive:

- an annual fixed sum of € 25,000,
- an additional remuneration in the amount of 0.03% of Group earnings before taxes.

The Chairman of the Supervisory Board receives triple this amount and his deputy twice the amount.

In addition, Supervisory Board members receive an annual fixed remuneration of € 10,000 for their committee activities for the past financial year. The Chairman of a committee receives twice this amount in remuneration.

In addition, value-added tax is payable on all of the Supervisory Board's remuneration.

Remuneration of the Supervisory Board in financial year 2011

The remuneration of the individual members of the Supervisory Board who were active for the Company in financial year 2011 are as follows:

- Dr. Martin Abend € 167,578.80 (thereof € 105,000.00 non-performance related and € 62,578.80 performance related) (previous year: € 204,793.34, thereof € 105,000.00 non-performance related and € 99,793.34 performance related)
- Manfred Krüger € 101,719.20 (thereof € 60,000.00 non-performance related and € 41,719.20 performance related) (previous year: € 126,528.89, thereof € 60,000.00 non-performance related and € 66,528.89 performance related)

- Dr. Eckhard Brüggemann € 45,859.60 (thereof € 25,000.00 non-performance related and € 20,859.60 performance related) (previous year: € 58,264.45, thereof € 25,000.00 non-performance related and € 33,264.45 performance related)

- Heike Ebert € 45,859.60 (thereof € 25,000.00 non-performance related and € 20,859.60 performance related) (previous year: € 58,264.45, thereof € 25,000.00 non-performance related and € 33,264.45 performance related)

- Dr. K. F. Arnold Hertzsch € 45,859.60 (thereof € 25,000.00 non-performance related and € 20,859.60 performance related) (previous year: € 58,264.45, thereof € 25,000.00 non-performance related and € 33,264.45 performance related)

- Dieter Koch € 55,859.60 (thereof € 35,000.00 non-performance related and € 20,859.60 performance related) (previous year: € 68,264.45, thereof € 35,000.00 non-performance related and € 33,264.45 performance related)

- Constantin Meyer € 45,859.60 (thereof € 25,000.00 non-performance related and € 20,859.60 performance related) (previous year: € 58,264.45, thereof € 25,000.00 non-performance related and € 33,264.45 performance related)

- Carl Ferdinand Oetker € 65,859.60 (thereof € 45,000.00 non-performance related and € 20,859.60 performance related) (previous year: € 78,264.45, thereof € 45,000.00 non-performance related and € 33,264.45 performance related)

- Karin Schöpper € 55,859.60 (thereof € 35,000.00 non-performance related and € 20,859.60 performance related) (previous year: € 68,264.45, thereof € 35,000.00 non-performance related and € 33,264.45 performance related)

Beyond this remuneration no additional monies or benefits have been granted to members of the Supervisory Board for personally rendered services in the context of their activities as Supervisory Board members; however, in the context of a Group insurance, there exists a so-called D&O insurance for all members of the Supervisory Board, which reflects the legal framework of the Executive Board members, with a deductible for the Supervisory Board members.

Remuneration of the Advisory Board

In accordance with Section 10 of the bylaws of the Advisory Board of STADA Arzneimittel AG, members of the Advisory Board receive a flat fee of € 600 per meeting plus expenses.

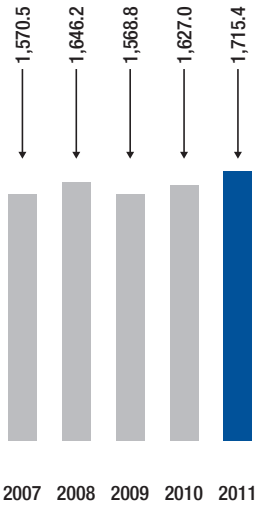
Earnings Situation

Development of Sales

Sales growth reaches new record value in Company history

In the financial year 2011, the STADA Group's sales development was within the scope of expectations. With varying development in individual national markets, Group sales rose by 5% in the reporting year to € 1,715.4 million (previous year: € 1,627.0 million), thereby reaching a new record value in Company history.

Group sales in € million over 5 years



When effects on sales based on changes in the Group portfolio and currency effects are taken into account, Group sales increased by 5% in 2011.

Portfolio changes, which had a total share of € 9.7 million or 0.6 percentage points in sales growth in 2011, were as follows:

- the purchase in Denmark of a portfolio of mainly branded products with eight pharmaceutical active ingredients as of January 15, 2010 and marketing since January 18, 2010, sales contribution from January 1 to January 18, 2011: € 0.1 million
- the purchase in Russia, as of November 18, 2009, of a package of five Russian branded products with a focus on the gynecology area of indication with sales contributions since April 1, 2010, sales contribution from January 1 to April 1, 2011: € 2.5 million
- sales since August 1, 2010 with the transferred Dutch packaging unit in Etten-Leur, sales contribution from January 1 to August 1, 2011: € 8.2 million
- sales with the small chemical plant in Serbia disposed of as of March 22, 2011, sales contribution from March 23 to December 31, 2010: € 1.3 million
- sales of the oncological product Tobra-cell®[1] sold as of September 30, 2011, sales contribution from October 1 to December 31, 2010: € 0.1 million
- sales of the branded product Denzapine®[2] acquired on July 1, 2011 for Ireland and on December 1, 2011 for the United Kingdom, sales contribution from July 1 to December 31, 2011: € 0.2 million in Ireland, and sales contribution from December 1 to December 31, 2011: € 0.1 million in the United Kingdom

As a result of applying foreign exchange rates from reporting year compared with those of the previous year for the translation of local sales contributions into the Group currency euro, STADA recorded a slightly negative currency effect in the amount of € -7.9 million or -0.5 percentage points in 2011.

To the extent that adjusted sales figures are reported in this annual report, this refers to sales adjusted for the portfolio effects described above and currency fluctuations respectively.[3]

1) Active pharmaceutical ingredient tobramycin 2.5 sulfate for the treatment of severe infections caused by tobramycin-sensitive agents.
2) Active pharmaceutical ingredient clozapin for the treatment of schizophrenia and psychoses in Parkinson's disease.
3) The adjusted sales figures are pro forma key figures, which are solely aimed at a more transparent year-on-year comparison.

Scheme for calculating the Group's adjusted sales growth

Previous year 2010		Reporting year 2011
STADA Group sales € 1,627.0 million	— +5% —>	**STADA Group sales € 1,715.4 million**
⁄. Sales chemical plant in Serbia Mar. 23 – Dec. 31, 2010		⁄. Sales branded product portfolio in Denmark Jan. 1 – Jan. 18, 2011
⁄. Sales Tobra-cell® Oct. 1 – Dec. 31, 2010		⁄. Sales branded product package in Russia Jan. 1 – Apr. 1, 2011
		⁄. Sales with the transferred Dutch packaging unit Jan. 1 – Aug. 1, 2011
		⁄. Sales branded product Denzapine in Ireland and United Kingdom July 1 – Dec. 31, 2011 and Dec. 1 – Dec. 31, 2011
		± Sales change by applying the same, i.e. the previous year's exchange rates for both financial years
Base value for adjusted sales growth € 1,625.5 million	— +5% —>	**Adjusted STADA Group sales € 1,712.2 million**

Development of international sales

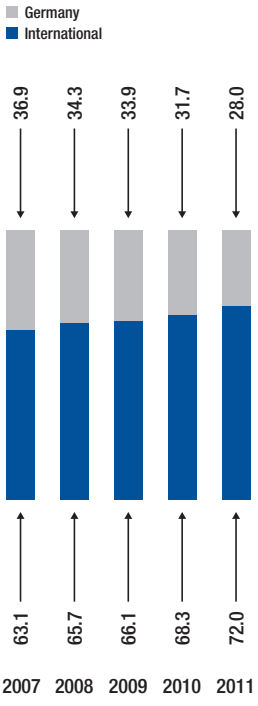
In **Europe**, sales in financial year 2011 rose by 6% to € 1,645.1 million (previous year: € 1,553.6 million). STADA's sales in European markets thus amounted to a 95.9% (previous year: 95.5%) share of Group sales. Adjusted, Group sales in Europe increased by 6%.

In **Western Europe**, STADA reported a sales increase of 1% to € 1,164.2 million in the reporting year (previous year: € 1,148.1 million). STADA's sales in the Western European countries thus contributed 67.9% (previous year: 70.6%) to Group sales. Despite decreasing sales in Germany of 7%, the adjusted STADA sales in Western Europe recorded a total increase of 1% due to the considerable growth in several other European countries, such as Italy and Spain (see "Earnings Situation – Development of Segments – Information by Region – Germany, as well as Spain and Italy").

In **Eastern Europe**[1)], STADA achieved sales growth of 19% to € 480.8 million in 2011 (previous year: € 405.5 million). This increase was primarily attributable to the strong sales growth in Russia (see "Earnings Situation – Development of Segments – Information by Region – Russia"). In Serbia, local sales increased as expected in comparison to the extraordinarily low level of the previous year (see "Earnings Situation – Development of Segments – Information by Region – Serbia"). Sales in Eastern European countries had a total share of 28.0% in Group sales (previous year: 24.9%). Adjusted Group sales in Eastern Europe recorded a plus of 20%.

In **Asia**, STADA sales in financial year 2011 decreased by 7% to € 48.1 million (previous year: € 51.4 million). Sales recorded by the Group in the Asian markets thus contributed 2.8% (previous year: 3.2%) to Group sales. This development is based on opposing factors. One the one hand, STADA recorded a strong

Sales share Germany vs. international sales as % of Group sales



1) So-called CEE countries (Central and Eastern Europe) including Russia.

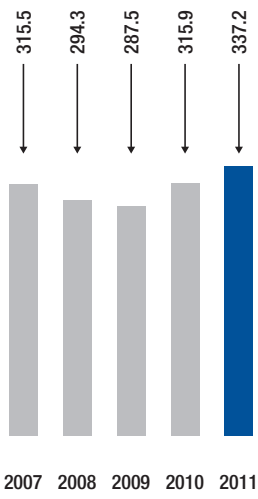
decrease in sales in the Philippines – especially in the first quarter of 2011 – due the expected decrease in low-margin commercial sales, which resulted from the termination of a sales agreement with a significant trading partner in the third quarter of 2010. On the other hand, the Group was able to significantly increase sales in Vietnam. On the whole, STADA's adjusted sales in Asian countries nevertheless declined by 2% (see "Earnings Situation – Development of Segments – Information by Region – Asia/Pacific Region").

STADA's sales in the rest of the world increased in the reporting year by 1% to € 22.3 million (previous year: € 22.0 million). Sales in the rest of the world thus contributed 1.3% (previous year: 1.4%) to Group sales. STADA's adjusted increase in sales amounted to 1% here.

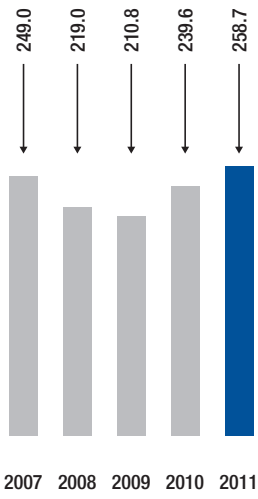
Sales achieved by STADA in the Group's most important individual national markets is reported in greater detail in the context of the regional developments (see "Earnings Situation – Development of Segments – Information by Region").

Development of Earnings and Costs

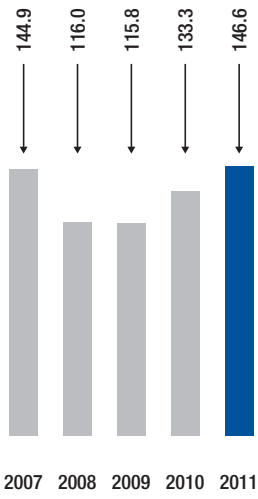
Adjusted EBITDA in € million



Adjusted EBIT in € million



Adjusted net income in € million



Increase in all operational key earnings figures

In financial year 2011, the **operational key earnings figures**, i.e. without consideration of high burdening one-time special effects, were within the scope of expectations.

The **reported key earnings figures** in 2011 decreased significantly due to the high burdening one-time special effects – primarily as a result of impairments on receivables from various Serbian pharmaceutical wholesalers – operationally, i.e. excluding one-time special effects, however, they all exceeded the key earnings figures, adjusted accordingly, of the previous year.

Operating profit decreased in the reporting year by 26% to € 120.1 million (previous year: € 161.8 million). **Net income** decreased by 68% to € 22.0 million (previous year: € 68.4 million). **EBITDA** recorded a decrease of 17% to € 223.2 million (previous year: € 268.8 million).

Adjusted for influences distorting the period comparison resulting from one-time special effects and non-operational effects from interest rate hedge transactions (previous year: adjusted for one-time special effects as well as non-operational effects from currency influences and interest rate hedge transactions), **adjusted operating profit** recorded a plus of 8% in 2011 to € 257.6 million (previous year: € 239.3 million). **Adjusted net income** recorded growth of 10% to € 146.6 million (previous year: € 133.3 million). **Adjusted EBITDA** increased by 7% to € 337.2 million (previous year: € 315.9 million).

The adjustments made to these key earnings figures in order to better compare the reporting year with the previous year were as follows in 2011:[1)]

1) The deduction of such effects which have an impact on the presentation of STADA's earnings situation and the derived key figures aims at improving the comparability of key figures with previous years. To achieve this, STADA uses adjusted key figures, which, as so-called pro forma figures, are not governed by the accounting requirements in accordance with IFRS. As other companies may not calculate the pro forma figures presented by STADA in the same way, STADA's pro forma figures are only comparable with similarly designated disclosures by other companies to a limited extent.

Influence on earnings due to one-time special effects

One-time special effects amounted to a net burden on earnings of € 137.5 million before or € 125.4 million after taxes in financial year 2011 (previous year: net burden on earnings due to one-time special effects in the amount of € 79.9 million before or € 66.7 million after taxes).

In detail, these were as follows:

- a burden in the amount of € 98.4 million before or € 94.7 million after taxes in connection with an increased risk of default on outstanding receivables from various Serbian pharmaceutical wholesalers including impairments of equity interests in various Serbian pharmaceutical wholesalers (see "Earnings Situation – Development of Segments – Information by Region – Serbia").
- a burden in the amount of € 19.9 million before or € 15.4 million after taxes for impairments netted with write-ups on intangible assets after impairment tests.
- a burden in the amount of € 5.4 million before or € 4.0 million after taxes in connection with the dissolution agreement between the British STADA subsidiary Genus Pharmaceuticals Ltd. and Cephalon GmbH for the sale of Apo-Go®[1] in the German market (see "Earnings Situation – Development of Segments – Information by Region – Germany").
- a burden in the amount of € 4.6 million before or € 3.4 million after taxes due to expenses in connection with the "STADA – build the future" project (see "Business and General Conditions – Business Model, Core Segments and Structural Environment").
- a burden in the amount of € 4.5 million before or € 3.8 million after taxes for unscheduled personnel expenses due to personnel changes in the STADA Group.
- a burden in the amount of € 3.1 million before or € 2.7 million after taxes for one-time expenses from inventory write-downs, which resulted from the restructuring undertaken for the sales model in the Czech Republic, Slovakia and Russia.
- a burden in the amount of € 2.3 million before or € 1.7 million after taxes for extraordinary expenses for consulting services.
- a burden in the amount of € 1.4 million before or € 1.3 million after taxes due to technical problems in part of the Serbian production of injection substances (see "Business and General Conditions – Production, Procurement and Quality Management").
- a burden in the amount of € 0.6 million before or € 0.4 million after taxes in connection with maintaining an existing license agreement.
- a burden in the amount of € 0.5 million before or € 0.3 million after taxes in connection with the Pharmaceutical Market Restructuring Act (AMNOG), which took effect in Germany on January 1, 2011 (see "Earnings Situation – Development of Segments – Information by Region – Germany").
- a relief in the amount of € 1.8 million before or € 1.3 million after taxes in connection with the sale of the development stage of the biosimilar Trastuzumab (see "Business and General Conditions – Product Development" as well as "Financial Situation").
- a relief in the amount of € 1.4 million before or € 1.0 million after taxes in connection with the sale of a product from the German sales company cell pharm (see "Earnings Situation – Development of Segments – Information by Region – Germany" as well as "Financial Situation").

Influence on earnings due to non-operational effects from interest rate hedge transactions

In financial year 2011, **non-operational effects from interest rate hedge transactions** amounted to a net relief on earnings of € 1.2 million before or € 0.9 million after taxes, which resulted from the measurement of these transactions (previous year: net relief on earnings as a result of non-operational effects from currency influences and interest rate hedge transactions of € 2.7 million before or € 1.9 million after taxes).

1) Active pharmaceutical ingredient apomorphin for the treatment of Parkinson's disease.

To the extent that adjusted key earning figures are reported in this annual report, the earnings adjustments carried out include these effects in total both for the reporting year as well as for the previous year.

In the chart below, further essential key earnings figures of the STADA Group as well as the resulting margins are each also reported adjusted for the aforementioned one-time special effects and non-operational effects from interest rate hedge transactions for financial year 2011 and the non-operational effects from currency influences and interest rate hedge transactions for the previous year to allow for comparison.

Development of the STADA Group's key earnings figures

in € million	2011	2010	± %	Margin[1] 2011	Margin[1] 2010
Operating profit	120.1	161.8	-25.8%	7.0%	9.9%
• Operating segment result Generics	84.9	145.9	-41.8%	7.1%	13.0%
• Operating segment result Branded Products	89.3	83.7	+6.7%	18.9%	19.7%
EBITDA[2]	223.2	268.8	-17.0%	13.0%	16.5%
EBIT[3]	121.2	162.1	-25.2%	7.1%	10.0%
EBT[4]	69.5	109.0	-36.2%	4.1%	6.7%
Net income	22.0	68.4	-67.8%	1.3%	4.2%
Earnings per share in €	0.37	1.16	-68.1%		
Diluted earnings per share in €	0.37	1.14	-67.5%		

Development of the STADA Group's adjusted[5] key earnings figures

in € million	*2011*	*2010*	*± %*	*Margin[1] 2011*	*Margin[1] 2010*
Operating profit, adjusted	*257.6*	*239.3*	*+7.6%*	*15.0%*	*14.6%*
• *Operating segment result Generics, adjusted*	*182.6*	*181.6*	*+0.5%*	*15.4%*	*16.2%*
• *Operating segment result Branded Products, adjusted*	*109.2*	*100.7*	*+8.4%*	*23.1%*	*23.7%*
EBITDA[2], adjusted	*337.2*	*315.9*	*+6.7%*	*19.7%*	*19.3%*
EBIT[3], adjusted	*258.7*	*239.6*	*+8.0%*	*15.1%*	*14.7%*
EBT[4], adjusted	*205.8*	*186.2*	*+10.5%*	*12.0%*	*11.4%*
Net income, adjusted	*146.6*	*133.3*	*+10.0%*	*8.5%*	*8.2%*
Earnings per share in €, adjusted	*2.49*	*2.27*	*+9.7%*		
Diluted earnings per share in €, adjusted	*2.44*	*2.22*	*+9.9%*		

1) Related to relevant Group sales.
2) Earnings before interest, taxes, depreciation and amortization.
3) Earnings before interest and taxes.
4) Earnings before taxes.
5) Adjusted for one-time special effects and non-operational effects from currency influences and interest rate hedge transactions.

Income statement as well as cost development

The consolidated income statement is presented in the chart below - both for the reporting year and for the previous year, each under consideration of the effects to be adjusted.

Income statement (abridged) in € 000s	2011 without deduction of effects to be adjusted	2011 effects to be adjusted	2011 after deduction of effects to be adjusted	2010 without deduction of effects to be adjusted	2010 effects to be adjusted	2010 after deduction of effects to be adjusted
Sales	1,715,396	-1,140[1)2)3)]	*1,714,256*	1,626,976	7,504[15)16)]	*1,634,480*
Cost of sales	888,604	4,721[2)3)4)5)6)]	*883,883*	862,808	619[15)]	*862,189*
Gross profit	**826,792**	**3,581**	***830,373***	**764,168**	**8,123**	***772,291***
Selling expenses	390,017	14[5)]	*390,003*	375,462	29[15)]	*375,433*
General and administrative expenses	140,044	2,312[7)]	*137,732*	125,327	-	*125,327*
Research and development expenses	50,351	13[5)]	*50,338*	54,911	5,545[15)17)]	*49,366*
Other income	29,874	-6,554[2)8)]	*23,320*	40,386	-3,434[8)18)]	*36,952*
Other expenses	151,640	133,599[9)10)11)12)]	*18,041*	70,879	51,047[16)19)]	*19,832*
Expenses in connection with the "STADA – build the future" project	4,550	4,550[13)]	-	16,176	16,176[13)]	-
Operating profit	**120,064**	**137,515**	***257,579***	**161,799**	**77,486**	***239,285***
Result from associated companies	553	-	*553*	128	-	*128*
Investment income	573	-	*573*	162	-	*162*
Earnings before interest and taxes (EBIT)	**121,190**	**137,515**	***258,705***	**162,089**	**77,486**	***239,575***
Financial income	10,789	-1,208[14)]	*9,581*	3,818	-480[14)]	*3,338*
Financial expenses	62,447	-	*62,447*	56,860	166[14)]	*56,694*
Earnings before taxes (EBT)	**69,532**	**136,307**	***205,839***	**109,047**	**77,172**	***186,219***
Taxes on income	47,148	-11,782	*58,930*	40,477	-12,342	*52,819*
Earnings after taxes	**22,384**	**124,525**	***146,909***	**68,570**	**64,830**	***133,400***
Result attributable to non-controlling interests	348	-	*348*	138	-	*138*
Result distributable to shareholders of STADA Arzneimittel AG (net income)	**22,036**	**124,525**	***146,561***	**68,432**	**64,830**	***133,262***
Earnings per share in €	0.37		*2.49*	1.16		*2.27*
Earnings per share in € (diluted)	0.37		*2.44*	1.14		*2.22*
EBIT	**121,190**	**137,515**	***258,705***	**162,089**	**77,486**	***239,575***
Balance from depreciation and amortization/write-ups on intangible assets (including goodwill), property, plant and equipment and financial assets	102,057	-23,604	*78,453*	106,742	-30,427	*76,315*
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**223,247**	**113,911**	***337,158***	**268,831**	**47,059**	***315,890***

1) Income in connection with the sale of the development stage of the biosimilar Trastuzumab.
2) Income/expenses in connection with the sale of a product of the German sales company cell pharm.
3) Expenses in connection with technical problems in a part of the Serbian production for injectable substances.
4) Expenses in connection with upholding an existing licensing agreement.
5) Expenses in connection with the German Pharmaceutical Market Restructuring Act (AMNOG), which came into effect on January 1, 2011.
6) One-time expenses from inventory write-downs, which resulted from the restructuring carried out for the sales model in the Czech Republic, Slovakia and Russia.
7) Extraordinary expenses for consultory services.
8) Write-ups in connection with impairment tests of goodwill.
9) Value adjustments in connection with impairment tests of goodwill.
10) Expenses in connection with an increased risk of default on outstanding receivables from various Serbian pharmaceutical wholesalers.
11) Expenses in connection with the dissolution agreement between the British STADA subsidiary Genus Pharmaceuticals Ltd. and Cephalon GmbH for the sale of Apo-Go in the German market.
12) Unplanned personnel expenses due to personnel changes in the STADA Group.
13) Expenses for the strategic and structural positioning of the Group in connection with the "STADA – build the future" project.
14) Result from the valuation of interest rate hedge transactions.
15) Expenses in connection with the recall of products with the active ingredient Bufexamac.
16) Expenses in connection with liquidity problems on the part of Serbian wholesalers.
17) Expenses in connection with the suspension of the biosimilar project for the development of monoclonal antibodies.
18) Currency translation income from a Russian subsidiary in connection with loans from an earlier acquisition financing that have since already been paid off.
19) Unscheduled personnel expenses due to management changes at STADA subsidiaries.

Cost of sales amounted to € 888.6 million in the reporting year (previous year: € 862.8 million). **Gross profit**, i.e. sales after deducting cost of sales, was thus € 826.8 million in financial year 2011 (previous year: € 764.2 million).

In financial year 2011, cost of sales included burdening expenses from one-time special effects in the amount of € 4.7 million, which are composed of the following individual items: one-time expenses from the sale of a product from the German sales company cell pharm; expenses in connection with technical problems in part of the Serbian production for injection substances; one-time expenses for maintaining an existing license agreement; expenses in connection with the German Pharmaceutical Market Restructuring Act, which became effective as of January 1, 2011; as well as one-time expenses from inventory write-downs, which resulted from the restructuring of the sales model carried out in the Czech Republic, Slovakia and Russia.

The **cost of sales ratio**, i.e. the share of cost of sales in relation to sales, was 51.8% (previous year: 53.0%) in the reporting year. The sales-related **gross margin**, which is reciprocal to the cost of sales ratio, thus rose to 48.2% (previous year: 47.0%) in 2011. Fortunately, despite the dilutive effect on the gross margin from an increased volume business as a result of tenders for discount agreements that were won (see "Earnings Situation – Development of Segments – Information by Region – Germany"), a significant improvement in the gross margin can be observed at the Group level in 2011; this demonstrates that this dilutive effect could be compensated by increased margins in other products and/or other markets.

Due to the price erosion associated with the business model of STADA, however, the Executive Board expects that the cost of sales ratio and gross margin will remain under pressure in the long-term (see "Earnings Situation – Development of Sales"). Additionally, these two items will also continue to be burdened by the expected further increase of volume business. STADA generally counteracts the lasting margin pressure in the individual national markets through continuous cost optimization and the continued implementation of measures in the context of "STADA – build the future".

Selling expenses, which at STADA primarily include costs for employees working in the sales force and in sales departments as well as product-related marketing expenditure, increased in 2011 to € 390.0 million (previous year: € 375.5 million). The selling expenses ratio in the same period amounted to 22.7% (previous year: 23.1%).

Against the backdrop that the further expansion of the product portfolio will not coincide with a significant increase in sales activities, especially sales force activities, the Executive Board expects an additional slight decrease in the selling expenses ratio. Furthermore, there is the opportunity of reduced sales expenses in markets with a significant increase of volume business with low-margins.

General and administrative expenses amounted to € 140.0 million in the reporting year (previous year: € 125.3 million) and were thus equal to 8.2% of Group sales (previous year: 7.7%). In financial year 2011, this item included burdening expenses in the amount of € 2.3 million, which resulted from extraordinary expenses for consulting services and were classified as a one-time special effect in the financial year.

Research and development costs were € 50.4 million in 2011 (previous year: € 54.9 million). The sales-related ratio of research and development costs amounted to 2.9% (previous year: 3.4%).

The development costs reported in STADA's income statement include the non-capitalizable development costs which are primarily based on regulatory requirements and the optimization of existing products. Payments in connection with the development of new products are, in contrast, usually capitalized by STADA (see "Notes to the Consolidated Financial Statements – 15".).[1)] For this reason they are not included in this cost item.

1) In financial year 2011, development costs for new products in the amount of € 12.3 million (previous year: € 13.3 million) were capitalized.

Other income decreased in 2011 to € 29.9 million (previous year: € 40.4 million) primarily due to the development of currency translation expenses, which are netted against the currency translation income and led to net currency translation expenses in the reporting year. Whereas in financial year 2010 net currency translation income in the amount of € 10.0 million was still reported under other income, net interest expenses were incurred in financial year 2011, which led to recognition under other expenses.

Other income included, among other things, income from one-time special effects in financial year 2011. This was income from write-ups in the context of impairment tests on goodwill as well as income in connection with the sale of a product from the German sales company cell pharm (see "Earnings Situation – Development of Segments – Information by Region – Germany").

Other expenses increased in 2011 to € 151.6 million (previous year: € 70.9 million).

This item included net currency translation expenses in the amount of € 6.0 million in the reporting year. In the previous year, net currency translation income in the amount of € 10.0 million was incurred, which STADA reported under the item other income.

Furthermore, this item included burdening expenses from various one-time special effects, which can be broken down as follows: impairments on receivables from various Serbian pharmaceutical wholesalers including impairments of equity interests in various Serbian pharmaceutical wholesalers in the amount of € 98.4 million; impairments on assets following impairment tests in the amount of € 25.3 million; expenses in connection with the dissolution agreement between the British STADA subsidiary Genus Pharmaceuticals Ltd. and Cephalon GmbH for the sale of Apo-Go®[1)] in the German market in the amount of € 5.4 million; as well as unscheduled personnel expenses due to personnel changes in the STADA Group in the amount of € 4.5 million.

Expenses in connection with the "STADA – build the future" project amounted to € 4.6 million in 2011 and are reported as one-time special effects.

The **financial result**, which is primarily financial income and financial expenses, was € -50.5 million in the reporting year (previous year: € -52.8 million). Here, the largest operative-related individual item was still financial expenses, amounting to € 62.4 million in 2011 (previous year: € 56.9 million). In financial year 2011, the financial result included non-operational effects from interest rate hedge transactions which amounted to a relief on earnings in the amount of € 1.2 million.

In financial year 2011, the Group refinanced itself at interest rates of between 1.3% p.a. and 20.3% p.a. (previous year: between 1.0% p.a. and 19.2% p.a.). This also included financing via promissory notes newly secured in the reporting year with partially variable and partially fixed interest rates, with which STADA was able to smooth out the debt maturity profile of the Group's liabilities over the coming years and to further strengthen the stable financing structure (see "Financial Situation"). On the balance sheet date of December 31, 2011, the weighted average interest rate for non-current financial liabilities was approx. 4.6% p.a. (previous year: approx. 5.1% p.a.) and for current financial liabilities approx. 6.4% p.a. (previous year: approx. 7.0% p.a.).

Taxes on income amounted in 2011 to € 47.1 million (previous year: € 40.5 million) so that the tax rate was at 67.8% (previous year: 37.1%).

The primary reason for the significant change in the tax rate is the changed profit allocation in the Group resulting from, among other things, the reported high special effects in Serbia.

1) Active pharmaceutical ingredient apomorphin for the treatment of Parkinson's disease.

Unchanged in 2011, the tax rate was nevertheless burdened by the tax rules with regard to operating expenditures for interest expenses at corporate bodies effective in Germany. This so-called interest barrier provides that the net interest cost of a corporate body is only deductible up to an amount of 30% of the EBITDA stated for tax purposes in Germany. With a view to the high one-time special effects, the tax-relevant EBITDA declined so much in the reporting year in Germany, that it led to the non-deductibility of net interest costs in the amount of € 20.1 million (previous year: € 14.3 million) as well as to a corresponding additional tax burden of approx. € 4.9 million (previous year: approx. € 3.4 million).

The Executive Board expects these adverse tax effects in coming years as well.

Development of Segments: Information by Operating Segment

Development of core segments

The information by operating segment, according to the definition of segment used by STADA, is divided according to differentiation possibilities in terms of sales and is therefore separated into the core segments of Generics and Branded Products as well as the non-core segment Commercial Business (see "Business and General Conditions – Business Model, Core Segments and Structural Environment").

Sales of both **core segments** Generics and Branded Products increased in 2011 by 7% to € 1,660.2 million (previous year: € 1,549.2 million), so that their contribution amounted to 96.8% (95.2%) of Group sales. Sales of both core segments adjusted for portfolio changes and currency influences increased in the reporting year by 8% (see "Earnings Situation – Development of Sales").

Sales of **Generics**, which continues to be the significantly larger core segment, exhibited growth in 2011 of 6% to € 1,188.3 million (previous year: € 1,124.2 million). Generics thus contributed 69.3% (previous year: 69.1%) to Group sales. Adjusted, generics sales rose by 6% (see "Earnings Situation – Development of Sales").

Top 5 generic active ingredients in products of the STADA Group in 2011

Active ingredient	Indication	Sales 2011 for products of the STADA Group in € million	Change from previous year
Omeprazole	Stomach medicine	41.5	-18%
Phospholipide	Hepatic medicine	25.5	+14%
Enalapril	ACE inhibitor	24.3	+5%
Simvastatin	Cholesterol lowering medication	23.5	-11%
Diclofenac	Antirheumatic drug	22.1	-4%
Total		**136.9**	

In the reporting year, STADA generated sales in the total of € 136.9 million with products containing the Group's top five active pharmaceutical ingredients in terms of sales (previous year: € 145.7 million). These products thus contributed 11.5% to sales in the Generics segment in financial year 2011 (previous year: 13.0%).

In 2011, the stomach medicine Omeprazol continued to be by far the best-selling active pharmaceutical ingredient both in the core segment Generics and in the Group.

The **Branded Products** core segment showed a sales increase of 11% to € 471.9 million in the reporting year (previous year: € 425.0 million). Branded Products thus had a share of Group sales of 27.5% (previous year: 26.1%). The Group recorded an increase of 12% in adjusted sales of branded products (see "Earnings Situation – Development of Sales").

Top 5 branded products of the STADA Group in 2011

Branded product	Indication	Sales 2011 in € million	Change from previous year
Grippostad®	Cold medicine	33.8	+18%
Apo-Go®	Parkinson's medication	25.8	-2%
Ladival®	Sun screen	20.2	+38%
Chondroxid®	For the treatment of degenerative joint diseases	17.8	+21%
Hirudoid®	Venous therapeutic treatment	17.4	+4%
Total		**115.0**	

With the top five branded products in the Group in term of sales, STADA achieved sales in the amount of € 115.0 million in financial year 2011 (previous year: € 104.0 million). These products thus had a share of 24.4% of the sales of the Branded Products segment (previous year: 24.5%).

Measured by sales, Grippostad®, with sales of € 33.8 million in financial 2011 (previous year: € 28.7 million) continued to be the strongest branded product in the Group.

Non-core activities to support core segments

Sales in the **Commercial Business** segment, which is not among the core segments, decreased in 2011 to € 32.9 million (previous year: € 66.9 million). The expected decrease of the low-margin commercial business in the Philippines had a particularly noticeable effect here.

Sales reported under the position **Group holding/Other** increased in the reporting year to € 22.3 million (previous year: € 10.9 million) and included, among other things, sales with the Dutch packaging unit transferred in the third quarter of 2010.

Operating profit by segment

In financial year 2011, segment profits and segment margins of both core segments reflected opposing trends. While **operating profit** in the **Generics** segment decreased significantly due to high burdening one-time special effects – primarily due to impairments on receivables from various Serbian pharmaceutical wholesalers – by 42% to € 84.9 million (previous year: € 145.9 million), operating **profit** in the **Branded Products** segment increased by 7% to € 89.3 million (previous year: € 83.7 million). The **operating profit margin** of **Generics** was at 7.1% (previous year: 13.0%) in the reporting year. The **operating profit margin** of **Branded Products** amounted to 18.9% (previous year: 19.7%) in 2011.

After adjusting for influences distorting the year-on-year comparison resulting from one-time special effects and non-operational effects from interest rate hedge transactions in 2011 or non-operational effects from currency influences and interest rate hedge transactions in 2010, the **adjusted operating profit** in the **Generics** segment in the reporting year increased by 1% to € 182.6 million (previous year: € 181.6 million). The **adjusted operating profit** in the **Branded Products** segment increased by 8% to € 109.2 million (previous year: € 100.7 million). The **adjusted operating profit margin** for **Generics** in 2011 was thus at 15.4% (previous year: 16.2%) and the **adjusted operating profit margin** for **Branded Products** at 23.1% (previous year: 23.7%).

Operating profit in the **Commercial Business** segment increased to € -1.4 million in financial year 2011 (previous year: € -18.9 million).

Development of Segments: Information by Region

In the STADA Group, information by region[1] is based on the regional differentiation in national markets. In this context, in the individual national markets, all relevant net sales according to segment to third parties generated there by consolidated Group companies are reported.

Sales in 2011 by segments and national markets[2]

in € million	Generics	Branded Products	Commercial Business	Reconciliation Group holdings / other	Total sales 2011	Share of Group sales 2011	Total sales previous year	± %	±% *adjusted*[3]
Europe	**1,146.6**	**448.4**	**27.8**	**22.3**	**1,645.1**	**96%**	**1,553.6**	**+6%**	***+6%***
Belgium	133.7	7.2			140.9	8%	134.9	+4%	
Bosnia-Herzegovina	12.3	0.7			13.1	1%	11.6	+12%	*+11%*
Bulgaria	5.9	0.5			6.4	<1%	5.9	+8%	*+8%*
Denmark	6.9	2.3	22.2		31.4	2%	34.4	-9%	*-9%*
Germany	366.7	112.2		1.0	479.9	28%	516.4	-7%	*-7%*
Finland	1.4	4.6			6.0	<1%	5.9	+1%	
France	74.7	4.7			79.4	5%	81.0	-2%	
United Kingdom	11.8	40.3			52.2	3%	54.4	-4%	*-3%*
Ireland	14.3	5.8	0.5		20.6	1%	19.7	+5%	*+4%*
Italy	105.0	41.1			146.1	9%	136.8	+7%	
Macedonia	2.6	0.3			2.9	<1%	3.0	-3%	*-4%*
Montenegro	4.6	0.4	1.4		6.4	<1%	6.3	+1%	*-0%*
The Netherlands	24.0	16.8		15.4	56.2	3%	47.2	+19%	*+2%*
Austria	10.4	4.3			14.7	1%	15.0	-2%	
Poland	1.3	1.4			2.7	<1%	2.1	+28%	*+28%*
Portugal	11.8	2.0			13.7	1%	12.0	+15%	
Romania	3.4	1.3			4.7	<1%	4.6	+1%	*-0%*
Russia	124.9	153.5		1.3	279.6	16%	221.2	+26%	*+28%*
Serbia	86.6	13.5	3.6	2.8	106.6	6%	99.1	+8%	*+7%*
Slovakia	7.0	1.5			8.5	<1%	7.1	+19%	*+19%*
Spain	106.4	6.3			112.7	7%	82.8	+36%	
Czech Republic	9.6	1.9			11.5	1%	10.3	+12%	*+9%*
Ukraine	8.0	17.4			25.4	1%	23.3	+9%	*+16%*
Rest of Europe	13.1	8.6		1.8	23.5	1%	18.3	+29%	*+28%*
Africa	**11.5**	**1.7**			**13.1**	**1%**	**9.5**	**+38%**	***+37%***
America	**9.3**	**-0.1**			**9.2**	**1%**	**12.5**	**-26%**	***-26%***
Asia	**20.9**	**22.1**	**5.1**		**48.1**	**3%**	**51.4**	**-7%**	***-2%***
China	2.6	0.5			3.1	<1%	2.4	+29%	*+36%*
Kazakhstan	2.1	9.8			11.9	1%	8.6	+37%	*+45%*
The Philippines	0.6		4.4		5.0	<1%	12.2	-59%	*-58%*
Thailand	1.4	0.9	0.1		2.4	<1%	2.5	-5%	*-3%*
Vietnam	7.2	4.7	0.6		12.5	1%	11.4	+10%	*+21%*
Rest of Asia	7.1	6.1			13.2	1%	14.3	-7%	*-6%*
Rest of world	**0.0**	**-0.1**			**-0.1**	**<0%**	**0.0**	**-385%**	***-388%***

1) Broken down according to the national market in which the sales were achieved.
2) Sales below € 0.05 million were rounded to € 0.0 million.
3) Adjustments due to changes in the Group portfolio as well as to currency effects (see "Earnings Situation – Development of Sales"). In some cases, figures were converted into local currency since the invoicing company's reporting currency was euro.

Development of STADA's ten largest national markets

In view of the focus of Group activities on Europe, STADA's ten largest national markets are also in the European area, contributing a total of 87% to Group sales in 2011 (previous year: 87%). In total the sales of these ten national markets rose in the reporting year by 5%. Adjusted, this sales growth was 5% (see "Earnings Situation – Development of Sales").

Germany

In **Germany**, STADA's largest national market, the sales in financial year 2011 went down by 7% to € 479.9 million (previous year: € 516.4 million). Whereas sales the decrease still amounted to 9% in the second quarter in the German market, sales decreased in the third quarter by 5% and in the fourth quarter only by 2%. In total STADA's German activities contributed 28.0% to Group sales in 2011 (previous year: 31.7%).

This anticipated decrease in sales in Germany was still attributable to the difficult local framework conditions for generics. Sales in the German generics segment in the reporting year thus decreased by 9% to € 366.7 million (previous year: € 401.7 million). The STADA Group's market share of generics sold in German pharmacies increased by volume in 2011 to approx. 12.8% (financial year 2010: approx. 12.5%).[1)] Taking the fourth quarter of 2011 alone, the market share by volume increased as expected – in view of achieved strong results in the reporting year in the tenders for discount agreements – to approx. 13.5%.[1)] This increase in volume, however, continued to be contrasted by operating profitability in the German Group business of only just under Group average as expected.

Sales achieved by STADA in the German market with generics in financial year 2011 had a total share of 76% (previous year: 78%) of sales generated in the German market.

This development in Germany was primarily based on the results achieved by various German STADA sales companies in the generics market in the context of the numerous tenders for discount agreements by statutory health insurance organizations. German sales companies of STADA continue to participate on an ongoing basis in these tenders using various bid strategies characterized by margin and market share aspects and consequently also with a large variation in terms of award results.

In the view of the Executive Board, German STADA subsidiaries achieved very good results in the reporting year, among others in large volume tender rounds of the Allgemeinen Ortskrankenkassen (AOK), the round of tenders of the Deutsche Angestellten Krankenkasse (DAK) as well as tender rounds with various other public health insurance organizations for discount agreements valid throughout Germany.[2)]

The Group's overall primary objective of appropriate operating profitability in the German market led to a decrease in sales in 2011 for STADA in the Generics segment in Germany, without, however, negatively affecting the position of the STADA Group as the clear number 3[1)] in the German generics market.

1) Data from IMS Health relating to the dispensing of drugs in pharmacies to customers (source: IMS/ Pharmascope national).
2) See the Corporate News of May 11, 2011, August 1, 2011, October 31, 2011 and November 23, 2011.

The necessary repackaging as a result of the German Pharmaceutical Market Restructuring Act (AMNOG), which came into effect on January 1, 2011, and the product returns associated with it, resulted in costs of € 0.5 million in financial year 2011, which STADA reported as a one-time special effect (see "Earnings Situation – Development of Earnings and Costs").

Generics sales generated by STADA in Germany are achieved via various sales companies. The sales of ALIUD PHARMA GmbH, Laichingen, the largest Group-owned sales company in the German generics market, decreased in 2011 by 8% to € 203.8 million (previous year: € 221.3 million). Sales of the Group-owned German generics sales company STADApharm GmbH, Bad Vilbel, decreased in the reporting year by 13% to € 127.8 million (previous year: € 147.5 million). Sales of STADA's other generics label, cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Bad Vilbel, special supplier of the indication areas oncology and nephrology, went down in the financial year 2011 by 7% to € 29.4 million (previous year: € 31.7 million).

In the second quarter of 2011, in the context of competition proceedings based on patent law, an injunction was issued against the German STADA sales companies ALIUD PHARMA GmbH and STADApharm GmbH to refrain from sale of the product with the pharmaceutical ingredient Leflunomid for treatment of active rheumatoid arthritis and active psoriatic arthritis. The issue will now be continued in principle proceedings.

In the third quarter of 2011, cell pharm sold the oncological product Tobra-cell®[1)] (annual sales 2010: € 0.4 million, accumulated sales in 2011 up to the date of sale: € 0.7 million) and thereby achieved earnings of € 1.4 million before or € 1.0 million after taxes, which was reported as a relieving one-time special effect (see "Earnings Situation – Development of Earnings and Costs" as well as "Financial Situation").

The sales achieved with branded products in Germany in the reporting year approximately amounted to the same level of the previous year at € 112.2 million (previous year: € 111.9 million). The total share achieved by STADA with branded products in the German market was 23% in 2011 (previous year: 22%).

STADA achieved its sales of branded products in Germany primarily with two local sales companies. The sales achieved by STADA GmbH, Bad Vilbel, in the financial year 2011 were thus at € 99.8 million just above the level of the previous year (previous year: € 97.6 million). The Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg, which mainly sells prescription-free generics and medical devices in the indication area of diabetes as well as selected branded products such as EUNOVA®, recorded a sales increase of 10% to € 10.4 million in the reporting year (previous year: € 9.5 million).

In 2011, STADA's important branded products continued to be counted as market leaders in their corresponding market segments in the German pharmaceuticals market. Examples for this are the cold medicine Grippostad® C (local sales in 2011: € 29.8 million, previous year: € 26.0 million) with a market share of approx. 34% in the market for flu drugs[2) 3)] and STADA's sunscreen portfolio under the brand Ladival® (local sales in 2011: € 19.3 million, previous year: € 13.8 million), which with a market share of approx. 38%, clearly remains market leader in the market for sunscreens[4)] sold in pharmacies.

Sales achieved in the German market in 2011 also included export sales from foreign Group companies to Germany in the amount of € 5.7 million (previous year: € 3.9 million).

These also include sales of the STADA branded product Apo-Go®[5)], which is globally managed by the British subsidiary due to special sales requirements in the STADA Group, among other things. In the third quarter of 2011, the British STADA subsidiary Genus Pharmaceuticals Ltd. dissolved an existing agreement with Cephalon GmbH for the sale of Apo-Go® in the German market. In addition to the fact that Cephalon GmbH became part of the Israeli Teva Group, and thus part of a direct global competitor of STADA, by way of an acquisition, this

1) Active pharmaceutical ingredient tobramycin 2.5 sulfate for the treatment of severe infections caused by tobramycin-sensitive agents.
2) Data from IMS Health based on ex-factory prices.
3) Excluding anti-infective agents.
4) STADA estimate at pharmacy retail prices based on data from IMS Health.
5) Active pharmaceutical ingredient apomorphin for the treatment of Parkinson's disease.

therefore also takes the decision[1)] of the Munich district court of July 19, 2011 into account, according to which Cephalon, in the sale of the licensed STADA product, was in violation of the obligation to sell in pharmacies. In connection with dissolving this agreement, a burden on earnings resulted in the amount of € 5.4 million before or € 4.0 million after taxes, which was reported as a one-time special effect (see "Earnings situation – Development of Earning and Costs").

Overall for financial year 2012, the Executive Board expects the German business has a moderate chance for growth on the whole with operating profitability continuing at only just under the Group average. In view of partly high-volume discount agreements concluded in 2011, the STADA Executive Board expects that the Group's market share by volume will continue to grow in the German generics market.

Russia

In **Russia**, which continues to be the Group's second most important national market according to sales, STADA generated a significant sales increase of 29% in financial year 2011, applying the exchange rate of the previous year. Sales in euro increased by a strong 26% to € 279.6 million (previous year: € 221.2 million).

Overall in 2011, STADA achieved a market share of approx. 2.1% in the Russian pharmaceutical market (previous year: approx. 2.0%), thus taking position 2 among the local Russian pharmaceutical companies.[2)]

With generics, the Group recorded sales growth in the amount of 22% to € 124.9 million (previous year: € 102.6 million), so that their share of STADA's sales in the Russian market amounted to 45% (previous year: 46%). Sales of branded products rose significantly by 30% to € 153.5 million (previous year: € 118.2 million) and thus to 55% of STADA's Russian sales (previous year: 53%).

In the framework of "STADA – build the future", a restructuring of the local sales model was introduced in Russia in 2011, which on the basis of a stronger concentration of the sales activities also led to a reduction in the number of the Russian employees in the sales area (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Further Consistent Implementation of 'STADA – build the future'" as well as "Business and General Conditions – Employees").

The demand structure of STADA's Russian business activities continues to be characterized by self-pay patients with whom, directly or indirectly via wholesalers, approx. 88% of Russian sales are generated. In the reporting year, the Group recorded only approx. 7% of the Russian sales in the context of the state program for the reimbursement of selected medicines for individual population groups (DLO Program). In addition, approx. 5% of sales were generated directly or indirectly with other state clients, in particular also via tenders.

In order to further increase the branded products business, the Russian STADA subsidiary OAO Nizhpharm, Nizhny Novgorod, signed contracts for the purchase of the marketing rights for the nutritional supplement Vuka Vuka® and Vuka Drive®, a further development of Vuka Vuka®, for Russia, as well as Vuka Vuka® for the so-called CEE countries (Central and Eastern Europe) in the current first quarter of 2012. The purchase price totaled € 9.7 million (see "Supplementary Report").

Furthermore, the Russian STADA subsidiary OAO Nizhpharm, Nizhny Novgorod, concluded contracts for the purchase of rights for the brand Tranexam®, positioned in the gynecology area of indication. The purchase price for the acquired rights, which relate to Russia, amounted to € 40.0 million (see "Supplementary Report").

Operating profitability in Russia was, as expected, above the Group average in the reporting year.

1) This decision is not yet legally binding.
2) STADA estimate based on IMS Health data at ex-factory prices.

The sale of two production facilities in Russia is still being evaluated in the context of "STADA – build the future"; if this were realized, a burden on earnings in the higher single digit million euro area to be reported as a one-time special effect would, from today's perspective, be expected.

In financial year 2012, STADA expects further strong sales growth in local currency in Russia with operating profitability above Group average. The sales and earnings contributions of STADA's business in both Russia as well as at the Group level will remain affected by the development of the currency relation of the Russian ruble to the euro.

Italy

In **Italy**, the Group recorded a sales increase of 7% to € 146.1 million in financial year 2011 (previous year: € 136.8 million).

With growth in sales of 14% to € 105.0 million (previous year: € 92.1 million), generics continued to hold the largest share of local sales, thereby contributing 72% (previous year: 67%) to Italian sales. The significant increase in sales in generics was primarily based on successful product launches, as well as overall strong market growth, and was achieved despite another burdening price regulation for reimbursable products introduced on April 1, 2011. With a market share of approx. 14.8% (previous year: approx. 14.8%) STADA occupied position 3 in the Italian generics market in the reporting year.[1)]

Sales recorded by STADA in Italy with branded products reduced by 8% as expected to € 41.1 million in the reporting year (previous year: € 44.7 million). The essential reason for this decline was the out-licensing of three essential branded products in the second half of 2011. Branded products contributed 28% (previous year: 33%) to local STADA sales.

In the third quarter of 2010, furthermore, the restructuring implemented in the context of "STADA – build the future" in the sales of branded products in Italy led to a corresponding reduction in the sales force as of December 31, 2010, which had an effect on the number of employees as of January 1, 2011.

Operating profitability of STADA's Italian activities in the reporting year was, as expected, again approximately at Group average.

For financial year 2012, the Executive Board expects a renewed sales increase in Italy with an operating profitability which will again be at about Group average.

Belgium

In **Belgium**, STADA generated sales growth in the amount of 4% to € 140.9 million in financial year 2011 (previous year: € 134.9 million).

With a sales increase of 4% to € 133.7 million (previous year: € 128.6 million), the Group continued to have the largest share of local sales with generics in the Belgian market. Generics thus contributed 95% (previous year: 95%) to STADA sales in Belgium. With a market share of approx. 51.7% (previous year: approx. 49.1%), the Belgian STADA subsidiary continued to be the clear local market leader in the generics market there in financial year 2011.[1)]

Sales with Belgian STADA branded products in the reporting year increased by 14% to € 7.2 million (previous year: € 6.3 million). Branded products thereby contributed 5% to sales achieved by STADA in Belgium (previous year: 5%).

1) STADA estimate based on IMS Health data at ex-factory prices.

Operating profitability achieved in Belgium in the reporting year was, as expected, at Group average.

For the financial year 2012, STADA calculates a renewed sales increase with operating profitability at about Group average in the Belgian market – in spite of the successful introduction of government-planned dampening regulatory measures for generics.

Spain

In **Spain**, STADA's sales rose significantly in the reporting year by 36% to € 112.7 million (previous year: € 82.8 million).

In the Spanish generics market, characterized by a sustained increased dynamic growth, STADA increased sales by 38% to € 106.4 million (previous year: € 76.9 million). In addition to participation in distinctive local market growth, this was also largely due to a very successful product launch on schedule with a patent expiration in the first quarter of 2011.

Generics contributed 94% to STADA's Spanish sales in the reporting year (previous year: 93%). With a market share of approx. 9.7% (previous year: approx. 9.5%) STADA occupied position 3 in the Spanish generics market in 2011.[1)]

Sales of branded products increased by 5% to € 6.3 million in 2011 (previous year: € 5.9 million). Branded products thus had a 6% share of STADA's local sales (previous year: 7%).

Operating profitability in the Spanish generics market was pleasingly above Group average in 2011 and thereby exceeded original expectations.

In financial year 2012, STADA expects, in light of a further strong growth in volume of the generics market, a renewed sales increase and an operating profitability which continues to be above Group average.

Serbia

In the reporting year in **Serbia**, local sales increased in the reporting year in comparison to the low level of the previous year as expected. Applying the exchange rates of the previous year, sales increased by 6%. In euro, sales increased by 8% to € 106.6 million (previous year: € 99.1 million).

The Serbian STADA subsidiary continued to be the local market leader with a market share of approx. 33.2% (previous year: approx. 27.0%).[1)] Sales of generics in Serbia recorded a plus of 28% in 2011 to € 86.6 million (previous year: € 67.7 million). Generics thus contributed 81% (previous year: 68%) to STADA sales in Serbia. Sales of branded products in Serbia recorded growth of 78% in financial year 2011 to € 13.5 million (previous year: € 7.6 million). Branded products thereby contributed a share of 13% (previous year: 8%) to STADA's sales in the Serbian market.

In an extraordinary meeting of the Executive Board on September 21, 2011 following a Supervisory Board meeting of the Serbian subsidiary Hemofarm on the previous day, the STADA Executive Board came to the assessment that outstanding receivables due to Hemofarm from various Serbian pharmaceutical wholesalers are potentially, to a significant extent, not recoverable.[2)] In connection with this increased risk of default, the STADA Executive Board decided to carry out corresponding impairments. Overall, a one-time special effect in the amount of € 98.4 million before or € 94.7 million after taxes was recorded in 2011 (see "Earnings Situation – Development of Earnings and Costs").

1) STADA estimate based on IMS Health data at ex-factory prices.
2) See the Company's ad hoc release of September 21, 2011.

The liquidity situation at STADA was not significantly burdened from this step because the impairments had, for the most part, no effect on cash.

At the meeting of the Hemofarm Supervisory Board, the Serbian management, against the backdrop of a once again worsening global financial and economic crisis, presented its assessment on the impact of the financial and economic crisis on the Serbian economy, on increasing liquidity bottlenecks at the Serbian National Health Care Fund (RZZO) and at various Serbian pharmaceutical wholesalers as well as on the tightening of the application of the Serbian insolvency regulations in 2012. The STADA Executive Board was thus compelled to impair all unsecured receivables as well as the majority of the secured receivables due to Hemofarm from various Serbian pharmaceutical wholesalers with a suspected restricted liquidity situation. In addition, the Executive Board decided to impair the carrying amount for existing minority stakes of Hemofarm in various Serbian pharmaceutical wholesalers (20.65% in Velefarm A.D., Belgrade, and 15% in Vetfarm A.D., Belgrade) to € 1.00 respectively. This resulted, as a portion of the burdening one-time special effects, in impairments in the total amount of € 3.7 million.

On November 10, 2011, STADA was officially informed by the embassy of the Republic of Serbia in Germany, that on the previous day the Serbian government issued a letter of comfort for the payment of deliveries from drug manufacturers to government agencies.[1)] The unofficial German translation of the letter of comfort submitted to STADA by the Serbian embassy stated that the government of the Republic of Serbia guarantees the settlement of financial liabilities and/or outstanding receivables of drug manufacturers from the sale and the deliveries of drugs to government agencies pursuant to the applicable law of the Republic of Serbia in 2011 as well as for receivables from the sale and delivery to arise in the period 2012–2013. The letter of comfort also indicated that the government intends to take up discussions with representatives of the pharmaceutical industry within 14 days, in order to clarify the structure of the liabilities and the requirements for the settlement of the current outstanding receivables. The letter of comfort further stated that all government agencies – in particular, but not exclusively the Serbian National Health Care Fund (RZZO), state pharmacies, state hospitals etc. – will settle all financial liabilities and/or unpaid obligations from the sale and delivery of drugs to government agencies in 2011 and for the period of 2012–2013 and will fulfill their financial obligations from the supplier-debtor relationship, as will be agreed with the Republic of Serbia. Furthermore, the Serbian government has, with its resolution, commissioned the Ministry of Finance to include the necessary funds for the settlement of the liabilities to drug manufacturers into the budget in the course of the budget consultations.

According to the announcement in the letter of comfort, in the reporting year discussions were held between representatives of Serbian Ministry of Finance and Economy and Hemofarm about the settlement of outstanding receivables. The STADA Executive Board views the issued letter of comfort as an important contribution to the stabilization of the Serbian health care market and therefore the Company's own business outlook in Serbia as well. If the extensive write-downs on outstanding receivables due to Hemofarm are served to a better extent than anticipated, STADA will report such receipt of payments successively in the respective reporting period as earnings improving one-time special effects.

In 2011, the profitability of the subgroup managed from Serbia[2)] was, as expected, just above the Group average operationally, i.e. without the burdening influences especially in connection with the of impairments on receivables from various Serbian pharmaceutical wholesalers. This subgroup continues to be a focus of measures to improve earnings in the context of "STADA – build the future", which should contribute to further cost savings in the operational business and will result in a further optimization in the number of employees there over the coming years (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Further Consistent Implementation of 'STADA – build the future'" as well as "Business and General Conditions – Employees").

1) See the Company's corporate news of November 10, 2011.
2) The subgroup managed from Serbia includes Serbia along with other countries mainly in the CEE area and parts of the STADA business in the Russian Federation as well as their export activities.

Overall, STADA assumes that its own operating business in Serbia is fundamentally stable and that it offers further growth opportunities. The inventories of Hemofarm products in local pharmaceutical wholesalers were reduced to a low level as a result of targeted distribution control, so that the strong sales growth achieved in the reporting year in the Serbian business is based on stable demand of Hemofarm products in the Serbian market. In consideration of this stable demand for Hemofarm products in the Serbian market, the Group continues to expect a sales increase in the local currency in Serbia for financial year 2012 and the following years. Operating profitability of the subgroup, whose management is carried out from there, is expected to be slightly above Group average.

The financial and earnings situation of the Serbian subgroup will continue to be largely characterized by the further development of the liquidity situation of the wholesalers and distribution partners in the Serbian market in financial year 2012 as well. In addition, the sales and earnings contributions of this subgroup will continue to predominantly depend on the currency relation of the Serbian dinar, in which this subgroup consolidates all results, to the euro.

France

In **France**, sales were approximately at the level of the previous year and amounted to € 79.4 million in financial year 2011 (previous year: € 81.0 million).

Sales of French generics decreased in the reporting year by 2% to € 74.7 million (previous year € 76.1 million), so that they contributed 94% (previous year: € 94%) to STADA's sales in France. Overall, STADA's French subsidiary achieved a market share of approx. 3.9% (previous year: approx. 4.0%) in 2011 and thus occupied position 8 in the French generics market.[1)]

Sales generated by STADA in France with branded products recorded a decrease of 5% to € 4.7 million in financial year 2011 (previous year: € 4.9 million). Branded products thus had a share of 6% (previous year: 6%) of STADA's sales in France.

To strengthen the sales presence in the French market, STADA acquired 25% in Pharm Ortho Pedic SAS, a locally active pharmacy purchasing syndicate, in the first quarter of 2011. The purchase price for this shareholding was € 0.4 million (see "Financial Situation" as well as "Notes to the Consolidated Financial Statements – 19. and 28.").

In addition, STADA purchased a 20% stake in the French company AELIA SAS, also a locally active pharmacy purchasing syndicate, in the fourth quarter of 2011 with the goal of further strengthening its sales presence in the French market. The purchase price for this shareholding was € 1.0 million (see "Financial Situation" as well as "Notes to the Consolidated Financial Statements – 19. and 28.").

In order to expand the branded products business in the French market, the French STADA subsidiary EG Labo - Laboratoires Eurogenerics SAS, Boulogne-Billancourt, signed contracts in the current first quarter of 2012 for the purchase of the French company LABORATOIRES D'ETUDES ET DE RECHERCHES EN OLIGO ELEMENTS THERAPHIE SA, Colombes, which specializes in nutritional supplements and dermatology products. The purchase price was € 3.96 million (see "Supplementary Report").

Operating profitability achieved by STADA in the French market in 2011, was, as expected, below Group average.

For financial year 2012, the Group expects more or less steady sales development in France with operating profitability which continues to be below Group average.

1) STADA estimate based on IMS Health data at ex-factory prices.

The Netherlands

In the **Netherlands** sales in the reporting year grew significantly by 19% to € 56.2 million (previous year: € 47.2 million). This development was significantly influenced by sales from the disposal of bulkware[1] in particular to the Dutch packaging unit in Etten-Leur, which was transferred as of August 1, 2010. Adjusted, sales in the Dutch market increased by 2% in 2011.

The sales achieved by STADA with generics in the Netherlands decreased in financial year 2011 by 4% to € 24.0 million (previous year: € 25.0 million). Generics thus contributed 43% (previous year: 53%) to local STADA sales. With a market share of approx. 5.0% (previous year: approx. 5.1%) STADA occupied position 7 in the Dutch generics market in 2011.[2]

Sales of branded products in the Netherlands increased by 5% in the reporting year to € 16.8 million (previous year: € 16.0 million). Branded products thus contributed 30% (previous year: 34%) to STADA's Dutch sales.

The operating profitability achieved by the Group in the Dutch market was below the Group average in view of the intensive competitive situation in 2011.

In the financial year 2012, STADA expects in the Netherlands – also in light of numerous planned product launches – a sales increase for the core segments and operating profitability to continue to be below the Group average; due to the reduction strived for in low-margin non-core activities, sales will decrease overall in this national market as planned.

United Kingdom

In the **United Kingdom**, sales decreased in reporting year by 3% applying the exchange rates of the previous year or by 4% in euro to € 52.2 million (previous year: € 54.4 million).

Sales with branded products grew by 2% to € 40.3 million in 2011 (previous year: € 39.7 million). The share of STADA branded products in the British market amounted to 77% (previous year: 73%) of sales in the United Kingdom. In generics, where STADA continues to be a niche provider there of selected generics with only a few active pharmaceutical ingredients, sales decreased in financial year 2011 – essentially because of growing competition – by 20% to € 11.8 million (previous year: € 14.7 million). Generics thus contributed 23% to local sales (previous year: 27%).

In the second quarter of 2011, STADA signed contracts for the purchase of the British branded product Cetraben®.[3] The sellers were various companies and a private individual. The purchase price amounted to GBP 30 million (approx. € 34.6 million). STADA used cash on hand to finance the acquisition (see "Financial Situation"). The product was already being sold via in-licensing by Genus Pharmaceuticals.

In the second half of 2011, STADA acquired the product Denzapine®[4] for sales in Great Britain and Ireland, which is positioned in the indication area of schizophrenia and psychoses in Parkinson's disease with various limitations. The product has been sold by the British STADA subsidiary Genus Pharmaceuticals since December 1, 2011 in Great Britain. Sales of the product by the former owner in the last 12 months before the acquisition amounted to € 1.3 million in the United Kingdom (see "Financial Situation").

1) Reported under the Group holdings/other item.
2) STADA estimate based on IMS Health data at ex-factory prices.
3) See the Company's corporate news of May 26, 2011.
4) Active pharmaceutical ingredient clozapin for the treatment of schizophrenia and psychoses in Parkinson's disease.

Operating profitability of the British business activities was, as expected, above Group average in the reporting year.

For financial year 2012, the Executive Board expects sales growth in local currency in the United Kingdom. Operating profitability is expected to remain above Group average. However, at Group level, sales and earnings contributions of the British business will also depend on the development of the currency relation of the British pound to the euro in 2012.

Denmark

In **Denmark**, sales decreased by 9% in 2011 applying the exchange rates of the previous year. In euro, sales also decreased by 9% at € 31.4 million (previous year: € 34.4 million).

This sales development was primarily due to a reduction in the traditional business activities of parallel imports in this local market, which belongs to the commercial business. Sales in the commercial business reduced by 18% in Denmark in financial year 2011 to € 22.2 million (previous year: € 27.0 million). The commercial business thus made a contribution of 71% (previous year: 78%) to Danish STADA sales.

Sales with generics increased by 49% to € 6.9 million in 2011 (previous year: € 4.7 million) in the Danish market. This gave branded products a share of local sales of 22% (previous year: 14%). With a market share in the amount of approx. 3.2% (previous year: approx. 2.8%), the Danish STADA subsidiary occupied position 8 in the local generics market in the reporting year.[1)]

Sales of Danish STADA branded products went down by 19% in the reporting year to € 2.3 million (previous year: € 2.8 million). This represents a share of local Group sales of 7% (previous year: 8%).

Operating profitability in the Danish market in 2011 was, as planned, again below Group average, as activities, as described above, predominantly include commercial business with the usual low margins.

For financial year 2012, the Group expects sales in Denmark to stabilize for the core segments with an operating profitability which continues to be below Group average; due to the reduction strived for in low-margin non-core activities, sales will decrease overall in this national market as planned.

Development in other European markets

STADA's development in financial year 2011 in other European markets with its own sales units can be found in the chart above.

In addition, the STADA Group continued to be active in **export activities** in a further 19 European countries thus generating sales in the total amount of € 18.5 million (previous year: € 14.0 million) in financial year 2011.

Development in Africa

In **Africa** sales rose in the reporting year by 38% to € 13.1 million (previous year: € 9.5 million). Adjusted, sales increased by 37%.

1) STADA estimate based on IMS Health data at ex-factory prices.

Development in Asia/Pacific Region

In **Asia**, sales reduced by a total of 7% to € 48.1 million in the reporting year (previous year: € 51.4 million) (see "Earnings Situation – Development of Sales"). Adjusted, sales decreased by 2%.

In detail, STADA's development in Asian markets in 2011 was as follows:

In **Vietnam**, sales consolidated on a pro rata basis – generated in the scope of a 50:50 joint venture with a local partner – increased significantly by 21% applying the exchange rates of the previous year. Sales in euro increased by 10% to € 12.5 million (previous year: € 11.4 million).

In the second quarter of 2011, STADA used the contractually agreed option to increase the shareholding in the Vietnamese pharmaceutical company Pymepharco Joint Stock Company – the business activities of which include the production and sale of pharmaceutical products as well as import activities for the Vietnamese health care and pharmaceutical market – from 23.7% to the maximum amount of 49% in order to benefit even more from the growth opportunities in Vietnam in the future. The purchase price for this investment totals to € 25.2 million from which € 15.1 million was paid in the reporting year (see "Financial Situation" as well as "Notes to the Consolidated Financial Statements – 19. and 28.").

Since the end of December 2011, authorities in Vietnam have been investigating whether the Vietnamese joint venture may have violated specific export regulations in the export of local OTC products to Papua New Guinea. An internal analysis of these commercially insignificant export activities with the inclusion of the Compliance and Internal Auditing corporate departments in the current first quarter of 2012, however, did not reveal any noteworthy violations.

In **Kazakhstan**, sales grew by 45% applying the exchange rates of the previous year. In euro, sales increased by 37% to € 11.9 million (previous year: € 8.6 million).

In **China**, sales increased by 36% applying the exchange rates of the previous year. In euro, the Group recorded an increase in sales of 29% to € 3.1 million (previous year: € 2.4 million).

In **Thailand**, sales decreased by 3% applying the exchange rates of the previous year. In euro, sales went down by 5% to € 2.4 million (previous year: € 2.5 million).

In the **Philippines** sales decreased by 58% applying the exchange rates of the previous year. In euro, sales reduced by 59% to € 5.0 million (previous year: € 12.2 million). The essential reason for this was the expected decline of low-margin commercial sales, which resulted from the termination of a sales agreement with a significant trading partner in the third quarter of 2011.

In **Australia** in the current first quarter of 2012, STADA began preparatory activities for the establishment of an Australian generics business in the context of founding an own subsidiary, STADA Pharmaceuticals Australia Pty Ltd, which should already lead to a start in the market within 2012.

In addition, STADA was active in export activities in a further 21 Asian countries in financial year 2011.

Development of Export Business

In the reporting year, in addition to sales from local sales companies in the individual national markets, STADA continued to generate export sales, which were achieved by various sales companies, particularly, however, by the Serbian subgroup. In the context of these global export activities in a total of 52 countries, the Group generated sales of € 54.0 million in financial year 2011 (previous year: € 50.2 million).

The regional breakdown of export sales in 2011 was as follows:

- Exports to European countries € 18.5 million (previous year: € 14.0 million)
- Exports to Asian countries € 13.2 million (previous year: € 14.3 million)
- Exports to African countries € 13.1 million (previous year: € 9.5 million)
- Exports to American countries € 9.2 million (previous year: € 12.5 million)
- Exports to the rest of the world € -0.1 million (previous year: € 0.03 million)

Financial Situation

Stable financial situation

The STADA Group has a stable financial position in the view of the Executive Board. This estimation can be seen – as a supplement to the assessment of the individual items reported in the cash flow statement – by means of various derived key figures, which are taken from, among other things, the liquidity analysis contained in this chapter.

Principles and goals of financial management

In the context of its financial strategy, the STADA Group focuses on a high level of financial flexibility. In order to achieve this flexibility, STADA relies on various financial instruments and a high diversification of investors. The Group's debt maturity profile reflects a wide spread with a high share of middle and long-term financial instruments.

The Group's need for financing is covered with a combination of cash flow from operating activities and the borrowing of funds on the short, middle and long-term, as well as a factoring program.

Successful securing of new promissory notes

In order to finance acquisitions made in 2011 and to refinance expiring promissory notes, STADA successfully secured promissory notes in the amount of € 400 million in the reporting year. The newly secured promissory notes consist of four tranches with terms between three and five years that are partially furnished with a variable interest rate and partially with a fixed interest rate. At an average of 4.27% p.a., the fixed interest rate is clearly below the interest rate at which STADA could have secured financing with the alternatively considered placement of a corporate bond with the market conditions at the time. Therefore on December 31, 2011, in addition to a five-year corporate bond that was placed in 2010 the amount of € 350 million and an interest rate of 4.00% p.a. for the long-term refinancing of the Group, there are long-term promissory notes with maturities in the area of 2012–2016 in the total amount of € 729.5 million. STADA was basically able to smooth out the debt maturity profile over the coming years and further strengthen the stable financing structure with these new promissory notes that have staggered maturities. In the current first quarter of 2012, STADA was able to secure additional promissory notes in the total amount of € 100 million with a maturity period until February 2017 (see "Supplementary Report").

In financial year 2011, the Group refinanced itself at interest rates of between 1.3% p.a. and 20.3% p.a. (previous year: between 1.0% p.a. and 19.2% p.a.). On the balance sheet date of December 31, 2011, the weighted average interest rate for non-current financial liabilities was approx. 4.6% p.a. (December 31, 2010: approx. 5.1% p.a.) and for current financial liabilities approx. 6.4% p.a. (December 31, 2010: approx. 7.0% p.a.).

The Executive Board expects only a slight change of the weighted average interest rate in the Group for financial year 2012, insofar as no substantial changes are undertaken in the existing financing structure.

The following table gives an overview of the structuring of financial liabilities in the STADA Group.

Remaining maturities of financial liabilities due to banks as of Dec. 31, 2011 in € million	< 1 year	1–3 years	3–5 years	> 5 years	Total	thereof as of Dec. 31, 2011 >1 year in %
Promissory notes	35.0	456.0	238.5	-	729.5	95%
Bond	-	-	350.0	-	350.0	100%
Amounts due to banks	61.2	50.0	17.2	13.2	141.6	57%
Total	**96.2**	**506.0**	**605.7**	**13.2**	**1,221.1**	**92%**

In general, liabilities to banks can indeed still be terminated in the short term and are therefore reported under current liabilities of less than one year. However, it must be taken into consideration that many of those credit lines have a partly long-standing history.

Liquidity analysis

The Group's liquidity was guaranteed at all times in 2011. Significant sources of liquidity were attained from cash inflows from operating activities as well as the borrowing of funds on the short, middle and long-term. Cash inflows from operating activities are influenced by the profitability of business activities and by net working capital, in particular by receivables. In addition to a corporate bond and various promissory notes, STADA maintains a liquidity reserve in the form of credit lines and, insofar as it is necessary, cash reserves. As of the balance sheet date, the short-term credit lines were not utilized.

Selected derivable key figures on the STADA Group's financial situation for the financial year 2011 were as follows:

- **First-class liquidity:** 48% (previous year: 28%)
  = (cash and cash equivalents + current securities) / current liabilities

- **Second-class liquidity:** 130% (previous year: 103%)
  = (cash and cash equivalents + current securities + current trade receivables + other current assets) / current liabilities

- **Third-class liquidity:** 189% (previous year: 157%)
  = current assets / current liabilities

- **Net working capital:** € 603.8 million (previous year: € 601.5 million)
  = inventories + current trade receivables ⁄. current trade payables

- **Capital employed:** € 1,799.1 million (previous year: € 1,764.5 million)
  = shareholders' equity + non-current provisions + net debt

Cash flow analysis

Cash flow statement (abridged) in € 000s	2011	2010
Cash flow from operating activities	169,008	194,750
Cash flow from investing activities	-187,059	-92,399
Free cash flow	**-18,051**	**102,351**
Cash flow from financing activities	140,543	-59,364
Non-cash changes in cash and cash equivalents	-854	-821
Cash flow	**121,638**	**42,166**

Cash flow from operating activities amounted to € 169.0 million in 2011 (previous year: € 194.8 million). The change of € 25.8 million compared to the previous year is primarily attributable to a cash-effective increase of trade accounts receivable of € 87.5 million in financial year 2011. In financial year 2010, a reduced cash-effective increase of trade accounts receivable of € 56.5 million as compared to 2011 had less of a relieving effect on cash flow from operating activities.

Earnings after taxes decreased significantly in the reporting year in comparison to the previous year. Nevertheless, this decrease will be completely compensated by other non-cash expenses to be adjusted that primarily result from value adjustments carried out by the Serbian subsidiary Hemofarm on outstanding receivables from various Serbian pharmaceutical wholesalers.

Cash flow from investing activities recorded net cash outflows of € 187.1 million in the reporting year (previous year: net cash outflow of € 92.4 million).

Of this, the Group spent for **acquisitions** – for both the acquisition of consolidated companies and in the context of business combinations according to IFRS 3 as well as for product purchases, i.e. for investments in intangible assets for the short-term expansion of the product portfolio (generally in the reporting year) – in 2011 a total of € 142.4 million (previous year: € 33.3 million).

In addition, in cash flow from investing activities, an inflow of cash and cash equivalents due to **disposals** in the total amount of € 8.0 million (previous year: € 4.7 million) arose in the reporting year.

Investments in other intangible assets, i.e. investments in intangible assets in the context of the ongoing operating business and therefore without consideration of acquisition, cooperation or disposal projects, in the amount of € 30.5 million (previous year: € 32.2 million) focused on, in 2011, payments for the mid and long-term expansion of the product portfolio in the course of the acquisition of approvals or approval dossiers.

Overall, the future development of cash flow from investing activities with respect to total intangible assets that exist in the Group depends in particular on individual decisions on acquisition, cooperation and disposal projects.

Regarding investments in other intangible assets to support organic growth in the context of the operating business, STADA expects investments of an amount similar to 2011 in the coming years.

Payments for **investments in property, plant and equipment** amounted to € 22.0 million in 2011 (previous year: € 30.7 million).

Property, plant and equipment investments in financial year 2011 thereby primarily comprised the investment in production facilities and production sites in the total amount of € 13.6 million (previous year: € 20.7 million) (see "Business and General Conditions – Procurement, Production and Quality Management").

Furthermore, property, plant and equipment investments included payments for the maintenance and expansion of existing locations. For example, investments in the amount of € 3.1 million for the expansion of production facilities were made for the Vrsac location and investments in the amount of € 5.4 million for the Bad Vilbel location, in addition to the annual investments in plant equipment and infrastructure, for the refurbishment of and expansion of laboratory and office capacities.

For investments in property, plant and equipment in 2012, STADA expects payments of a significant range that will at least match the level of 2011.

Payments for **investments in financial assets** were € 0.3 million in the reporting year (previous year: € 0.9 million).

The further development of this cash flow item generally depends on individual decisions on investment projects.

Cash flow from financing activities in financial year 2011 amounted to € 140.5 million (previous year: € -59.4 million). Contrary to the previous year, this development is primarily due to the existing surplus of proceeds from the borrowing of financial liabilities in 2011 which exceed the payments for the settlement of financial liabilities.

From the conversion of STADA warrants to shares, the Group generated an inflow from a capital increase in 2011 in the amount of € 1.5 million (previous year: € 0.4 million) (see "Notes to the Consolidated Financial Statements – 35.").

In total, cash flow for financial year 2011, net of all inflows and outflows of cash and cash equivalents, amounted to € 121.6 million (previous year: € 42.2 million).

Free cash flow, i.e. cash flow from current business activities plus cash flow from investing activities, amounted to € -18.1 million in the reporting year (previous year: € 102.4 million). Free cash flow adjusted for payments for significant acquisitions and proceeds from significant disposals in 2011 totaled € 123.3 million (previous year adjusted for payments for significant acquisitions and proceeds from significant disposals: € 135.0 million).

In light of the good financial situation, the Executive Board expects to be able to finance the organic growth, i.e. growth without consideration of acquisitions, through generated cash flow in 2011 as well.

Investment volume ensures long-term value

The Group's investments totaled € 286.6 million in financial year 2011 (previous year: € 109.3 million). Here, investments in property, plant and equipment amounted to € 31.7 million (previous year: € 30.8 million). With a share of 1.8% of sales, they were within the range strived for by STADA (2010: 1.9% of sales) Investments in intangible assets amounted to € 237.3 million in the reporting year (previous year: € 70.5 million), of which € 150.3 million was attributable to business combinations according to IFRS 3. Therefore, 11% of the total volume invested in 2011 was attributable to property, plant and equipment, and 83% to intangible assets.

Accelerated acquisition policy with attractive purchases

With a view to the continued concentration of processes in the industry, the Executive Board intends to complement the Group's organic growth with additional external growth impulses. In view of this, STADA pursued an accelerated approach to acquisition in financial year 2011. The focus was, thereby, on the one hand on the regional expansion of business activities with concentration on high-growth emerging markets and, on the other hand, on the expansion and internationalization of the Branded Products core segment, which is generally characterized by better margins and less regulatory intervention than the generics area.

Despite the accelerated approach to acquisition, strict benchmarks were applied in the reporting year in the context of STADA's acquisition policy, which are geared towards the profitability and appropriateness of the purchase price. For larger acquisitions or cooperations with capital investments, appropriate capital measures are generally imaginable as long as the burden on the equity-to-assets ratio is not too high from such acquisitions or cooperations.

Purchase of a 25% share in Pharm Ortho Pedic SAS as well as a 20% share in AELIA SAS

To strengthen the sales presence in the French market, STADA acquired a 25% share in Pharm Ortho Pedic SAS, a locally active pharmacy purchasing syndicate, in the first quarter of 2011, which STADA includes as an associated company in the consolidated financial statements from the first quarter of 2011 (see "Earnings Situation – Development of Segments – Information by Region – France"). The purchase price for this shareholding was € 0.4 million (see "Notes to the Consolidated Financial Statements – 19. and 28.") Furthermore, STADA purchased a 20% share in the French company AELIA SAS, also a locally active pharmacy purchasing syndicate, in the fourth quarter of 2011, which STADA includes in the consolidated financial statements as an associated company from the fourth quarter of 2011 (see "Earnings Situation – Development of Segments – Information by Region – France"). The purchase price for this shareholding was € 1.0 million (see "Notes to the Consolidated Financial Statements – 19. and 28.")

Acquisition of a branded product portfolio in Eastern Europe and the Middle East

In the second quarter of 2011, STADA and Grünenthal, a globally active research pharmaceuticals company located in Aachen, Germany, agreed to negotiate exclusively on the purchase of a branded product portfolio including the associated sales structures for numerous national markets in Central and Eastern Europe as well as in the Middle East.[1)] In the third quarter of 2011, both negotiating partners signed the respective contracts.[2)] At this time, approval of the responsible anti-trust authorities was still pending, which was then given for Eastern Europe and the Middle East in the fourth quarter of 2011.[3)] On January 1, 2012, STADA exercised its contractual right to withdraw from the purchase of this branded product portfolio for EU markets in Central Europe according to which the responsible anti-trust authorities had not approved the agreed transaction prior to the expiry of the contractually agreed so-called "long stop date" (as of December 31, 2011).[4)] In the framework of successful subsequent negotiations, however, STADA was also able to acquire the branded product portfolio including related sales structures and various pipeline products for Central European markets that belong to the EU in the current first quarter of 2012 (see "Supplementary Report").[5)]

1) See the Company's ad hoc release of May 12, 2011.
2) See the Company's ad hoc update of July 22, 2011.
3) See the Company's ad hoc update of December 30, 2011.
4) See the Company's ad hoc update of January 1, 2012.
5) See the Company's ad hoc updates of January 27, 2012 and January 31, 2012.

The purchase price for the portion of the branded product portfolio acquired in 2011 including sales structures and various pipeline products amounts to a total of approx. € 152 million in cash. Thereof € 69.6 million was cash-effective in the reporting year. For an additional approx. € 160 million, STADA acquired the second portion of the branded product portfolio for Central European markets including Poland on February 1, 2012, which results in a total purchase price of approx. € 312 million for the branded product portfolio.

The acquired product portfolio consists of over 14 own and licensed brands for Eastern Europe and the Middle East, as well as Central Europe including Poland as of February 1, 2012. With the purchase, STADA also takes over all legal sales units in these markets, along with the approximately 210 employees – thereof about 71% sales representatives – as well as the brand names and existing licenses. Grünenthal will itself continue to market the products in all other markets outside of the contract area under the same brand names. In addition, STADA has acquired all rights to these products for the national markets of the contract area in which the products acquired have not yet been introduced.

The purchase does not include any production facilities. For a contractually agreed period, Grünenthal will continue to manufacture the products for STADA, insofar as these are not licensed products. For the licensed products, STADA seeks a long term entry into the existing license and supply contracts. If, contrary to expectations, this is not possible, an appropriate reduction in the purchase price is called for.

The branded product portfolio for Eastern Europe and the Middle East will be consolidated in the STADA Group from January 1, 2012. The first of two purchase price tranches was paid on December 30, 2011. To finance the acquisition, STADA used cash on hand, existing free credit lines and funds from the promissory notes secured in the fourth quarter of 2011.

With the acquisition, the STADA Group strengthens its presence in Eastern Europe, one of the largest growth regions in the world, and further expands its basis in the Middle East and thus its international presence overall. Moreover, STADA opens up new strategic distribution channels for appropriate products from the comprehensive Group portfolio which in future can also be marketed as branded products via the acquired sales structures in the respective markets in Eastern Europe and the Middle East.

Purchase of the British branded product Cetraben®

In the second quarter of 2011, STADA signed contracts for the purchase of the British branded product Cetraben® (see "Earnings Situation – Development of Segments – Information by Region – United Kingdom").[1)] The sellers were various companies and a private individual. The purchase price amounted to GBP 30 million (approx. € 34.6 million). STADA used cash on hand to finance the acquisition.

Since 2006, the British STADA subsidiary Genus Pharmaceuticals has sold, under the Cetraben® brand, a moisturizing cream and bath essence in the therapeutic area of dermatology for the treatment of skin eczema and dry skin as a licensed product in the UK. On completion of the contractually agreed purchase, these previously in-licensed products were transferred to the ownership of STADA Arzneimittel AG. In 2010, Genus Pharmaceuticals generated sales of GBP 7.5 million (approx. € 8.7 million) with these high-margin and seasonally independent products and thus achieved sales growth of 27% compared to 2009.

Between 2006 and 2010, Genus Pharmaceuticals generated average annual growth rates of 30% with these products. After the purchase, the Company, from today's perspective, also sees good chances of maintaining this strong growth at a similar level. The planned introduction of further products under the Cetraben® brand name is also expected to contribute to this.

1) See the Company's corporate news of May 26, 2011.

The acquisition of the Cetraben® branded products secures both products, whose license agreement would have expired at the end of 2012, for the product portfolio of Genus Pharmaceuticals in the long term. In addition, the profitability of Genus Pharmaceuticals will be considerably improved as a result of the license payments previously in the amount of 15% of net sales, which will no longer be applicable in the future.

In the context of the acquisition, STADA acquired the brands, the approvals, the product pipeline and the domain names for Europe and a large number of Eastern European countries including Russia as well as joint ownership of the dossier. The STADA Group therefore also has the opportunity to internationalize the Cetraben® products and thus develop additional growth impulses for both products. Furthermore, the acquisition will allow STADA to further expand its expertise in the area of dermatology.

Increased shareholding in Pymepharco Joint Stock Company

In the second quarter of 2011, STADA used the contractually agreed option to increase the shareholding in the Vietnamese pharmaceutical company Pymepharco Joint Stock Company – the business activities of which include the production and sale of pharmaceutical products as well as import activities for the Vietnamese health and pharmaceutical market – from 23.7% to the maximum amount of 49% in order to benefit even more from the growth opportunities in Vietnam in the future (see "Earnings Situation – Development of Segments – Information by Region – Asia/Pacific Region" as well as "Notes to the Consolidated Financial Statements – 19. and 28."). The purchase price for this investment amounts to a total of € 25.2 million, of which € 15.1 million was paid in financial year 2011.

Purchase of the product Denzapine® for the United Kingdom and Ireland

In the second half of 2011, STADA purchased the product Denzapine®[1)], which is positioned in the indication area of schizophrenia and psychoses in Parkinson's disease, for sales in the United Kingdom and Ireland. The purchase price amounted to € 1.3 million. The seller was Merz Pharma UK Limited. The product has been sold by the Irish subsidiary Clonmel Healthcare since July 1, 2011, as well as since December 1, 2011 by the British STADA subsidiary Genus Pharmaceuticals. Sales of the product by the former owner in the last 12 months before the acquisition amounted to € 0.3 million in Ireland and € 1.3 million in the United Kingdom (see "Earnings Situation – Development of Segments – Information by Region – United Kingdom").

License and collaboration agreements for two biosimilar products signed

In the third quarter of 2011, STADA and Gedeon Richter Plc. signed license and collaboration agreements for the development and marketing of two biosimilar products for the monoclonal antibodies Rituximab and optionally Trastuzumab (see "Business and General Conditions – Product Development").[2)]

According to the agreement STADA receives non exclusive distribution rights for the area of geographical Europe and the CIS area, but due to regulatory reasons, excluding Russia, for the biopharmaceutical active ingredient Rituximab, which Richter is currently developing as a biosimilar and whose approval from today's perspective can be expected at the end of 2017. In addition to STADA and eventual own marketing, Richter may grant a maximum of one additional partner a relevant distribution license in the contract area. If such a partially exclusive license marketing in Russia became regulatory possible, STADA would also receive such a distribution license there from Richter.

Under the terms of the agreement in addition to a payment at the signing of the contract, STADA is obliged to make further payments each depending on the progress of the project which amount in total to a low double-digit million euro figure. STADA will exclusively obtain the Rituximab biosimilar from Richter for which the major commercial terms have already been agreed on.

1) Active pharmaceutical ingredient clozapin for the treatment of schizophrenia and psychoses in Parkinson's disease.
2) See the Company's corporate news of August 30, 2011.

STADA, as is known, has done preparatory work for a biosimilar for the biopharmaceutical active ingredient Trastuzumab, which, however, was stopped at the end of 2010 because STADA made the strategic decision to pursue the lower-cost approach of an in-licensing. The stage of development that STADA had reached up until that point was acquired by Richter as part of a contract for a low single-digit million euro figure, in order to thus accelerate the ongoing own development for a Trastuzumab biosimilar. The earnings before tax of € 1.8 million or € 1.3 million after tax were recorded as a relieving one-time special effect (see "Earnings Situation – Development of Earnings and Costs"). In addition, STADA receives, at the time of the beginning of the clinical studies in approximately two years, a unilaterally for STADA exercisable option from Richter to also acquire a distribution license for the Trastuzumab biosimilar at commercial conditions analogous to those of the Rituximab biosimilar.

The development of both biosimilars will now be continued under the leadership of Richter. A supporting function from STADA for specific patent rights questions regarding both projects has also already been agreed upon with the signing of the agreement. STADA will also support if necessary the relevant approval processes with its own expertise in the area of EU approvals of biosimilars.

Sale of a small chemical plant in Serbia

STADA sold a small chemical plant in Serbia in the first quarter of 2011, as these activities do not belong to the Group's core business. The related expenses were reported as one-time special effect in 2011 (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Further Consistent Implementation of 'STADA – build the future'", "Earnings Situation – Development of Earnings and Costs" as well as "Earnings Situation – Development of Segments – Information by Region –Serbia").

Sale of oncological product Tobra-cell®

In the third quarter of 2011, the German STADA subsidiary cell pharm sold the oncological product Tobra-cell®[1)] (annual sales 2010: € 0.4 million, accumulated sales in 2011 up to the date of sale: € 0.7 million) and thereby achieved earnings of € 1.4 million before taxes or € 1.0 million after taxes, which was reported as a relieving one-time special effect (see "Earnings Situation – Development of Earnings and Costs" as well as "Earnings situation – Development of Segments – Information by Region – Germany").

Continuation of the active acquisitions policy in the current financial year 2012

STADA continued its accelerated acquisitions policy in the current financial year 2012 as well. Further details can be found in the Supplementary Report.

1) Active pharmaceutical ingredient tobramycin 2.5 sulfate for the treatment of severe infections caused by tobramycin-sensitive agents.

Assets Situation

Development of the Balance Sheet

Balance sheet (abridged) Assets	Dec. 31, 2011 in € 000s	Dec. 31, 2011 in %	Dec. 31, 2010 in € 000s	Dec. 31, 2010 in %
Non-current assets	**1,532,764**	**54.7%**	**1,381,450**	**55.1%**
Intangible assets	1,147,181	41.0%	985,952	39.3%
Property, plant and equipment	299,480	10.7%	297,968	11.9%
Other assets	86,103	3.0%	97,530	3.9%
Current assets	**1,267,081**	**45.3%**	**1,125,283**	**44.9%**
Inventories	399,125	14.3%	386,088	15.4%
Trade accounts receivable	446,214	15.9%	448,946	17.9%
Other assets	101,002	3.6%	91,147	3.7%
Cash and cash equivalents	320,740	11.5%	199,102	7.9%
Total assets	**2,799,845**	**100%**	**2,506,733**	**100%**

Equity and liabilities	Dec. 31, 2011 in € 000s	Dec. 31, 2011 in %	Dec. 31, 2010 in € 000s	Dec. 31, 2010 in %
Equity	**863,911**	**30.9%**	**868,489**	**34.6%**
Long-term borrowed capital	**1,254,956**	**44.8%**	**910,477**	**36.3%**
Other non-current provisions	34,917	1.2%	32,612	1.3%
Financial liabilities	1,124,829	40.2%	781,627	31.2%
Other liabilities	95,210	3.4%	96,238	3.8%
Short-term borrowed capital	**680,978**	**24.3%**	**727,767**	**29.1%**
Other provisions	11,835	0.4%	9,012	0.4%
Financial liabilities	96,229	3.4%	281,685	11.2%
Trade accounts payable	241,561	8.6%	233,503	9.3%
Other liabilities	331,353	11.9%	203,567	8.2%
Total equity and liabilities	**2,799,845**	**100%**	**2,506,733**	**100%**

The Group has a stable assets situation in the assessment of the Executive Board. This is shown by means of various derived key figures as a supplement to the assessment of the individual items reported in the balance sheet.

Net debt amounted to € 900.3 million as of December 31, 2011 (December 31, 2010: € 864.1 million).

The **net debt to adjusted EBITDA ratio** amounted to 2.7 in 2011 (previous year: 2.7) and thereby below the maximum value of 3 envisaged by the Executive Board. Thus, this value remained the same – despite the burdening balance sheet date effect, where the completion of the partial acquisition of the branded product portfolio in Eastern Europe and the Middle East immediately prior to year-end on December 30, 2011 had already increased the debt as of the balance sheet date without this being able to first generate a contribution to EBITDA. Excluding this balance sheet date effect, the accordingly adjusted net debt to adjusted EBITDA ratio only amounted to 2.5.

As of the reporting date December 31, 2011, the **equity-to-assets ratio** was 30.9% (December 31, 2010: 34.6%) and thereby remained above the intended minimum rate strived for by the Executive Board.

The **balance sheet total** increased as of December 31, 2011 to € 2,799.8 million (December 31, 2010: € 2,506.7 million).

The **intangible assets** recorded an increase to a total of € 1,147.2 million as of December 31, 2011 (December 31, 2010: € 986.0 million). Generally the amount of this balance sheet item is based on the Group's long-term active expansion policy with corresponding investments in the acquisition of companies and products including brands and licenses as well as in the area of product development for the acquisition of dossiers and approvals. The increase of this balance sheet item in the reporting year was primarily attributable to the purchase of the first tranche of the branded product portfolio acquired from Grünenthal as well as the British branded product Cetraben®. In addition to this, in 2011, development costs in the amount of € 12.8 million (December 31, 2010: € 13.5 million) were capitalized as internally created intangible assets ("Notes to the Consolidated Financial Statements – 25.").

In accordance with IFRS, the intrinsic value of the assets is checked at least once a year – within the STADA Group in the fourth quarter – but also when necessary event-related through **impairment tests**. In this context, these related impairment gains and impairment losses on intangible assets occurred in financial year 2011, which resulted in a net burden on earnings of € 19.0 million (previous year: € 20.6 million) (see "Earnings Situation – Development of Earnings and Costs").

Property, plant and equipment rose to € 299.5 million as of December 31, 2011 (December 31, 2010: € 298.0 million).

Other assets include various items, including, among other things, financial assets, shares in associated companies, other financial assets and non-current assets and disposal groups held for sale.

The financial assets decreased to € 10.1 million as of December 31, 2011 (December 31, 2010 € 14.4 million) and included shares in affiliated companies and other investments classified as financial assets available for sale in the amount of € 10.1 million. As before, STADA is currently not intending to sell any of these financial assets available for sale.

Shares in associated companies in the amount of € 34.0 million as of December 31, 2011 (December 31, 2010: € 17.3 million) related to the accounting of shares in BIOCEUTICALS Arzneimittel AG as well as the shares in Pymepharco Joint Stock Company, Pharm Ortho Pedic SAS and AELIA SAS (see "Business and General Conditions – Product Development", "Earnings Situation – Development of Segments – Information by Region – Asia/Pacific Region" as well as "France" and "Notes to the Consolidated Financial Statements – 19. and 28."). The increase of this balance sheet item is mainly due to share increases in Pymepharco Joint Stock Company, the acquisition of a 25% share in Pharm Ortho Pedic SAS and the purchase of a 20% share in AELIA SAS.

Other financial assets in the amount of € 46.0 million (previous year: € 50.7 million) primarily include loan receivables and purchase price receivables. The reduction of this balance sheet item is primarily attributable to a reduced utilization of loans granted.

Inventories increased to € 399.1 million as of December 31, 2011 (December 31, 2010: € 386.1 million). The primary reason for this growth was the building up of inventories in Spain to be able to meet increasing demand in the local generics market.

In specific situations STADA puts – following the principle of market proximity (see "Business and General Conditions – Sales and Marketing") – certain range considerations deliberately aside in favor of possible operating opportunities. In individual cases this can lead to re-valuations

of inventories which burden earnings, if the utilization of opportunities cannot be realized. Total burdens in the amount of € 33.0 million as of December 31, 2011 (previous year: € 30.3 million) were incurred due to value adjustments in inventories.

Trade accounts receivable decreased as of the balance sheet date to € 446.2 million (December 31, 2010: € 448.9 million). With the exception of Serbia, the difficult macroeconomic framework conditions in numerous local markets which resulted from a once again worsening financial and economic crisis had no significantly negative impact on due-date oriented receivables.

In selected market situations, the Group generally accepts, if necessary, higher current trade receivables, if this results in opportunities for an improved market position. Within the scope of its receivables management, however, STADA pays careful attention to the creditworthiness of individual customers. Defaults – especially on the part of major clients – can, however, never be entirely ruled out (see "Opportunities and Risk Report").

In financial year 2011 for example, as a result increased risk of default on the part of various Serbian pharmaceutical wholesalers, STADA had to carry out impairments on assets in the total amount of € 98.4 million, which were reported as a one-time special effect (see "Earnings Situation – Development of Earnings and Costs" as well as "Earnings situation – Development of Segments – Information by Region – Serbia").

The item **cash and cash equivalents** amounted to € 320.7 million as of December 31, 2011 (December 31, 2010: € 199.1 million).

The high level of cash and cash equivalents as of December 31, 2011 is due to the payments which, in part, still had to be made as of the balance sheet date for the purchase of the first tranche of the branded product portfolio from Grünenthal.

Equity decreased as of December 31, 2011 to € 863.9 million (December 31, 2010: € 868.5 million). Thereby it is to be taken into consideration that in the reporting year there were proceeds from capital increases from the conversion of STADA warrants of € 1.5 million (see "STADA Share"). Due to currency translation effects recognized with no effect on income, equity decreased in 2011 by € 5.8 million (equity reduction in the previous year due to currency translation: € 30.6 million).

Other non-current provisions increased to € 34.9 million as of the balance sheet date (December 31, 2010: € 32.6 million). These included provisions for pensions created in accordance with actuarial principles and other long-term provisions in the form of anniversary provisions as well as provisions for one-time payments to employees upon their departure (see "Notes to the Consolidated Financial Statements – 36.").

Financial liabilities amounted to € 1,221.1 million as of December 31, 2011 (December 31, 2010: € 1,063.3 million). In the reporting year this item included among other things the newly secured in 2011 promissory notes with maturities until 2016 (see "Financial Situation" and "Notes to the Consolidated Financial Statements – 37.") as well as a bond issued in financial year 2010 with a nominal value of € 350.0 million.

Trade accounts payable increased to € 241.6 million as of December 31, 2011 (December 31, 2010: € 233.5 million). This increase was mainly attributable to balance sheet date effects and the derivable cash flows.

Remaining liabilities include, among other things, other financial liabilities in the amount of € 252.4 million (December 31, 2010: € 118.6 million), which comprise among other things finance lease liabilities and liabilities from derivative financial instruments. The finance lease liabilities amounted to € 10.3 million in the reporting year (previous year: € 11.4 million). The liabilities from derivative financial instruments resulted from the negative market values of derivatives measured at fair value with an effect on income, which are partly used as hedging instruments. Other liabilities included the not yet paid partial amount of the purchase price liability from the purchase of the first tranche of the branded product portfolio including the related sales structures from Grünenthal.

Supplementary Report

This Supplementary Report includes only those events that occurred between the end of financial year 2011 and the date of the signing of the Management Report and the financial statements for 2011 and which have a significant, or possibly significant effect on the assets, financial and earnings position of the STADA Group.

These events included:

- On January 1, 2012, STADA exercised its contractual right to withdraw from the purchase of a branded product portfolio from Grünenthal for EU markets in Central Europe after the responsible anti-trust authorities had not approved the transaction prior to the expiry of the contractually agreed so-called "long stop date" (as of December 31, 2011).[1)] In the framework of successful subsequent negotiations, however, STADA was also able to acquire the branded product portfolio including associated sales structures and various pipeline products for the EU markets in Central Europe in the current first quarter of 2012.[2)] The purchase price for this region amounted to a total of approx. € 160 million and was thereby approx. € 48 million below the originally planned purchase price for this product package in this region of € 208 million. The branded product portfolio for the EU markets in Central Europe has been consolidated in the STADA Group since February 1, 2012. As of December 30, 2011, STADA purchased the branded product portfolio for numerous markets in Eastern Europe and the Middle East[3)] (see "Financial Situation").

- On January 31, 2012, STADA successfully concluded the purchase of a generics business in Switzerland including the respective sales structures.[4)] On May 19, 2011, STADA resolved to enter into concrete negotiations with the shareholders of Spirig Pharma AG, a Swiss pharmaceuticals company based in Egerkingen, on the acquisition of Spirig's generics business in Switzerland.[5)] On November 9, 2011, both negotiating partners signed the respective contract.[6)] The purchase price for this generics business amounted to a total of approx. CHF 97 million (applying the exchange rate on the date of the signing of the contract, approx. € 78 million) and also includes the right to continue marketing the purchased products under the Spirig umbrella brand. The acquired portfolio contains 56 prescription (RX) and 15 non-prescription (OTC) and discretionary prescription (OTX) products. The acquisition does not include any production facilities.

- On February 6, 2012 STADA and the mutares Group signed contracts on the sale of the Irish production facility STADA Production Ireland Limited, which previously belonged to the STADA Group via the Irish STADA subsidiary Clonmel Healthcare Ltd. In the context of the transaction, the employment contracts of the facility's current number of approx. 180 employees were transferred to the mutares Group (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Further Consistent Implementation of 'STADA – build the future'"). STADA will report the one-time burden in the amount of € 16.6 million before taxes or € 16.5 million after taxes, as a one-time special effect in the first quarter of 2012.[7)]

- In the current first quarter of 2012 – following the successful securing of promissory notes in the amount of € 400 million in the fourth quarter of 2011 – STADA was able to secure additional promissory notes in the amount of € 100 million. These promissory notes consist of four tranches with a maturity period until February 2017, and are partially furnished with a variable interest rate and partially with a fixed interest rate. The average fixed interest rate is 4.21% p.a. The average variable interest rate is currently 3.91% p.a. The proceeds serve general business purposes (see "Financial Situation").

1) See the Company's ad hoc update of January 1, 2012.
2) See the Company's ad hoc updates of January 27, 2012 and January 31, 2012.
3) See the Company's ad hoc update of December 30, 2011.
4) See the Company's ad hoc update of January 31, 2012.
5) See the Company's ad hoc release of May 19, 2011.
6) See the Company's ad hoc update of November 9, 2011.
7) See the Company's ad hoc release of February 6, 2012.

- In the current first quarter of 2012, the Russian STADA subsidiary OAO Nizhpharm, Nizhny Novgorod, signed contracts for the purchase of marketing rights for the nutritional supplement Vuka Vuka® and Vuka Drive®, a further development of Vuka Vuka®, for Russia, as well as Vuka Vuka® for the so-called CIS countries (Commonwealth of Independent States). The purchase price totaled € 9.7 million. Sellers included Carotex Holdings Ltd., Cyprus, and OOO "Vuka Vuka", Russia. In 2011, the last full financial year before the takeover, sales generated with these products amounted to a total of approx. € 2.8 million. Sales responsibility is expected to be assumed in the second quarter of 2012 upon legal registration by the respective national authorities. Previously, the product was already sold via in-licensing by the Russian STADA subsidiary (see "Earnings Situation – Development of Segments – Development by Region – Russia").

- In the current first quarter of 2012, the Russian STADA subsidiary OAO Nizhpharm, Nizhny Novgorod, concluded contracts for the purchase of rights for the brand Tranexam®, positioned in the gynecology area of indication. The purchase price for the acquired rights, which relate to Russia, amounted to € 40.0 million. Sellers included one Cypriot company and two Russian companies. In 2011, the last full financial year before the takeover, sales generated with this brand amounted to approx. RUB 302.3 million (approx. € 7.4 million). Sales responsibility will be assumed in the second quarter of 2012 upon legal registration by the respective national authorities (see "Earnings Situation – Development of Segments – Development by Region – Russia").

- Since the end of December 2011, authorities in Vietnam have been investigating whether the Vietnamese joint venture may have violated specific export regulations in the export of local OTC products to Papua New Guinea. An internal analysis of these commercially insignificant export activities with the inclusion of the Compliance and Internal Auditing corporate departments in the current first quarter of 2012, however, did not reveal any noteworthy violations (see "Earnings Situation – Development of Segments – Development by Region – Asia/Pacific Region").

- On February 21, 2012, the French STADA subsidiary EG Labo - Laboratoires Eurogenerics SAS, Boulogne-Billancourt, signed contracts for the purchase of the French company LABORATOIRES D'ETUDES ET DE RECHERCHES EN OLIGO ELEMENTS THERAPHIE SA, Colombes, which specializes in nutritional supplements and dermatology products. The purchase price was € 3.96 million. Sellers included various private individuals and a company. The company has a 26-year history and currently employs 21 sales representatives. Sales in financial year 2011, the last full financial year before the takeover, amounted to € 6.03 million. The company is consolidated in the STADA Group as of March 1, 2012 (see "Earnings Situation – Development of Segments – Development by Region – France").

- In Australia in the current first quarter of 2012, STADA began preparatory activities for the establishment of an Australian generics business by founding an own subsidiary, STADA Pharmaceuticals Australia Pty Ltd, which should already lead to a start in the market within 2012 (see "Business and General Conditions – Sales and Marketing").

- On March 1, 2012, the Executive Board resolved and published to propose a dividend in the amount of € 0.37 per STADA common share (previous year: € 0.37) for financial year 2011 (see "Overview of 2011 – Dividend Proposal").[1)]

- The German Financial Reporting Enforcement Panel carried out an audit (random sample audit) on STADA's Consolidated Financial Statements of December 31, 2010 and of the Group Management Report 2010 in accordance with Section 342b (2) sentence 3 HGB. With the letter dated March 7, 2012, STADA was informed that the responsible department of the Panel did not determine any errors in the financial reporting for financial year 2010.

1) See the Company's ad hoc release of March 1, 2012.

Opportunities and Risk Report

Every entrepreneurial decision taken in the course of the business activities of the STADA Group is based on the consideration of associated opportunities and risks. Because the proper handling of the opportunities and risks that have been identified has a significant impact on both the short-term as well as the long-term success of the Company, opportunities and risks must have an influence on the daily actions of each and every employee. Fundamentally, the willingness to take risks is the requirement for also being able to take advantage of the opportunities that present themselves. However, the risks taken must be proportionate to the expected benefit for the STADA Group.

Opportunities management

The management of opportunities is a permanent task in entrepreneurial activities, one that secures the short, middle and long-term success of the Company. The objective of opportunities management is the create things that are new and to secure and improve what already exists.

The decentralized regional organizational and management structure in the sales related areas of the STADA Group, supported by the execution of intensive observations of both the market and the competition as well as the close contact with institutions ensures that trends and requirements in the often fragmented markets can be recognized and analyzed at an early stage so that opportunities can be used in a targeted manner. The Group also has centrally organized processes for the identification of risks, such as a Group-wide portfolio management system for identifying potential new products that are relevant to the Group.

The opportunities that present themselves for the Group in the future, which arise from the business model and the activities of the Group, are explained in the presentation of the business model as well as in the Prognosis Report of this Annual Report.

Risk management

As is the case with the management of opportunities, the management of risks is also a permanent task of entrepreneurial activity. For this reason, STADA's Executive Board implemented an ongoing risk management system that is integrated into the value-based management and existing organizational structure of the Group.

Risk management system

The risk management system aims to systematically and regularly identify risks that are significant for STADA and that may jeopardize its continued existence, to assess their effects on the Group and determine possible measures that can be initiated in due time if necessary.

The fundamental components of the risk management system are:

1. the company specific risk management guide, which defines the risk management process and the risk management system.

2. the Corporate Risk Management department reporting directly to the Executive Board, which is responsible for planning and further development of the risk management system (including the risk management software R2C – Risk to Chance), as well as the methods and procedures used to assess risk and supporting the local risk confidants.

3. local risk confidants who identify and assess risks (including measures) and document and update them in the risk management system (bottom-up communication).

4. written and oral queries (top-down communication) to the risk officers responsible by the Corporate Risk Management department on current topics and the risk situation in the Group.

5. risk reporting at Group and individual-company level.

STADA's risk management system covers STADA Arzneimittel AG and all Group companies in which STADA holds a stake of at least 50%. Insofar as recognizable risks to the Group arise at subsidiaries in which STADA holds a stake of less than 50%, these risks are also recorded in the Group's risk management system.

The risk report resulting from the risk management system, which is created on a quarterly basis, is promptly presented to the Executive Board. Essential risks indicated in the report are discussed by the Executive Board and the Supervisory Board and if required, measures to minimize risks are addressed. Any new significant risks that appear in the meantime within the scope of the risk management system are reported immediately to the Executive Board and, if necessary, the Supervisory Board. For individual, potentially high-risk business processes, the Group's risk management also accompanies the operational implementation in an observational role.

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

Internal control and risk management system as relates to the Group accounting process

STADA has a **Group-wide internal control and risk management system with regard to the financial reporting process**, which aims to ensure the accuracy and reliability of financial reporting (bookkeeping, separate and consolidated financial statements as well as management reports) by implementing appropriate and effective procedures and controls, in accordance with relevant accounting standards and in compliance with Group-internal guidelines. This involves the combination of central system organization and control as well as local responsibility for individual sub-processes.

Responsibility for the introduction as well as the functionality of the internal control system rests with the Executive Board of STADA Arzneimittel AG. The appropriateness and effectiveness of the control system is assessed by the Executive Board at the end of each financial year at a minimum. The Group-wide risk management system with regard to the financial reporting process is a component of the comprehensive Group-wide risk management system.

The consolidated financial statements are prepared on the basis of Group uniform accounting guidelines laid down by the Corporate Accounting and Controlling department and a Group uniform accounting plan. Changes in the area of accounting standards are monitored on an ongoing basis. Insofar as these are relevant for STADA, the accounting guidelines and the chart of accounts are adjusted accordingly. The changes are communicated promptly to all companies included in the consolidated financial statements.

The primary control functions for the significant accounting processes are carried out by the respective plausibility tests integrated in the programs. The software systems used are protected against unauthorized external access by appropriate IT systems. In addition, authorization procedures ensure that internally, only the relevant individuals in each case have access to the individual systems.

Outside the software systems, manual plausibility tests and verification of the completeness and accuracy of data and calculations are carried out at all Group levels. All separate financial statements of Group companies, which are included in the Group consolidation, are generally subject at least once a year to an audit by STADA's auditor. In addition, this auditor also carries out a review of the half-year reports of the significant consolidated subsidiaries.

The functions of the departments significantly involved in the financial reporting process, the Group Accounting department for the consolidated financial statements and the Accounting department for the separate financial statements are organized separately within the finance department.

As part of the activities of internal auditing as an additional component of the control system, the appropriateness and effectiveness of the control and risk management system are subjected to regular Group-wide audits, thus ensuring the functionality of the control mechanisms as well as compliance with Group-internal guidelines.

The Supervisory Board, as a controlling body, is also regularly involved with the most important issues relating to financial reporting, risk management, audit contracts and their main focus as well as with the effectiveness of the established internal control system of the STADA Group.

The extent and focus of the established control and risk management systems with regard to the accounting process are thus fully in line with STADA's company-specific requirements. In the view of the Executive Board, STADA has an appropriate and adequate monitoring system, which includes the components of an internal control and risk management system necessary for the Group with regard to the financial reporting process. In the context of a cost benefit analysis of each control and risk management system however, limitations in relation to its effectiveness must be tolerated. In addition – even in the case of existing control mechanisms considered as effective – the possibility of errors or an incorrect assessment of risks cannot be completely excluded.

Categories of risks and period of prognosis

From the STADA Executive Board's current perspective, anticipated risks to the Group's business activities particularly include the risks stated below, summarized according to risk categories in this context. On principle, for this risk report the period up to the end of the next financial year is taken as period of prognosis, to the extent that no other period is stated in individual cases. It can, however, on principle not be ruled out that further, also essential risks will arise in the development of business during the forecast period, which can add to the risks stated in the following.

Environmental and industry risks

In the health care and pharmaceutical market, STADA operates in a highly competitive environment. Of primary importance to STADA are risks related to changes in market conditions on the basis of intense competition in individual national markets. Particular attention in this regard is paid to the STADA core segments of Generics and Branded Products.

Some competitors, as a result of their financial or organizational resources, production capabilities, sales strength, and/or market power can influence market conditions in a negative manner for STADA. This relates in particular to such activities of competitors that influence, pricing (for example in tenders and discount agreements), product range and scope of service and/or delivery and discount conditions, in order to

secure or improve their own competitive position. In addition, market conditions can also be influenced by the appearance of new competitors.

At the same time, a change in market conditions is also possible as a result of increased purchasing power of individual customers or customer groups (such as doctors, pharmacists, patients, health insurance organizations, buying groups, pharmacy chains, wholesalers, mail-order companies), which could intensify competition regarding price, service, and condition terms as well as result in more unfavorable framework conditions of tenders and discount agreements.

STADA may therefore be faced with the choice of either selling at non cost-covering prices in individual national markets or foregoing substantial sales and accepting a devaluation and destruction of inventories that are no longer required. The loss of these sales may lead to a further deterioration of the earnings situation for existing sales, for example due to a lower utilization of existing capacities or a worsened quantity scale in the case of external procurement.

To make use of opportunities, STADA is principally willing to accept, if necessary, losses in national markets and/or for selected products or product groups, for example in national markets with major growth potential for sales and/or earnings or with strategic and/or operating necessity to maintain or expand its own market position. These losses may also be higher than anticipated as a result of competition activities, customer behavior or government regulation.

STADA operates active risk minimization by comprehensively monitoring the market activity of all market participants and on the basis of the observations indicating courses of action.

Corporate strategy risks

STADA's corporate strategy is mainly focused on growth and internationalization in the health care and pharmaceutical market in the core segments Generics and Branded Products.

STADA's growth strategy is linked to the risk that associated specific organizational and/or financial requirements are not or not to a sufficient extent operatively met. In the event that the Group's facilities, human resources, internal structures, management tools, or financial resources cannot keep pace with the Group's growth, STADA may be affected in a materially adverse manner.

New companies and products acquired in the past or in the future or acquired or self-created other assets may not be integrated into the Group as planned, or only at higher costs than originally expected, and/or intended synergy effects may not be achieved, or not achieved in the intended amount. Acquired companies or products may not generate the results anticipated in the market. Furthermore, there could be unexpected difficulties in introducing acquired products into new markets or in maintaining their existing market positions. All this can lead to impairment of assets.

The implementation of a fundamentally growth-oriented corporate strategy requires significant outside financing. In financing ongoing business activities and, in particular, the intended future expansion, there is an inherent risk that the Group may only be able to obtain capital or loans under disadvantageous conditions, or not at all.

In principle, internationally active companies, such as STADA, face the risk of having to react differently and possibly with substantial effort to legal and fiscal conditions that vary from country to country and are subject to change, to the relevant specific market environment, as well as outside of the euro area to the different currency.

STADA thereby assumes that justified own claims – whether claims towards third parties arising from business transactions or from concluded contracts, or whether claims towards state institutions or administrations from existing laws or regulations – can principally, in a foreseeable period, be enforced within the laws of a country where STADA undertakes business with affordable costs and without any materially adverse effects on business in this country. If, contrary to expectations, it turns out that this is not the case in a country where STADA undertakes business, this can have materially adverse effects for the business activity in this country, but also for the Group as a whole in the case of internationally linked business processes.

In the context of international business activity, STADA uses the opportunity to transfer goods and services within the Group. There is no guarantee that the fiscal authorities in individual countries may not take a critical view of the economic parameters taken as a basis for this and impose retroactive tax demands on the Company.

Moreover, there is the risk that conditions which are relevant for the Group's international operating activities – especially the conditions of fiscal laws – may be changed by national or supranational regulations in a way that affects STADA in a materially adverse manner. In addition, in connection with the internationalization, there is the risk that the political conditions in individual countries generally and for STADA or the Group's business activity specifically are changed in a materially adverse manner due, for example, to international tensions or internal political developments in individual countries where STADA does business. Furthermore, parts of STADA's business activities, especially in the areas of product development, sales, procurement and production are related to the USA and are there, in the Company's view, subject to elevated legal risks as compared to other countries, particularly in the areas of liability and patent litigation. This may be associated there with substantial additional costs, in particular for legal counsel. The same applies to disputes in the USA resulting from agreements with third parties as well as a violation of confidentiality regarding company and trade secrets.

Furthermore, a fundamental corporate strategic risk, thus also relating to STADA, is the fact that markets and market segments on which a company strategically focuses develop differently to expectations. Even if STADA undertakes all efforts to carefully analyze these expectations in advance, relying thereby also partly on external data and evaluations, assessment errors by STADA, due, for example, to insufficient data available, unexpected regulatory or competitive influences, new technological developments or changed social and macro and/or microeconomic trends cannot be ruled out, which may be associated with substantial, primarily adverse effects for the Group or individual subsidiaries.

Regulatory risks

The health care and pharmaceuticals market is characterized by a large number of regulations. Changes to or the removal of existing regulations or the passing of new regulations (for example as a result of court decisions or legislative changes) can have significant economic and strategic effects on STADA's business success. Of primary importance for STADA are regulations on a national or supranational level relating to market structure, pricing and/or approvals of public health care system products.

For this reason, the risk exists for STADA's business model that investments that rely on the continuation of existing market structures may prove of no value after regulatory intervention or existing market positions may even be jeopardized. This relates for example to STADA's individual national sales structures, which are geared to the different national regulatory conditions with regard to the marketing, as well as the sale and trade of pharmaceutical products, but also changes in the direct or indirect purchasing power of individual customers or customer groups or changed purchasing behavior.

In many markets, the prices of pharmaceutical products are subject to state supervision and regulation. In some markets, governments even exert a direct influence on pricing. This can mean that as a result of national regulations, the prices of pharmaceutical products are regulated directly (for example through statutory price reductions) or indirectly (for example through reference prices, mandatory discounts, terms and/or requirements concerning discounts, the creation of framework conditions stimulating more intense competition) or influenced by supranational regulations. Pricing pressure as a result of state reimbursement systems can reduce the profitability of individual products and in individual cases make the market introduction of a new product unprofitable. STADA assumes that the extent of price regulation pricing pressure will continue or even increase.

Fundamentally, the risk exists for all products in the health care market, but for pharmaceutical products in particular, of exclusion or reduction of cost reimbursement as a result of regulatory intervention under the respective national social security systems. This can result in the profitability of individual products being reduced and in individual cases, the market introduction of a new product becoming unprofitable.

Moreover, the risk exists for pharmaceutical products that framework conditions in pharmaceutical legislation or provisions concerning commercial property rights or other provisions that are relevant for the expansion of the product portfolio can be changed through national or supranational regulations in a way that affects STADA in a materially adverse manner. Similar risks exist also for other partially regulated product categories in the health care market such as, for example, medicinal products.

Exact predictions concerning the introduction and scope of potential changes in national or supranational regulations as well as their effects on the market structures and/or business processes which are of relevance for STADA are not possible since the introduction and scope of such regulations depend on the political process of the country in question or on court decisions and after such regulations have become effective, the consequences are also influenced to a large degree by the reactions of the market participants affected. Changes in the regulatory environment in STADA's main markets by sales volume are continuously analyzed. Depending on the extent of state regulation, it may be necessary to adjust the business model.

Product portfolio risks

The continuous expansion of the product portfolio plays an essential role for the competitive position and business success at STADA. Associated with this is the risk that due to unexpected events and/or the faulty implementation of activities preparing market entry – such as product development and approval – products are, contrary to plans, not or belatedly or only at higher development and/or production costs than originally assumed launched on the market. Additional requirements imposed by approval authorities, direct government price controls or additional approvals for reimbursement via the relevant national social security system could also lead to STADA being unable to develop or market a new product at all, as intended or can do so only at significantly higher costs than originally expected.

In addition, meticulous observance of relevant legislation is extremely important for the development and approval of every individual product. For generics, this also particularly applies to a great extent to the observance of commercial property rights (such as patents, SPCs and "data exclusivity"). If individual legislative requirements are violated, the result may be a delay or even prevention of the launch of a new

product due to legal steps taken by competitors or rejection by the approval authorities. To the extent that STADA has offered products by assuming legal clearance and in the course of court decisions it turns out that this assumption was wrong, there is the risk that STADA has to take launched products at significant costs off the market, write down and destroy inventories which had existed already and those taken back as well as meet significant damage claims if commercial property rights were infringed.

In addition, despite intensive tests, potential side effects or initially hidden quality defects in existing products may not be discovered until after approval or new scientific findings or evaluations may lead to a less favorable risk-benefit analysis, which result in a partial or complete withdrawal from the market. Such a sales stop can be voluntary or due to legal or government steps. Additionally, legal proceedings and associated damage claims as a result of possible side effects or initially hidden quality defects could significantly burden earnings.

Legal risks

STADA's business activities are subject to risks resulting from existing or potential future legal disputes. Risks that occur in relation to legal disputes are identified, evaluated and communicated on a continuous basis.

STADA's business activity, in particular in the core segment Generics, is associated with an elevated risk of legal disputes regarding commercial property rights (especially patents and SPCs) as well as allegations of violations of company or trade confidentiality and such disputes may be initiated by third parties with respect to STADA or by STADA with respect to third parties. Such events could result in considerable costs, in particular when such proceedings occur in the USA. Moreover, they could result in significant damage claims and a temporary or permanent ban on the marketing of particular products.

If there is a serious risk of future claims, STADA creates product-specific provisions considered to be commensurate with potential damage claims, which amounted to a total volume of € 2.0 million for the Group as of December 31, 2011 (December 31, 2010: € 2.6 million). In principle, STADA cannot guarantee that such provisions will be sufficient for individual instances or in total.

STADA's business activities engender risks associated with liability claims. Should specific Group products prove to be defective and/or to cause undesirable side effects or should individual services or activities of the Group be carried out in a faulty way, this could result in substantial damage claim liabilities and in the restriction or withdrawal of the product approvals concerned or in the withdrawal of the service approvals. There is, in principle, no assurance that the insurance policies maintained by the Group, depending on type and scope, will offer sufficient protection against all possible damage claims or losses.

In addition, STADA is subject to a jurisdiction risk which can turn out to be considerably more adverse than initially expected by STADA. This risk relates to both those trials in which STADA itself is a participant as well as third-party trials in which judgments could have an indirect, materially adverse impact on STADA and/or the market environment that is relevant for STADA. This applies in particular to decisions relating to competition law, patent law and to the implementation of individual regulatory requirements in the provision of health care at a national and/or supranational level.

Performance-related risks

STADA's own production facilities are subject to the risk of defective or inefficient planning and production processes as well as to potential production faults and breakdowns as a result of this or external influence. This could have a materially adverse effect on costs, competitiveness, supply availability and the associated expectations regarding units sold, sales and earnings as well as the image with clients.

Although STADA undertakes all efforts to carry out exclusively safe business processes – particularly in the areas of product development, production and logistics – it can, in principle, not be ruled out that unexpected disruptions occur in the context of such processes, possibly endangering or affecting the health of employees from STADA or third parties or causing environmental damage, since STADA regularly works with hazardous substances in the development, production and examination of products from the Group portfolio, especially in case of drugs. It cannot be ruled out that the preventive measures and insurances taken do not provide sufficient coverage in the case of a damaging event.

External suppliers, contract manufacturers, sales licensees and other contractors have been integrated into STADA's business processes to a considerable extent, particularly in the areas of development, procurement, production, and packaging, logistics as well as sales, though also to an increasing extent in other areas. Furthermore, the Group is taking increasing advantage of the opportunity of having essential Group services performed by third parties, with whom cooperations are entered into. In addition, as of the reporting date on December 31, 2011, STADA had specifically licensed 14,477 German pharmacies (previous year: 14,842) to undertake the final packaging of partially packed products delivered by STADA in their own pharmacies. This license currently applies to four branded products. When third parties are incorporated into the Company's business processes, the risk arises that individual business or cooperation partners may not comply properly or at all with their obligations or that they may terminate their agreements with the Company, resulting in material adverse effects for STADA. Moreover, STADA could become liable for infringements on the part of business or cooperation partners.

STADA is dependent on global developments with respect to purchase prices for active ingredients or auxiliary materials required as well as on the prices negotiated with contract manufacturers in the case of products produced by these companies; these prices may fluctuate significantly, also depending on the product. To limit the risk of market-related margin losses due to falling selling prices, STADA partly makes use of instruments towards suppliers that involve them in the market price risk such as price escalation clauses linking procurement prices to current selling prices, retroactive negotiations or the agreement of special procurement prices for special sales volumes, in the context of tenders, for example. However, it cannot be ruled out that procurement cost increases and/or supply shortages in the case of individual products will have materially adverse effects on the Group's sales and/or profit margins.

Numerous contracts in the STADA Group include – especially in the areas of product development and production as well as for distribution rights – so-called "Change of Control" clauses, which usually provide both contracting parties, as is usual in the industry, with reciprocal extraordinary termination rights for agreements concluded by the parties in the case that one of the contracting partners becomes subject to a so-called change of control (change of majority shareholder) e.g. after a successful takeover offer. In the case of a change of control in the STADA Group this could result in material adverse effects for STADA if contracting parties make use of such extraordinary termination rights, in particular if the extent of these terminations is beyond individual cases.

Human resources risks

STADA depends to a large extent on the commitment, motivation and abilities of its employees. The loss of specialists and managers in key positions could have significant adverse effects on the development of the Group. The Group's continued success also depends on its ability, in competition with other companies, to attract and keep qualified employees in the future.

It is STADA's expressed goal that all business processes and Group activities be carried out exclusively within the framework of respective laws in force. To this end, within the scope of the compliance management system established at STADA, all employees are regularly, and to an extent adjusted to the scale of their individual areas of responsibility, trained and instructed. It can, however, not be completely ruled out that employees, in the execution of business processes deviating from the Group regulation of full compliance, act negligently or intentionally in breach of legal regulations and that such breaches affect the business activities of the Group and/or individual subsidiaries or the business, financial and earnings situation of STADA in a materially adverse manner, e.g. following the discovery of such legal breaches through the imposition of damages and/or compensation and/or the payment of fines, exclusion from tenders or damage to reputation.

Information technology risks

The strategic objectives of STADA cannot be achieved without the support of IT. Therefore, the Group has to make continuous investments to appropriately adapt these systems to changing business processes. In the event that information technology processes of the Group are nonetheless insufficient and/or inefficient, this could have materially adverse effects on business processes at STADA.

Should electronic data be lost despite extensive backup measures, or should such data be subject to unauthorized access, this could also have materially adverse effects on the Group.

Currently, the gradual conversion of various information technology systems (IT systems) to an integrated SAP system is being carried out in the Group. Generally, when introducing new or converting existing IT systems, there is an elevated risk that unanticipated events occur which, during the initial phase and also during the integration and expansion phase, can have materially adverse effects on the course of business processes and thus could influence business activities of the Group and/or of individual subsidiaries in a materially adverse manner.

Economic risks

STADA's business success is also generally dependent on economic influences because an economic downturn regularly increases significantly the cost pressure in national health care systems and thereby potentially the speed and extent of local regulatory measures to contain costs. In this context there are for STADA adverse characteristics, particularly for prescription drugs, which account for a major part of the portfolio, cannot be ruled out.

Moreover, sales volume and sales of Group products or product lines are particularly sensitive to changes in the economic environment, for which the consumer is not reimbursed as part of the individual national health insurance system but must bear a major part or all of the costs. In the scope of STADA's product portfolio this is true in particular for drugs used for self-medication, for products without a pharmaceutical character as well as for services offered and for prescription drugs in countries without a comprehensive state health care system, such as Russia, the second biggest national market for STADA.

Another material economic risk for STADA lies in the area of corporate finance. Parameters in this area significantly influencing Group success such as financing possibilities, interest rates, inflation rate, currency ratios and client liquidity can be subject to distinct economic influences and thereby also have a material adverse effect on STADA's business success in case of an economic downturn. Furthermore, a liquid financial market for refinancing is an important precondition for STADA's acquisition policy. In case of disruptions of the financial market – no matter whether globally or locally in countries that are important for STADA – materially adverse effects for the Group cannot be ruled out.

In addition, STADA generally conducts business transactions not against cash payment, but on an invoicing basis to numerous individual debtors. Thus, the fundamental, partly also cyclical commercial risk of debtor default is associated with this. STADA therefore strives to maintain business relations only with business partners of impeccable financial standing and in addition, partly uses suitable measures to safeguard itself against default risk, such as guarantees, loan insurances or the transfer of property, plant and equipment. However, it cannot be ruled out that these measures are insufficient and non-payments of individual debtors arise to a significant extent. In addition, there is the risk that in a difficult economic environment, national health care systems delay or fail to make payments to STADA or business partners of STADA and that, as a result, directly or indirectly increased default risks arise.

In the case of a global financial and economic crisis, the economic-related cyclical risks indicated above can increase considerably.

Financial risks

To the extent that it is possible, STADA counters financial risks with finance policy methods and a specific risk management.

The basic principles of financial policy and of financial risk management are determined or confirmed at least once annually by the Executive Board. In addition, all transactions above a relevant threshold determined by the Executive Board additionally require the Executive Board's prior approval, who, in addition, is regularly informed on the nature, scope and the amount of the current risks. With a view to assets, liabilities and planned transactions, these risks relate in particular to changes in exchange rates, interest rates and stock exchange prices. It is the objective of financial risk management to limit these market risks through the current operative and finance-related activities. For this purpose, depending on the assessment of the financial risk, selected derivative and non-derivative hedging instruments are used. However, on principle only financial risks are hedged which have significant consequences on the Group's cash flow.

STADA's currency risks result by far mainly from operating activities, investments and financing measures. Foreign currency risks which do not significantly influence the Group's cash flows remain unhedged while risks due to foreign currencies are usually hedged if they can significantly influence the Group's cash flows.

In the operating area, the individual Group companies carry out their activities mainly in their individual functional currency. For this reason, from today's perspective, the currency risk from the Group's current operating activities is estimated as low. There is, however, a significant currency translation risk in the transfer of results from local subsidiaries outside of the euro area into Group accounting. Some Group companies are exposed to foreign currency risks in connection with planned payments outside their functional currencies. These mainly relate to the refinancing of the Serbian Hemofarm group and the Russian subsidiary Nizhpharm.

STADA is primarily exposed to interest rate risks in the euro area, in the United Kingdom, Serbia and Russia.

STADA counters risks from interest rate and currency related fluctuations with derivative financial instruments, which are exclusively used to hedge interest and currency risks resulting from operating activities, financial transactions and investments. Derivative financial instruments are neither held nor issued for speculation purposes.

STADA, on principle, employs different financial derivatives to hedge assets, liabilities and anticipated future cash flows denominated in foreign currency. In the reporting year, STADA made particular use, among other things, of foreign-exchange futures contracts. The maturity dates of futures contracts are selected to match the Company's anticipated cash flows. Generally, however, their terms do not exceed one year. Based on the respective foreign currency planning, a hedge strategy is thereby developed in the context of a risk analysis, making use of the variance-covariance method.

However, it cannot be ruled out that the hedging strategies against currency risks turn out to be insufficient, wrong or suboptimal because, for example, the financial markets develop contrary to expectations and that adverse effects for STADA result from this.

In order to minimize the effects of interest rate fluctuations, STADA manages the interest rate risk for the financial liabilities denominated in euro and ruble with hedging transactions. STADA calculates existing interest rate risks using sensitivity analyses, which show the effects of changes in market interest rates on interest payments, interest income and expenses as well as equity.

In financial year 2011, to hedge the interest rate risk, there were cash flow hedges in the form of interest-rate swaps as well as interest rate swaps not part of a hedging relationship.

Payer interest-rate swaps, whose variable interest payments are changed into fixed interest payments are used to hedge the cash flow risks of floating rate debt. In the course of these hedging relationships, interest-rate related changes in the cash flows of the hedged items are offset against the changes in the cash flows of the interest rate swaps. Floating rate bonds are hereby converted into fixed interest rate financial liabilities and the resulting interest payment cash flows are accordingly hedged.

In addition, STADA may be exposed to a default risk in its operating business or as a result of financing activities if contracting parties fail to meet their obligations. To avoid default risks in financing activities respective credit management processes are in place and such transactions are generally only concluded with counterparties of impeccable financial standing. Past due receivables in the operating area are continuously monitored and potential default risks are anticipated through the creation of valuation adjustments.

The supply of goods and services to international wholesalers is also subjected to special monitoring. As of the balance sheet date, beyond the value adjustments on receivables from various Serbian pharmaceutical wholesalers reported as one-time special effects, there were no significant concentrations of risks.

Further financial risks relate to STADA's liquidity. To guarantee liquidity and to secure financial flexibility, a liquidity reserve in the form of credit lines and, insofar as it is necessary, cash reserves, are maintained. In this regard, STADA has completed bilateral credit agreements with various banks.

In addition, in the context of a hypothetical risk assessment, there are also other price change risks related to market prices. However, as of the balance sheet date, STADA only recognizes available-for-sale financial assets, whose fair values are determined based on market prices, to a minor extent.

Quantitative disclosures in accordance with IFRS 7 relating to STADA's financial risks can be found in STADA's consolidated financial statements, under point 47. of this Annual Report.

In general, however, it cannot be ruled out that the financial policy methods and the specific financial risk management implemented by STADA and described above, prove insufficient to avoid all financial risks and the materially adverse effects for STADA that are potentially associated with them.

Value of STADA's assets

The value of the assets included in the consolidated balance sheet, in particular the goodwill and other intangible assets, are subject to careful and detailed review. Within the scope of an annual impairment test, the value of the goodwill as well as the other intangible assets with determinable and indeterminable useful lives is reviewed. In addition, in the case of specific indications, both intangible assets as well as property, plant and equipment are subject to a case-related impairment test. Generally, it can not be ruled out here that in the annual impairment tests or in the case-related impairment tests carried out over the course of the year that, for example, as a result of new findings in approvals or changes to the market conditions in individual national markets, a relevant impairment may occur. For a detailed description, in particular for the goodwill of the Hemofarm subgroup, please see Notes to the Consolidated Financial Statements Note 10. ff. as well as, in particular, Note 25. on capitalized goodwill including the parameters used and related sensitivity analyses.

Other risks

STADA is in possession of a number of trade and business secrets that must be treated with confidentiality. STADA makes use of confidentiality agreements with employees, external alliance partners, and service providers as well as with certain other contractual partners in order to safeguard these. However, there is no guarantee that these agreements and other protective measures taken to ensure business and trade secrecy actually represent effective protection or that they will not be violated. In addition, there is no assurance that business and trade secrets will not become known to competitors by other means. This may have adverse material effects on the Group.

Like any company, STADA as a Group and the STADA subsidiaries in their national markets are subject to additional general business risks such as unexpected disruptions in infrastructure, strikes, accidents, natural disasters, sabotage, criminal activities, terrorism, war and other unforeseeable materially adverse influences. STADA protects itself against such risks to the extent possible and financially reasonable through appropriate insurance policies. However, it cannot be ruled out that these insurances are insufficient.

Summary evaluation of risk

In the event that one or more of the above-mentioned risks should materialize or newly occur in the development of business, this could respectively have materially adverse effects on the Group's business activities. In particular, respectively material adverse effects on STADA's business, financial and earnings situation could be associated with this.

In the reporting year, the risk environment of STADA did not change significantly as compared to the previous year. The assessment of the overall risk situation is the result of the consolidated consideration of all significant individual risks on the basis of the applied risk management. From today's perspective no risks are discernible which alone or in combination could jeopardize the continuance of the Group.

Takeover-Relevant Information

In accordance with Section 315 (4) HGB, STADA is obligated to disclose the following information in the Annual Report:

Composition of share capital, rights and obligations/restrictions associated with shares, which affect the transfer of shares.

As of December 31, 2011, share capital consisted of 58,966,360 ordinary shares, each with an arithmetical share of share capital of € 2.60 per share.

These ordinary shares of STADA Arzneimittel AG are exclusively registered shares with restricted transferability, which, under the Articles of Incorporation, can only be entered into the share registry with the approval of the Company and which, in accordance with the Articles of Incorporation, grant one vote each in the Annual General Meeting. Shareholders are only those who are registered as such in the share registry and only such persons are authorized to participate in the Annual General Meeting and to exercise voting rights.

Shares acquired by employees within the scope of the employee stock option program are subjected to a three-year lockup period.

Appointment and dismissal of Executive Board members/Amendments to the Articles of Incorporation

The Executive Board is appointed and dismissed exclusively in accordance with legal regulations.

The Articles of Incorporation do not provide special provisions on the appointment or dismissal of individual and all members of the Executive Board. Only the Supervisory Board is responsible for the appointment and dismissal. It appoints members of the Executive Board for a maximum of five years. A repeated appointment or extension of the term is allowed, for a maximum of five years each.

The Articles of Incorporation may generally be amended through a resolution of the Annual General Meeting.

The amendment takes effect with the entry of the amendment to the Articles of Incorporation into the commercial register. Amendments to Articles of Incorporation require, according to Section 179 (1) of the German Stock Corporation Act (AktG), a resolution of the Annual General Meeting, provided no other majority is foreseen, a majority of three-fourths of the share capital represented in the vote pursuant to Section 179 (2) AktG. Insofar as a change to the purpose of the company is affected, the Articles of Incorporation may call for a large majority. The Articles of Incorporation exercises in Section 23 (1) AktG the possibility of a deviation pursuant to Section 179 (2) AktG shall be passed by a simple majority of the votes cast and, insofar as a majority of the share capital is represented at the time the resolution is passed, with a simple majority of the capital present insofar as this is legally permissible. In case of a tie, a motion shall be deemed denied.

Furthermore, the Supervisory Board is authorized in accordance with Section 32 of the Articles of Incorporation to resolve on amendments and additions to the Articles of Incorporation which relate only to their wording.

Authorizations of the Executive Board to issue or buy back shares

The Executive Board has been authorized by the Annual General Meeting on June 10, 2008 to raise new authorized capital. The resolution authorizes the Executive Board, with the approval of the Supervisory Board, to increase the share capital of the Company on one or more occasions by June 10, 2013, by up to € 76,346,010.00 through the issue of up to 29,363,850 registered shares with restricted transferability against contributions in cash and/or in kind. The Executive Board is authorized, with the approval of the Supervisory Board, to fix further details for implementing capital increases from the authorized capital. The Executive Board has not made use of this authorization to date.

In addition, the Annual General Meeting on June 10, 2008 authorized the Executive Board, on or before June 9, 2013, on one or more occasions a) to issue bonds with warrants and/or convertible bonds in an aggregate nominal amount of up to € 1,000,000,000.00 and with a maturity of up to 20 years through the Company or through companies in which the Company directly or indirectly has a majority holding ("subordinated Group companies"), and b) to assume the guarantee for such bonds with warrants and/or convertible bonds issued by subordinated Group companies of the Company and to grant the holders or creditors of bonds with warrants and/or convertible bonds, option and/or conversion rights up to a total of 25,701,330 registered shares with restricted transferability of the Company, representing a proportionate amount of the share capital of up to € 66,823,458.00 in accordance with the more detailed provisions of the respective terms of the bonds with warrants and/or convertible bonds.

For the purposes of servicing these bonds with warrants and/or convertible bonds, the Annual General Meeting on June 10, 2008 conditionally increased the share capital by up to € 66,823,458.00 by issuing up to 25,701,330 registered shares with restricted transferability and carrying a dividend right as of the beginning of the financial year in which they are issued. The Executive Board is authorized to determine the further details of implementation of the conditional capital increase (Conditional Capital 2008/I). The Executive Board has not made use of this authorization to date.

The share capital of the Company was conditionally increased as of December 31, 2011 by up to € 8,902,036 by issuing up to 3,423,860 registered shares with restricted transferability (Conditional Capital 2004/I). The conditional capital increase will be effected only insofar as the holders of warrants exercise their option rights.

Following the resolution adopted at the Annual General Meeting on June 16, 2011, in accordance with Section 71 (1) no. 8 AktG, the Company was authorized from June 17, 2011 until June 16, 2013 to acquire own shares of up to 10% of the share capital. The Executive Board has not made use of this authorization to date.

The Company's agreement with members of the Executive Board for the case of a change of control

For the agreement of the company with members of the Executive Board in the case of a change of control, please refer to the Remuneration Report in this annual report.

Prognosis Report

Further focus on business model with sustainable growth potential

STADA's business model has been characterized by constancy and sustainability for years. The Executive Board sees no fundamental need for a change in the business model and will, also in the future, focus the business activities of the Group on products with off-patent active pharmaceutical ingredients in selected segments of the pharmaceutical market. The core segments in this regard will continue to be Generics and Branded Products.

In the assessment of the Executive Board, the focus of STADA's business activities therefore continues to be on markets with long-term growth potentials – even if these can vary depending on economic, regulatory and competitive framework conditions from market to market and year to year (see "Business and General Conditions – Business Model, Core Segments and Structural Environment").

In light of this, the sales and earnings development of the Group in financial years 2012 and 2013 will continue to be generally characterized by differing and in part opposite factors in the various national markets. For the Executive Board's specific expectations regarding the existing opportunities and risks in individual segments and national markets in which the Group is active, see the reporting on regional developments (see "Earnings Situation –Development of Segments – Information by Region").

Although in principle, in the case of an accumulation of difficult framework conditions in national markets that are particularly important for the Group, a weakened or reduced growth dynamic cannot be ruled out. With a view to the strategic success factors, the STADA Executive Board clearly sees the opportunity, however, to be able to generate further growth in the future.

Strategic success factors open growth opportunities

In the view of the Executive Board, STADA has a range of strategic success factors that are of particular importance in taking advantage of opportunities for growth and for securing the Group's future success.

One of these success factors is strong product development. Based on the product pipeline, which remains well-filled, STADA will continue in the future to constantly expand the Group portfolio – particularly in the core segment Generics. In addition to sales and earnings achieved in the context of new product launches, the opportunity also exists to attain an improved margin mix as well as for economy of scale effects insofar as the new products can be launched with margins that are initially better than the Group average or that they can be launched within the scope of existing sales structures in the individual national markets. In the context of a "time and cheap to market" strategy, STADA pursues the goal of launching new products not only at the earliest point in time in the respective national markets, but also at the best possible cost of sales.

Among the Group's further success factors is the international sales structure in currently 33 countries which has enabled STADA to market the products from the Group portfolio in a way which is adapted to the different regulatory and competitive framework conditions in the individual national markets. STADA intends to further expand this sales network in order to further reduce dependence on individual national markets, to be able to better counteract local challenges and risks in individual markets and to optimally use the respective growth opportunities.

In the context of the accelerated acquisitions policy pursued by the Group, the Executive Board aims to continue, on the one hand, the regional expansion of business activities in selected markets, preferably in high-growth emerging markets and, on the other hand, the expansion and internationalization of the Generics and Branded Products core segments. Against the backdrop of increasing pressure to reduce costs, to which the individual national health care systems are exposed, the Executive Board sees further growth opportunities in particular in the Branded Products segment as well, which is generally characterized by better margins and less regulatory intervention. The Executive Board generally does not exclude, also in the future, cooperations with a significant capital investment. For larger projects such as acquisitions or cooperations with capital investments, appropriate capital measures continue to be imaginable if the burden on the equity-to-assets ratio from such acquisitions or cooperations is not too high.

The high degree of flexibility with short decision-making processes, the decentralized sales organization with close market proximity and the centralized functional reporting structures also count among the Group's established success factors. This is of particular importance with regard to sales activities, because the ability to react in the short-term to structural, regulatory or competition-related changes, plays an essential role in both exploiting opportunities and reducing risks. For this reason, STADA will continue to pursue an aggressive price policy in individual cases with, if necessary, an associated decrease of operating margins, in order to achieve a better market position or a higher market share. The goal for this approach continues to be, however, that the business activities in the relevant market are profitable or become so within a foreseeable time.

In the context of earnings development, efficient cost management is of high importance in the Group. Because cost of sales represents by far the Group's largest cost item, STADA, in the scope of ongoing cost optimization, will continue to focus on this item and all costs within this context such as procurement costs of the active pharmaceutical ingredients and auxiliary materials as well as the costs which can be allocated to pharmaceutical production. These include, among other things, measures that involve suppliers in the market risk such as price escalation clauses or renegotiations as well as selecting suppliers in low-cost countries.

The further consistent implementation of "STADA – build the future" will also contribute in particular to strengthening the mid and long-term earnings potential. The Executive Board continues to expect that this project will allow additional earnings contributions to be achieved, which with the gradual implementation of the individual measures will add up to annual savings in the double-digit million euro area. As planned until the end of 2013, increased investments and burdens on the income statement due to project-related one-time special effects will continue to be associated with this approach.

STADA employees will continue to be of central importance for the further success of the Group in the future with their experience, their enormous commitment and their extensive expertise – especially in the areas of product development, procurement and production as well as sales and marketing.

Overall economic outlook

In the opinion of experts, the global economy is headed for the next crisis in 2012 if the industrial countries don't get a handle on their public debts. Alone the current uncertainty over whether the financial and economic policy measures will take hold, will presumably lead to a significant weakening of global growth in 2012. The refinancing possibilities of the southern euro countries and their economic prospects are shaped increasingly by the uncertainty of holders of government bonds. With a view to the further development of the global economy, the large emerging markets are becoming increasingly important, but are at the same time dependent on demand in the industrialized countries.[1)]

1) See Press release from the FAZ Institute World Economy 2012: Moderate Expansion – Big Risks.

According to estimates of the International Monetary Fund, global economic output will rise by 3.3%[1)] in 2012. For the European Union, a decrease in gross domestic product (GDP) of 0.1%[1)] in the current year is expected. In this context, the individual EU countries will, however, exhibit quite variable growth rates. For Germany, experts forecast an increase of 0.3%[1)] in GDP, and for France 0.2%[1)], whereas GDP will decrease in Spain by 1.7%[1)] and in Italy by 2.2%[1)].

The situation in the capital markets in 2012 will be determined by security instead of yield, according to finance experts. Low interest rates, reduced profit expectations and political uncertainty shape the markets in the USA and Europe. This is expected to cause the euro to the US dollar exchange rate to fluctuate without clear direction. Precious metals and sustainable investments still remain in demand, according to current expert opinion.[2)]

In addition, the development of the common currency euro, which is also the Group currency for STADA, is also under careful scrutiny in 2012. The departure of individual countries would likely weaken the euro zone economically and bring with it additional currency risks. A complete abandonment of the common currency would, from today's perspective, have unforeseeable consequences and is not expected by most experts.

The Executive Board of STADA continually follows the opportunities and risks of global economic development. From today's perspective, the Executive Board sees no reason to question the Group's fundamental business model.

Industry specific outlook

A majority of national health care markets will also be characterized in the future by high growth opportunities that are relatively independent of economic activity. These opportunities are based, on the one hand, on general growth drivers in the form of global population growth, an aging society in industrialized countries and medical progress, and on the other, on specific growth drivers such as progressive generics penetration as a result of increasing spending restraints in individual national health systems and continuous patent expiries. Based on this continually increasing demand in the health care market and in view of the fact that in the health economy comparison, drugs are generally viewed as relatively quite efficient in comparison to other treatment methods, the international pharmaceutical market will continue to be characterized by further growth in the future. According to forecasts, sales in the international pharmaceutical market will increase by 4% to 6% annually until 2016 (see "Business and General Conditions – Business Model, Core Segments and Structural Environment").[3)]

According to estimate of the STADA Executive Board, especially the Generics segment within the pharmaceutical market will benefit from growth opportunities, as they guarantee a cost-effective medicative therapy without any loss in quality and thus counteract the increasing cost pressure in the individual national health care systems. In addition, the potential available for generics competition is constantly being expanded due to the continuous expiration of patents or other commercial property rights.

For the future, IMS Health, a leading international pharmaceutical market research institute, has forecast an annual growth rate for the global generics market of up to 9.6%[4)] by 2016, although considerable volume increases may turn out to be weaker as a result of increased price pressure.

With a view to the sales volume for newly available active pharmaceutical ingredients for generics competition between 2012 and 2015 in the largest national markets by sales in Europe – Germany, France, Italy, Spain and the United Kingdom – which, according to current market research figures, will amount to more than € 13 billion, the STADA Executive Board expects that, in particular, the European generics

1) Source: International Monetary Fund: World Economic Outlook Update from January 24, 2012.
2) See press release from the FAZ Institute World Economy 2012: Moderate Expansion – Big Risks.
3) IMS MIDAS, 2011; IMS Market Prognosis, September 2011; IMS Institute For Healthcare Informatics analysis prepared for STADA, Feb. 2012. Data based on the 32 leading pharmaceutical markets.
4) IMS MIDAS 2011; IMS Market Prognosis, Sep. 2011; IMS Institute For Healthcare Informatics analysis prepared for STADA, Feb. 2012. Market data on generics fluctuates – in some cases substantially – due to differing market definitions from source to source.

market holds sustainable growth potentials.[1] For most EU countries, STADA therefore anticipates further growth in generics penetration which may continue to vary greatly in the individual national markets.

This view is confirmed by estimates from IMS Health as well, according to which average annual generics growth in the EU will amount to an average of 6.1%[2] from 2011 to 2013. For selected Eastern European markets[3], IMS Health[4] forecast an average annual generics increase of 8.2% until 2016. According to estimates from IMS Health, expected generics growth in Russia from 2012 to 2016 amounts on average to 12.3%.[5]

With a share in sales of 23% currently generated by STADA with generics in Eastern European markets, the Executive Board continues to expect to be able to benefit appropriately from this growth potential. With a view to the growth opportunities forecast in Eastern Europe, a focus of the internationalization strategy which continues to be pursued by the Group is thus also on the expansion of Group activities in Eastern European countries.

General challenges and risks of the business model

In addition to the growth opportunities listed above, the Group is generally subject to operating challenges and risks, which are described in detail, among other things, in the scope of reporting on segments and the regional developments in the individual national markets and in the Opportunities and Risk Report (see "Business and General Conditions – Business Model, Core Segments and Structural Environment" as well as "Opportunities and Risk Report").

In the Executive Board's assessment, many of these challenges and risks are based on the structures and mechanisms of the market segments which STADA cannot influence and in which the Group is active. In light of the fact that to a significant extent, these cannot be separated from the structural growth opportunities, taking such risks in order to optimally take advantage of this growth potential is also unavoidable in the future (see "Business and General Conditions – Business Model, Core Segments and Structural Environment" and "Opportunities and Risk Report").

STADA will, also in the future, continue to be active in markets and market segments which are characterized, among other things, by high price sensitivity, continued margin pressure, intense competition and continuously changing regulatory framework conditions. In order to manage resulting challenges and risks, the Group will also continue to react flexibly and at short notice with counter-measures, such as sales restructuring in order to compensate for the continuing margin pressure by means of constant cost optimization.

Overall, for the Executive Board there continue to be no apparent challenges or risks from today's perspective that would jeopardize the existence of the Group.

Specific challenges and risks as a result of economic effects

STADA's business model generally geared towards an industry in which demand tends to be independent of economic trends, so that business development in the Group is generally less influenced by global economic development and much more by regulatory conditions in individual national markets where the Group is active.

Despite this, the Group will continue to have to deal with specific consequences of economic effects in the future in addition to the general challenges and risks associated with STADA's business model.

1) STADA estimate of sales volumes in 2011 at ex-factory prices for active pharmaceutical ingredients for which STADA from today's perspective expects the patents or other commercial property rights relevant for generics competition to expire by 2015, based on data provided by various international market research institutes. STADA's expectations as to the date of availability of active pharmaceutical ingredients for Generics competition are continuously being reviewed from a legal perspective and may in future significantly differ from today's expectations (as of: March 1, 2012) as expressed in this data. The actual sales volumes becoming available for generics competition at the respective dates are subject to fluctuations as a result of changing market success, legal situations or market structures, among other factors.

2) Own calculation based on the analysis of IMS Institute For Healthcare Informatics, Feb. 2012; the calculation is based on the five leading West European generics markets.
3) Poland, Russia, Slovakia, the Czech Republic and Hungary.
4) Data from IMS Institute For Healthcare Informatics (2011): own calculation based on the IMS estimates for Poland, Russia, Slovakia, the Czech Republic and Hungary.
5) IMS MIDAS 2011; IMS Market Prognosis, Sep. 2011; IMS Institute For Healthcare Informatics analysis prepared for STADA, Feb. 2012.

Against this backdrop, STADA prepares, within the scope of what is possible, for potential resulting specific risks such as defaults by business partners or strong volatility in interest rate levels and currency relations that are relevant for the Group (see "Opportunities and Risks Report"). However, in spite of this, burdens resulting from one-time special effects, for example due to payment defaults or non-operational effects from currency influences and interest rate hedge transactions cannot be completely ruled out. The sales and earnings contributions of STADA's business activities in the non-euro markets of Serbia and Russia will thus remain in financial years 2012 and 2013 predominantly influenced by the development of the currency relation of the Serbian dinar and the Russian ruble to the euro.

In addition, due to an economic-related long-term significant reduction in demand and/or sales in individual national markets or due to impairment tests, value adjustments for such intangible assets may be necessary, the balance-sheet value of which is primarily characterized by the currency relationship at acquisition and/or by future market expectations such as the goodwill of acquired companies or product approvals. In addition, there is the risk that in a difficult economic environment, national health care systems delay or fail to make payments to STADA or business partners of STADA and that, as a result, directly or indirectly increased default risks arise.

In view of the cost pressure already existing in numerous national health care systems, particularly in the case of weakened or negative economic development, the opportunity or risk generally exists that the speed and scope of local regulatory measures to reduce costs will increase further. In this context, regulation for generics can result in both weakening and stimulating effects, for example in the case of state-ordered price reductions or state-ordered incentives for the prescription of low-cost generics.

STADA's Branded Products core segment can however also be affected by regulatory framework conditions such as modified reimbursement regulations or pricing requirements as a result of economic developments. This applies however with lower frequency and less marked operating consequences than with generics. Furthermore, weakened or negative economic activity in individual national markets can affect Group's branded products activities to the extent that the majority of the costs are assumed by the patients themselves and only partly reimbursed. This affects, in particular, STADA's business activities in the national markets in which the Group sells numerous products for self-pay patients.

Generally, economic effects and the associated situation in the financial markets with a view to financing possibilities can also affect the Group's acquisition policy. In this connection however, from today's perspective, the Executive Board does not see any significant limitations as STADA's debt structure is mainly organized in the long term (see "Financial Situation").

Financing

The financial situation of the Group continues to be and will remain, from the Executive Board's perspective, stable.

The Executive Board expects only a light change in the weighted average interest rate in the Group for the financial years 2012 and 2013 – insofar as no essential changes are undertaken in the existing financing structure.

In light of the good financial situation, the Executive Board expects to be able to finance the organic growth, i.e. growth without consideration of acquisitions, through generated cash flow in 2012 and 2013 as well.

For the key figure "net debt to adjusted EBITDA ratio" used in the Group, the Executive Board continues in the future to strive for a maximum value of 3. For 2012, however, it can be assumed that this target value will be exceeded due to the accelerated acquisitions policy; the Executive Board, from today's perspective, expects to approximately reach this target figure again by the end of 2013.

Investments

Overall, the future development of cash flow from investing activities with respect to total intangible assets that exist in the Group depends in particular on individual decisions on acquisition, cooperation and disposal projects. Regarding investments in other intangible assets to support organic growth in the context of the operating business, STADA plans investments of an amount similar to 2011 in the coming years.

For investments in property, plant and equipment in the financial years 2012 and 2013, STADA expects a scale similar to the level of 2011.

The further development of investments in financial assets generally depends on individual decisions on acquisition and/or investment projects.

Operative alignment and cost efficiency program "STADA – build the future"

STADA has a predominantly functionally centralized organizational structure in the areas of Finance, Development, Production including Procurement and Quality Management, Risk Management, Compliance, Corporate Governance as well as overall responsibility for the Group strategy. The sole exception is sales functions, which are primarily locally and regionally organized in order to ensure a high degree of market proximity. On the basis of agreed targets, the sales responsibility related to sales and earnings of the individual local sales company, its product portfolio and its personnel management lies with the respective local management (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Operative Alignment").

STADA will continue to adhere to this organizational structure in the future, because as a result of the Group-wide harmonization and centralization – on the basis of this operative alignment – the Group increased efficiency and at the same time gained the necessary flexibility and market proximity for the business model to be able to react quickly to changing framework conditions.

In view of the business model focused on long-term growth markets and the proven strategic success factors, STADA also has the opportunity in the years to come to benefit from this growth. However, also in the future, an essential requirement for this will be that the Group is in a position to adjust its own operating structures to the continually changing structural framework conditions of the various national markets.

Against this backdrop, STADA will consistently continue in the implementation of the Group-wide cost efficiency program "STADA – build the future", scheduled for the period of 2010 to 2013, which aims at strengthening mid and long-term earnings potential.

In addition to numerous running measures to improve internal efficiency in the areas of production, procurement and the supply chain, as well as development, quality management, and marketing and sales, the Group's Irish production facility was also sold in the first quarter

of the current financial year (see "Supplementary Report"). Besides reducing the number of employees by approx. 180 as a result, the goal of this sale was to improve local utilization at other STADA-owned production facilities with the commenced, successive transfer of the production volumes of the Irish production facility to these facilities, and thereby lower unit costs of the respective products on the medium term.

In order to strengthen the mid and long-term earnings potential, STADA will continue to implement the Group-wide cost efficiency program "STADA – build the future" scheduled for the period of 2010 to 2013. Thereby the expected project-related costs[1] will continue, as planned, to be reported as one-time special effects according to the progress of the project in each case; this also includes the one-time burden incurred from the sale of the factory in Ireland[2] in the first quarter of 2012.

In the context of the implementation of the "STADA – build the future" project, a total of approx. 800 full-time positions and thus approx. 10% of the existing Group-wide personnel level at the beginning of financial year 2010 are also to be reduced – mainly outside Germany (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Further Consistent Implementation of 'STADA – build the future'"). STADA expects to achieve the personnel reduction originally planned for the period of 2010 to 2013 of approx. 10% within the current financial year and thereby one year earlier than planned.

Summarizing outlook including statements on the development of sales and earnings

STADA's business model is geared towards markets with long-term growth potential and growth opportunities in the health care and pharmaceutical market. Inseparably linked to this, however, are also risks and challenges resulting in particular from changed or additional state regulation and intensive competition. In view of this, in the Executive Board's assessment, far-reaching regulatory interventions, a high level of competition, default risks and significant margin pressure can continue to occur in individual national markets in the future. The latter applies primarily to the increasing volume of business activities in the Generics core segment characterized by tenders.

In addition, STADA will continue to have to deal with non-operational influence factors. The most important currency relations for the Group, in particular of the Serbian dinar and the Russian ruble to the euro, will thus also affect the Group's future development in financial years 2012 and 2013. Furthermore, STADA will have to deal with the effects of the global economic and financial crisis also in the future. In view of this, the Group continues to prepare itself, within the realm of possibility, for specific potential risks in this regard, such as a significantly increased default risk of business partners, subsidies to crisis-prone competitors that distort competition or continued strong volatility in interest rate levels and currency relations that are relevant for the Group. However, in view of the extraordinary dimension of the global financial and economic crisis, burdens which result from this such as one-time special effects from payment defaults or non-operational burdens on earnings from currency influences can, as before, not be ruled out.

The sales and earnings development of the STADA Group will continue to be characterized by various and partially stimulating, but also in part very challenging framework conditions in the various national markets in which STADA is active. In the overall assessment of opposing influence factors, the Executive Board, from today's perspective, nevertheless expects a further clear increase in Group sales for 2012 and 2013, in particular with the inclusion of the current acquisitions, the purchase of the branded product package from Grünenthal[3] for various national markets as well as the purchase of Spirig Healthcare's Swiss generics business[4].

The Executive Board thus expects, from today's perspective, that in 2012 and 2013 both core segments can achieve sales growth. The Branded Products segment is expected to grow at a disproportionate rate, so that the share of branded products in Group sales will thereby continue to grow.

1) See the Company's ad hoc release of June 7, 2010.
2) See the Company's ad hoc release of February 6, 2012.
3) See the Company's ad hoc release of May 12, 2011 as well as the Company's ad hoc updates of July 22, 2011, December 30, 2011, January 1, 2012, January 27, 2012 and January 31, 2012.
4) See the Company's ad hoc release of May 19, 2011 as well as the Company's ad hoc updates of November 9, 2011 and January 31, 2012.

In order to strengthen the mid and long-term earnings potential, STADA will continue to implement the Group-wide cost efficiency program "STADA – build the future" scheduled for the period of 2010 to 2013. Thereby the expected project-related costs[1] will continue, as planned, to be reported as one-time special effects according to the progress of the project in each case; this also includes the one-time burden incurred from the sale of the factory in Ireland[2] in the first quarter of 2012.

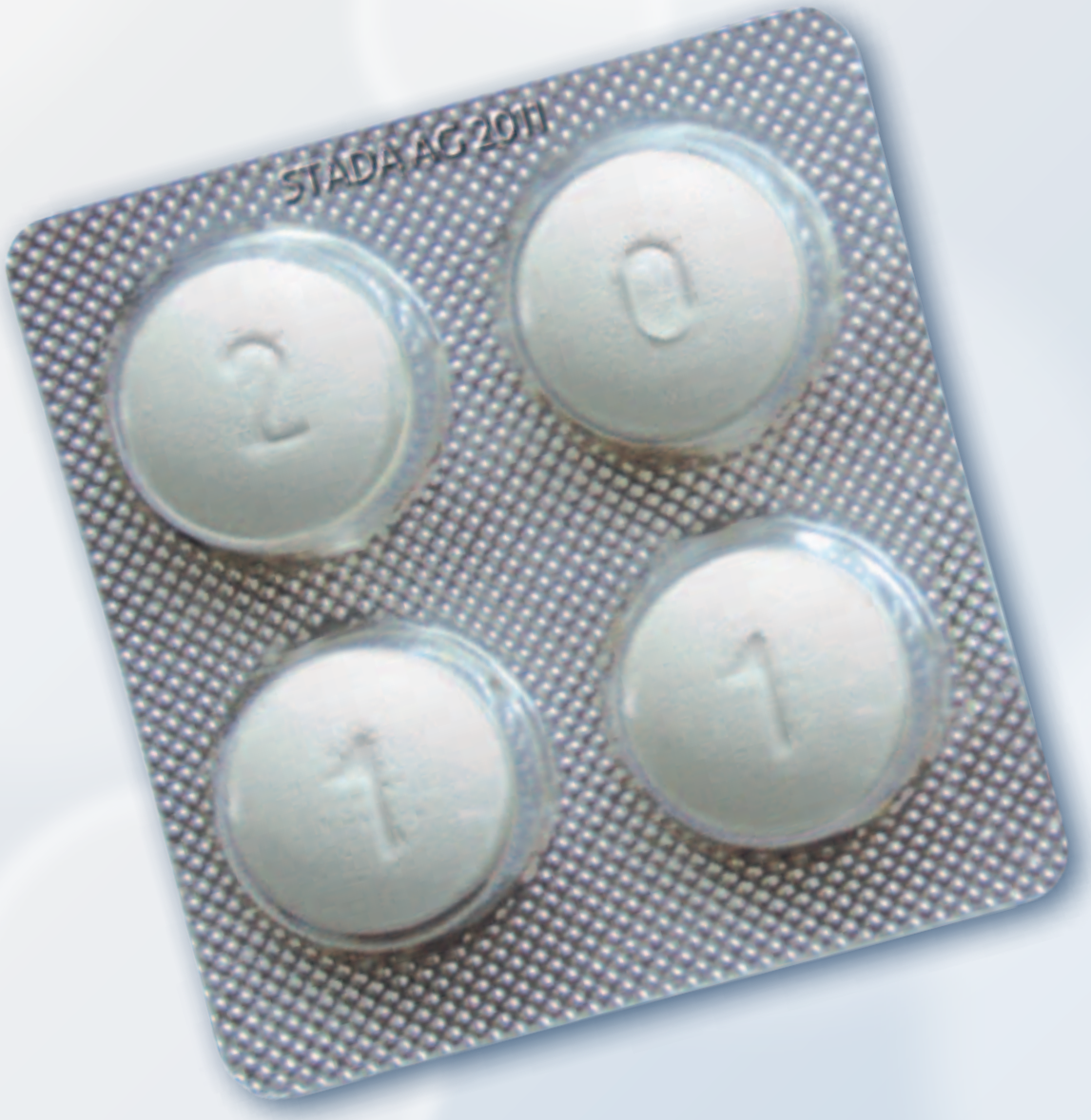
Despite these earnings burdening one-time special effects from the further implementation of the "STADA – build the future" program, the Executive Board expects a very significant increase in reported net income for 2012 as compared to 2011.

The STADA Executive Board also expects continued growth in the key earnings figures adjusted for one-time special effects in the Group for 2012, as well as 2013, and also sees, from today's perspective, the opportunity for an increase in the high single-digit percent area in EBITDA adjusted for one-time special effects for 2012. This would once again mean that record results in these key figures are targeted for 2012.

Furthermore, the Executive Board affirms its long-term prognosis envisaged for 2014[3], according to which Group sales of approx. € 2.15 billion, at an adjusted level, EBITDA of approx. € 430 million and net income of approx. € 215 million should be reached. The Group's current acquisitions, which STADA finances organically, i.e. without a capital increase, give the Executive Board a high level of confidence that these long-term growth targets will, at a minimum, be reached despite the operating challenges that still remain in individual national markets.

1) See the Company's ad hoc release of June 7, 2010.
2) See the Company's ad hoc release of February 6, 2012.
3) See the Company's ad hoc releases of June 7, 2010 and March 1, 2012.

STADA CONSOLIDATED FINANCIAL STATEMENTS



Consolidated Income Statement

Consolidated Income Statement for the period from Jan. 1 to Dec. 31 in € 000s	2011	Previous year	Note
Sales	1,715,396	1,626,976	11.
Cost of sales	888,604	862,808	12.
Gross profit	**826,792**	**764,168**	
Selling expenses	390,017	375,462	13.
General and administrative expenses	140,044	125,327	14.
Research and development expenses	50,351	54,911	15.
Other income	29,874	40,386	16.
Other expenses	151,640	70,879	17.
Expenses in connection with the "STADA – build the future" project	4,550	16,176	18.
Operating profit	**120,064**	**161,799**	
Result from associated companies	553	128	
Investment income	573	162	
Financial income	10,789	3,818	
Financial expenses	62,447	56,860	
Financial result	**-50,532**	**-52,752**	19.
Earnings before taxes	**69,532**	**109,047**	
Taxes on income	47,148	40,477	20.
Earnings after taxes	**22,384**	**68,570**	
thereof			
• distributable to shareholders of STADA Arzneimittel AG (net income)	22,036	68,432	
• distributable to non-controlling shareholders	348	138	21.
Earnings per share in € (basic)	0.37	1.16	22.
Earnings per share in € (diluted)	0.37	1.14	22.

Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income in € 000s	2011	Previous year	Note
Earnings after taxes	**22,384**	**68,570**	
Currency translation gains and losses	**-5,753**	**-29,562**	35.
thereof			
• income taxes	109	-1,347	
Gains and losses on available-for-sale financial assets	**-6**	**-19**	46.
thereof			
• income taxes	2	7	
Gains and losses on hedging instruments (cash flow hedges)	**-497**	**-261**	46.
thereof			
• income taxes	184	120	
Actuarial gains and losses from defined benefit plans	**-521**	**-8,021**	36.
thereof			
• income taxes	133	2,478	
Other comprehensive income	**-6,777**	**-37,863**	
Consolidated comprehensive income	**15,607**	**30,707**	
thereof			
• distributable to shareholders of STADA Arzneimittel AG	15,247	29,492	
• distributable to non-controlling shareholders	360	1,215	

Consolidated Balance Sheet

Consolidated Balance Sheet as of Dec. 31 in € 000s Assets	Dec. 31, 2011	Dec. 31, 2010	Note
Non-current assets	**1,532,764**	**1,381,450**	
Intangible assets	1,147,181	985,952	25.
Property, plant and equipment	299,480	297,968	26.
Financial assets	10,082	14,419	27.
Investments in associates	34,003	17,332	28.
Other financial assets	12,147	34,467	30.
Other assets	1,839	1,595	31.
Deferred tax assets	28,032	29,717	20.
Current assets	**1,267,081**	**1,125,283**	
Inventories	399,125	386,088	32.
Trade accounts receivable	446,214	448,946	29.
Income tax receivables	21,310	34,943	20.
Other financial assets	33,858	16,194	30.
Other assets	45,730	37,126	31.
Non-current assets and disposal groups held for sale	104	2,884	33.
Cash and cash equivalents	320,740	199,102	34.
Total assets	**2,799,845**	**2,506,733**	

Equity and liabilities	Dec. 31, 2011	Dec. 31, 2010	Note
Equity	**863,911**	**868,489**	35.
Share capital	153,312	153,078	
Capital reserve	467,403	466,173	
Retained earnings	352,652	366,280	
Other provisions	-117,836	-125,047	
Treasury shares	-1,621	-1,698	
Equity attributable to shareholders of the parent	**853,910**	**858,786**	
Shares relating to non-controlling shareholders	10,001	9,703	
Non-current borrowed capital	**1,254,956**	**910,477**	
Other non-current provisions	34,917	32,612	36.
Financial liabilities	1,124,829	781,627	37.
Other financial liabilities	26,003	25,519	39.
Other liabilities	5,802	5,701	40.
Deferred tax liabilities	63,405	65,018	20.
Current borrowed capital	**680,978**	**727,767**	
Other provisions	11,835	9,012	41.
Financial liabilities	96,229	281,685	37.
Trade accounts payable	241,561	233,503	38.
Income tax liabilities	18,311	30,803	20.
Other financial liabilities	226,383	93,118	39.
Other liabilities	86,659	79,646	40.
Total equity and liabilities	**2,799,845**	**2,506,733**	

Consolidated Cash Flow Statement

Consolidated Cash Flow Statement in € 000s	Dec. 31, 2011	Dec. 31, 2010	Note
Net income	22,384	68,570	
Depreciation and amortization net of write-ups of non-current assets	102,057	106,742	24.
Income taxes	47,148	40,477	20.
Interest income and expenses	52,866	53,356	19.
Result from associated companies	-553	-128	19.
Result from the disposals of non-current assets	-1,033	506	17.
Changes in pension provisions	176	-3,257	36.
Currency translation income and expenses	6,043	-10,019	16.
Other non-cash expenses and gains	126,110	56,829	19.
Gross cash flow	**355,198**	**313,076**	
Changes in inventories	-48,298	-42,284	32.
Changes in trade accounts receivable	-87,547	-31,062	29.
Changes in trade accounts payable	5,826	8,201	38.
Changes in other net assets	35,495	24,022	
Interest and dividends received	5,064	6,703	
Interest paid	-58,167	-47,760	
Income tax paid	-38,563	-36,146	
Cash flow from operating activities	**169,008**	**194,750**	42.
Payments for purchases of			
• intangible assets	-87,911	-59,114	25.
• property, plant and equipment	-21,952	-30,666	26.
• financial assets	-261	-871	27.
• shares in consolidated companies	-16,482	-3,452	
• business combinations according to IFRS 3	-68,490	-3,000	8.
Proceeds from the disposal of			
• intangible assets	2,982	2,071	25.
• property, plant and equipment	3,609	1,470	26.
• financial assets	386	419	27.
• shares in consolidated companies	1,060	744	
Cash flows from investing activities	**-187,059**	**-92,399**	42.
Borrowing of funds	492,866	504,458	37.
Settlement of financial liabilities	-332,055	-531,927	37.
Dividend distribution	-21,867	-32,362	35.
Capital increase from share options	1,480	437	35.
Changes in non-controlling interests	58	-14	35.
Changes in treasury shares	61	44	35.
Cash flows from financing activities	**140,543**	**-59,364**	42.
Changes in cash and cash equivalents	**122,492**	**42,987**	
Changes in cash and cash equivalents due to Group composition	-	-	
Changes in cash and cash equivalents due to exchange rates	-854	-821	
Net change in cash and cash equivalents	**121,638**	**42,166**	
Balance at beginning of year	**199,102**	**156,936**	
Balance at end of year	**320,740**	**199,102**	

Consolidated Statement of Changes in Shareholders' Equity

Consolidated Statement of Changes in Shareholders' Equity in € 000s

2011	Number of shares	Share capital	Capital reserve	Retained earnings
Balance as of Dec. 31, 2011	**58,966,360**	**153,312**	**467,403**	**52,994**
Dividend distribution				
Capital increase from share options	90,000	234	1,246	
Changes in treasury shares			-16	
Appropriation from retained earnings				14,000
Changes in non-controlling interests				
Changes in the scope of consolidation				
Comprehensive income				-521
Balance as of Jan. 1, 2011	**58,876,360**	**153,078**	**466,173**	**39,515**

Previous year				
Balance as of Dec. 31, 2010	**58,876,360**	**153,078**	**466,173**	**39,515**
Dividend distribution				
Capital increase from share options	26,540	69	368	
Changes in treasury shares			-7	
Appropriation from retained earnings				18,000
Changes in non-controlling interests				
Changes in the scope of consolidation				
Comprehensive income				-8,021
Balance as of Jan. 1, 2010	**58,849,820**	**153,009**	**465,812**	**29,536**

	Net income incl. profit brought forward	Provisions for currency translation	Provisions Available for Sale	Provisions for cash flow hedges	Treasury shares	Equity attributable to shareholders of the parent	Shares relating to non-controlling shareholders	Group equity
	352,652	-166,336	47	-4,541	-1,621	853,910	10,001	863,911
	-21,747					-21,747	-120	-21,867
						1,480	-	1,480
					77	61	-	61
	-14,000					-	-	-
						-	58	58
	83					83	-	83
	22,036	-5,763	-8	-497		15,247	360	15,607
	366,280	-160,573	55	-4,044	-1,698	858,786	9,703	868,489
	366,280	-160,573	55	-4,044	-1,698	858,786	9,703	868,489
	-32,311					-32,311	-51	-32,362
						437	-	437
					51	44	-	44
	-18,000					-	-	-
						-	-14	-14
						-	-	-
	68,432	-30,643	-15	-261		29,492	1,215	30,707
	348,159	-129,930	70	-3,783	-1,749	861,124	8,553	869,677

Notes to the Consolidated Financial Statements

General Information

1. Corporate information

STADA Arzneimittel Aktiengesellschaft (STADA Arzneimittel AG) as parent company of the STADA Group (hereafter referred to as "STADA"), based in Stadastrasse 2–18, 61118 Bad Vilbel, is an internationally oriented company based in Germany, which is active worldwide in the health care and pharmaceuticals market, especially in the core segments of Generics and Branded Products.

The consolidated financial statements of STADA Arzneimittel AG for financial year 2011 were approved for publication by the Executive Board on March 14, 2012.

2. Basis of preparation

The consolidated financial statements prepared for STADA Arzneimittel AG as parent company as of December 31, 2011, were prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Committee (IFRIC), as applicable in the European Union (EU), as well as in accordance with the supplementary provisions pursuant to Section 315a (1) of the German Commercial Code (HGB).

The financial year corresponds to the calendar year. The individual financial statements of the companies included in the scope of consolidation are prepared as of the same date as the consolidated financial statements.

The structure of the consolidated income statement follows the cost-of-sales method, according to which expenses incurred in generating sales are divided into functional areas. In the statement of comprehensive income, use was made of the option to present this separately from the consolidated income statement. The balance sheet classification distinguishes between non-current and current assets and liabilities, some of which are presented in detail in the notes according to their maturities.

The consolidated financial statements are prepared in euro. Unless otherwise indicated, figures in the notes are shown in euro thousands (€ 000s). Rounding is thus necessary, although this of course is not significant in its nature.

3. Consequences of new or amended standards and interpretations

In financial year 2011, STADA observed and, if relevant applied the following pronouncements or amendments to pronouncements published by the IASB and endorsed by the EU which were first applicable in financial year 2011, which had no or no significant effect on the presentation of STADA's business, financial, earnings situation or cash flow:

- **IFRS 1 "First-time Adoption of IFRS":**
  As STADA already prepares the consolidated financial statements according to IFRS, revised versions of the standard or amendments to it are not relevant.
- **IAS 24 "Related Party Disclosures":**
  The amended standard includes a partial exemption from the disclosure requirements for government-related companies as well as an explanation of the definition of related parties.
- **IAS 32 "Financial Instruments":**
  The amendments clarify the accounting of subscription rights provided that they are not denominated in the functional currency of the company.
- **IFRIC 14 "Prepayments of a Minimum Funding Requirement":**
  The interpretation allows a company to recognize the benefit from a prepayment of contributions made in the context of minimum funding requirements as an asset.
- **IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments":**
  The interpretation contains guidelines on accounting for such transactions, also known as "debt for equity swaps".
- **Amendments in the context of the Annual Improvement Project 2010:**
  IFRS 3 "Business Combinations": The amendments relate to the first-time application of the new provisions on contingent consideration, the application of the option included in IFRS 3.19 (rev. 2008) to measure shares relating to non-controlling shareholders at the value of proportionate net assets or at fair value at acquisition as well as accounting for equity instruments and debts in connection with share-based payment transactions of the acquired company.
  IFRS 7 "Financial Instruments: Disclosures": The amended standard aims to strengthen the relationship between qualitative and quantitative disclosures and thus to improve the presentation and understandability of the disclosures. Furthermore, various amendments in relation to quantitative disclosures were made.
  IAS 1 "Presentation of Financial Statements": The amendments now allow, in addition to the presentation within the statement of changes in equity, an optional reconciliation of all components of other comprehensive income in the notes. A similar option applies for dividends recognized as a distribution to shareholders including the related disclosures on the dividend per share.
  IAS 27 "Consolidated and Separate Financial Statements": The amendment clarifies that the subsequent amendments as a result of IAS 27 (rev. 2008) of standard IAS 21.48A–48D, IAS 28.18–19A and IAS 31.45–45B are to be prospectively applied while the application of the amended IAS 28.35 and IAS 31.46 are to be applied retrospectively.
  IAS 34 "Interim Financial Reporting": The amendment relates to an explicit regulation that contains a list of examples of significant events and transactions relevant to reporting.
  IFRIC 13 "Customer Loyalty Programs": The amendment relates to the valuation of the fair value of premium claims on the part of the customer.

In May 2011, the IASB adopted the new standards IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint arrangements" and IFRS 12 "Disclosure of Interests in Other Entities". IFRS 10 replaces the consolidation requirements of the former IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" and introduces a uniform consolidation model for all subsidiaries. IFRS 11 governs the accounting for joint operations and joint ventures and thus replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". The former option to proportionately consolidate joint ventures is eliminated in favor of mandatory application of the equity method. In the context of IFRS 12, disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities are combined, expanded and replaced. The new regulations are effective

for financial years beginning on or after January 1, 2013, if they are not voluntarily applied in advance of this time. The new standards have not yet been endorsed by the European Union. The significant change here results from IFRS 11 "Joint arrangements". Both joint ventures, STADA Import/Export Ltd. and STADA Vietnam J.V. Co. Ltd., which have been proportionately consolidated to date, are to be accounted for using the equity method as of financial year 2013. The proportionate share of assets and liabilities of these two companies will thereby no longer be included in the consolidated balance sheet and the proportionate share of aggregated earnings of both units will be disclosed under one item within the income statement, whereas a disclosure is currently made under the relevant income and expense items.

Furthermore, the IASB passed the new standard IFRS 13 "Fair Value Measurement" in May 2011. This new standard contains a definition of fair value, provides a framework for the measurement of fair value in a single IFRS and contains, moreover, regulations on disclosures of fair value measurement. IFRS 13 thus seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorizes the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The new regulations are effective for financial years beginning on or after January 1, 2013, if they are not voluntarily applied in advance of this time. The new standards have not yet been endorsed by the European Union. The impact that application of the new standards will have on STADA's consolidated financial statements is still currently under review by STADA.

In addition, STADA did not apply a number of further pronouncements and amendments to pronouncements that were adopted by the IASB, the application of which, however, was not mandatory in financial year 2011. From today's perspective no significant effects on the consolidated financial statements are expected from the future application of the further standards and interpretations not yet applied.

4. Changes in accounting policies

There were no changes to accounting policies resulting from new pronouncements or amendments to pronouncements by the IASB with significant consequences for the presentation of STADA's business, financial and earnings situation or cash flow in financial year 2011.

5. Scope of consolidation

All significant subsidiaries, joint ventures and associated companies are included in the consolidated financial statements. Subsidiaries are companies that are directly or indirectly controlled by STADA and are therefore fully consolidated. Control exists if STADA Arzneimittel AG or its subsidiaries are in a position to determine the financial and operating policies of this company for derivation of a commercial benefit. This is generally the case with a share of voting rights of more than 50%. Subsidiaries and special purpose entities are also fully consolidated in the case of a share in voting rights of 50% or less, if consideration of the substance of the business relationship indicates that the special purpose entity is controlled by STADA according to IAS 27 and SIC-12.

A joint venture exists if STADA as well as one or more partner companies have contractually fixed joint control of this joint venture, and is proportionately consolidated according to the respective share in equity.

Associated companies are companies over which STADA can have significant influence and are not subsidiaries or joint ventures. They are included in the consolidated financial statements in accordance with the equity method. Subsidiaries, joint ventures and associated

companies, whose influence, both individually and as a whole, on the business, financial and earnings situation of the STADA Group is insignificant, are not consolidated or accounted for using the equity method. Investments in these companies are accounted for either at fair value or at amortized cost under financial assets. Accumulated, the sales of these companies make up less than 1% of total Group sales.

There were the following changes in the scope of consolidation regarding the number of subsidiaries, joint ventures and associated companies included in financial year 2011:

Number of companies in the scope of consolidation	Germany	outside Germany	Total
January 1, 2011	**14**	**58**	**72**
Acquisitions	0	5	5
Disposals	3	3	6
December 31, 2011	**11**	**60**	**71**

Changes in the scope of consolidation as of December 31, 2011 as compared to December 31, 2010 resulted from the initial inclusion of two French companies, Pharm Ortho Pedic SAS with an acquired share of 25% as well as AELIA SAS with an acquired share of 20%, which are both recognized by STADA as associated companies using the equity method. Furthermore, with the purchase of a branded product portfolio in Eastern Europe as well as the Middle East on December 30, 2011, the integration of the thus accordingly purchased sales units as consolidated subsidiaries into STADA's scope of consolidation was carried out.

In the course of the implementation of the "STADA – build the future" project, the Group, in the reporting year, deconsolidated the Serbian subsidiary Zorka Pharma – Hemija Sabac d.o.o., as the activities of this chemical factory were not part of the Group's core business and were sold. The selling loss from this sale amounted to € 0.03 million and was reported as a special effect under expenses in connection with the "STADA – build the future" project in the reporting year.

Due to the lack of material significance, the subsidiary Hemofarm USA Corporation, based in Washington, USA, was deconsolidated.

In addition, there were changes in the scope of consolidation due to the following mergers under company law:

- STADA R&D GmbH, Bad Vilbel, Germany, into STADA Arzneimittel AG, Bad Vilbel, Germany
- LIFE TRANS Pharma Vertriebs GmbH, Bad Vilbel, Germany, into STADA Arzneimittel AG, Bad Vilbel, Germany
- ALIUD PHARMA Verwaltungs GmbH, Laichingen, Germany, into BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel, Germany
- Cajavec sistemi upravljanja A.D., Banja Luka, Bosnia-Herzegovina, into Hemofarm Banja Luka d.o.o., Banja Luka, Bosnia-Herzegovina, with an increased share to a total of 91.5% from the perspective of the Serbian parent company Hemofarm A.D., Vrsac, Serbia

There were no significant effects on the consolidated balance sheet as of December 31, 2011 as a result of these changes.

As in the previous year, the chart shown above includes BIOCEUTICALS Arzneimittel AG, which is included in the consolidated financial statements as an associated company according to the equity method. STADA holds 15.86% of the shares in this company. The significant influence is therefore not directly due to the shareholding but instead is related in particular to the identity of part of the management

personnel between BIOCEUTICALS Arzneimittel AG and STADA Arzneimittel AG. Details on the relationship between BIOCEUTICALS Arzneimittel AG and STADA are included in the Notes on related party disclosures (Note 48.2). Since financial year 2010, the chart shown above also includes Pymepharco Joint Stock Company, in which STADA now holds a 49.0% stake and which is also included in the consolidated financial statements as an associated company in accordance with the equity method. Furthermore in financial year 2011, both French companies Pharm Ortho Pedic SAS and AELIA SAS, pursuant to shareholdings of 25.0% and 20.0% acquired by STADA, are recognized for the first time as associated companies in the consolidated financial statements using the equity method. The aggregate assets and liabilities, revenue and profit or loss for the period attributable to these four associated companies are shown below:

in € million	2011	2010
Assets	64.4	69.1
Liabilities	53.0	60.9
Revenue	60.7	69.8
Profit or loss for the period	**3.8**	**5.0**

Unchanged from the previous year, two joint ventures, STADA Import/Export Ltd. and STADA Vietnam J.V. Co., Ltd., are included in the scope of consolidation of STADA and are proportionately consolidated in accordance with IAS 31. The assets, liabilities, income and expenses from these companies proportionately included in the consolidated financial statements are shown below:

in € million	2011	2010
Current assets	10.8	7.7
Non-current assets	5.6	6.3
Current liabilities	8.6	8.3
Non-current liabilities	0.9	0.3
Net assets	**6.9**	**5.4**
Income	15.4	13.4
Expenses	13.8	12.6
Profit or loss for the period	**1.6**	**0.8**

There are capital commitments or contingent liabilities on the part of STADA with respect to these joint ventures in the form of a guarantee towards STADA Import/Export Ltd. as well as a guarantee towards STADA Vietnam J.V. Co. Ltd. in the total amount of € 8.5 million.

The investments included in the consolidated financial statements as subsidiaries, joint ventures and associated companies as well as all non-consolidated and other investments are listed below:

Direct investments of STADA Arzneimittel AG:

Name of the company, registered office	Share in capital	Form of consolidation
BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel, Germany	100%	subsidiary
BIOCEUTICALS Arzneimittel AG, Bad Vilbel, Germany	15.86%	associated company
Ciclum Farma, Unipessoal, LDA, Paco de Arcos, Portugal	100%	subsidiary
Clonmel Healthcare Limited, Clonmel, Ireland	100%	subsidiary
Crinos S.p.A., Milan, Italy	96.77%	subsidiary
EG Labo - Laboratoires Eurogenerics SAS, Boulogne-Billancourt, France	100%	subsidiary
EG S.p.A., Milan, Italy	98.87%	subsidiary
Germa Pharm Ltd., Cairo, Egypt	75%	not included
Grünenthal Central Europe GmbH, Mödling, Austria	100%	subsidiary
Grünenthal d.o.o., Mostar, Bosnia-Herzegovina	100%	not included
Grünenthal d.o.o., Zagreb, Croatia	100%	subsidiary
Grunenthal OOO, Moscow, Russia	100%	subsidiary
Grunenthal Ukraine LLC., Kiev, Ukraine	100%	not included
Laboratorio STADA, S.L., Barcelona, Spain	100%	subsidiary
Mobilat Produktions GmbH, Pfaffenhofen, Germany	100%	subsidiary
OAO Nizhpharm, Nizhny Novgorod, Russia	100%	subsidiary
OOO Hemofarm, Obninsk, Russia	10%	subsidiary
OOO STADA Marketing, Nizhny Novgorod, Russia	10%	subsidiary
Oy STADA Pharma Ab, Helsinki, Finland	100%	subsidiary
STADA Arzneimittel Gesellschaft m.b.H., Vienna, Austria	100%	subsidiary
STADA GmbH, Bad Vilbel, Germany	100%	subsidiary
STADA LUX S.à R.L., Luxembourg, Luxembourg	100%	not included
STADA PHARMA CZ, s.r.o., Prague, Czech Republic	25%	subsidiary
STADA Pharma International GmbH, Bad Vilbel, Germany	100%	subsidiary
STADA PHARMA Slovakia s.r.o., Bratislava, Slovakia	100%	subsidiary
STADA Pharmaceuticals (Asia) Ltd., Hong Kong, China	100%	subsidiary
STADA Service Holding B.V., Etten-Leur, The Netherlands	100%	subsidiary
STADApharm AS, Oslo, Norway	100%	not included
STADApharm GmbH, Bad Vilbel, Germany	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through EG Labo - Laboratoires Eurogenerics SAS:

Name of the company, registered office	Share in capital	Form of consolidation
AELIA SAS, Saint Brieuc, France	20%	associated company
Pharm Ortho Pedic SAS, Pellouailles Les Vignes, France	25%	associated company

Indirect investments of STADA Arzneimittel AG through BEPHA Beteiligungsgesellschaft für Pharmawerte mbH:

Name of the company, registered office	Share in capital	Form of consolidation
ALIUD PHARMA GmbH, Laichingen, Germany	100%	subsidiary
cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Bad Vilbel, Germany	100%	subsidiary
Crinos S.p.A., Milan, Italy	3.23%	subsidiary
Croma Medic, Inc., Manila, The Philippines	100%	subsidiary
EG S.p.A., Milan, Italy	1.13%	subsidiary
Germa Pharm Ltd., Cairo, Egypt	25%	not included
Grippostad GmbH, Bad Vilbel, Germany	100%	not included
GT Pharma GmbH, Bad Homburg, Germany	100%	not included
IIP Institut für Industrielle Pharmazie Forschungs- und Entwicklungsgesellschaft mbH, Aschaffenburg, Germany	25%	not included
Mainsee 738. V V. GmbH, Bad Vilbel, Deutschland	100%	not included
PharmaCoDane ApS, Herlev, Denmark	100%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium	0.01%	subsidiary
S.A. Neocare N.V., Brussels, Belgium	4.63%	subsidiary
STADA Asiatic Company, Ltd., Bangkok, Thailand	60%	subsidiary

Indirect investments of STADA Arzneimittel AG through BEPHA Beteiligungsgesellschaft für Pharmawerte mbH and ALIUD PHARMA GmbH:

Name of the company, registered office	Share in capital	Form of consolidation
Data – AL GmbH, Neu-Ulm, Germany	30%	not included
STADA PHARMA CZ, s.r.o., Prague, Czech Republic	75%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA GmbH:

Name of the company, registered office	Share in capital	Form of consolidation
STADA Medical GmbH, Bad Vilbel, Germany	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V.:

Name of the company, registered office	Share in capital	Form of consolidation
Centrafarm Nederland B.V., Etten-Leur, The Netherlands	100%	subsidiary
Hemofarm A.D., Vrsac, Serbia	100%	subsidiary
Pymepharco Joint Stock Company, Tuy Hoa City, Vietnam	49%	associated company
S.A. Eurogenerics N.V., Brussels, Belgium	99.99%	subsidiary
S.A. Neocare N.V., Brussels, Belgium	95.37%	subsidiary

Indirect investments of STADA Arzneimittel AG through Centrafarm Nederland B.V.:

Name of the company, registered office	Share in capital	Form of consolidation
Alphacen N.V., Etten-Leur, The Netherlands	100%	not included
Cellpharm B.V., Etten-Leur, The Netherlands	100%	not included
Centrafarm Pharmaceuticals B.V., Etten-Leur, The Netherlands	100%	subsidiary
Healthypharm B.V., Etten-Leur, The Netherlands	100%	subsidiary
HTP Huisapotheek B.V., Etten-Leur, The Netherlands	100%	subsidiary
Neocare B.V., Etten-Leur, The Netherlands	100%	subsidiary
Quatropharma Holding B.V., Etten-Leur, The Netherlands	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V., Centrafarm Nederland B.V. and Quatropharma Holding B.V.:

Name of the company, registered office	Share in capital	Form of consolidation
Centrafarm B.V., Etten-Leur, The Netherlands	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd.:

Name of the company, registered office	Share in capital	Form of consolidation
CIG (Hong Kong) Limited, Hong Kong, China	70%	not included
DATApharm Co. Ltd., Tortola, British Virgin Islands	51%	not included
STADA Import/Export Ltd., Tortola, British Virgin Islands	50%	joint venture
STADA Pharmaceuticals (Beijing) Ltd., Beijing, China	75%	not included
STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City, Vietnam	50%	joint venture
STADAPHARMA HEALTHCARE INC., Makati City, The Philippines	40%	not included

Indirect investments of STADA Arzneimittel AG through Clonmel Healthcare Limited:

Name of the company, registered office	Share in capital	Form of consolidation
Breathe Pharmaceuticals Ltd. J.V., Clonmel, Ireland	50%	not included
CNRD 2009 Ireland Ltd., Dublin, Ireland	50%	not included
Crosspharma Ltd., Belfast, United Kingdom	100%	subsidiary
Genus Pharmaceuticals Holdings Ltd., Newbury, United Kingdom	100%	subsidiary
SFS International Limited, Clonmel, Ireland	100%	subsidiary
STADA Financial Investments Limited, Clonmel, Ireland	100%	subsidiary
STADA Production Ireland Limited, Clonmel, Ireland	100%	subsidiary
STADApharm AB, Malmö, Sweden	100%	not included

Indirect investments of STADA Arzneimittel AG through Clonmel Healthcare Limited and Genus Pharmaceuticals Holdings Ltd.:

Name of the company, registered office	Share in capital	Form of consolidation
Britannia Pharmaceuticals Ltd., Newbury, United Kingdom	100%	subsidiary
Genus Pharmaceuticals Ltd., Newbury, United Kingdom	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through OAO Nizhpharm:

Name of the company, registered office	Share in capital	Form of consolidation
Hetmak FZCO, Dubai, United Arab Emirates	50%	not included
Nizhpharm-Kasachstan TOO DO, Almaty, Kazakhstan	100%	subsidiary
Nizhpharm-Ukraine DO, Kiev, Ukraine	100%	subsidiary
OOO Hemofarm, Obninsk, Russia	90%	subsidiary
OOO STADA CIS, Nizhny Novgorod, Russia	100%	subsidiary
OOO STADA Marketing, Nizhny Novgorod, Russia	90%	subsidiary
OOO STADA PharmDevelopment, Nizhny Novgorod, Russia	100%	subsidiary
UAB STADA-Nizhpharm-Baltiya, Vilnius, Lithuania	100%	not included
ZAO Makiz-Pharma, Moscow, Russia	100%	subsidiary
ZAO Skopinpharm, Ryazanskaya obl., Russia	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through Ciclum Farma, Unipessoal, LDA:

Name of the company, registered office	Share in capital	Form of consolidation
STADA, LDA, Paco de Arcos, Portugal	98%	not included

Indirect investments of STADA Arzneimittel AG through Laboratorio STADA S.L.:

Name of the company, registered office	Share in capital	Form of consolidation
STADA Consumer Health, S.L., Barcelona, Spain	100%	not included
STADA Genericos, S.L., Barcelona, Spain	100%	not included
STADA, LDA, Paco de Arcos, Portugal	2%	not included

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. and Hemofarm A.D.:

Name of the company, registered office	Share in capital	Form of consolidation
AGROVOJVODINA - Vrsac d.o.o., Vrsac, Serbia	100%	not included
Banatska Prica d.o.o., Vrsac, Serbia	50%	not included
Breg d.o.o., Vrsac, Serbia	52.90%	not included
Hemofarm Arabia Ltd., Damascus, Syria	50%	not included
Hemofarm Banja Luka d.o.o., Banja Luka, Bosnia-Herzegovina	91.50%	subsidiary
Hemofarm Inženjering d.o.o., Belgrade, Serbia	100%	subsidiary
Hemofarm Komerc d.o.o., Skoplje, Macedonia	99.18%	not included
Hemofarm Sabac d.o.o., Sabac, Serbia	100%	subsidiary
Hemofarm Slovakia, Skalica, Slovakia	54%	not included
Hemofarm S.a.r.l., Constantine, Algeria	40%	not included
Hemomont d.o.o., Podgorica, Montenegro	71.02%	subsidiary
HEMOPHARM ENGINEERING Gesellschaft für Planung und Projektierung mbH, Bad Homburg, Germany	100%	subsidiary
Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg, Germany	100%	subsidiary
HF Pharmasuisse AG, Chur, Switzerland	100%	subsidiary
Jinan Hemofarm Pharmaceuticals, Jinan, China	35.50%	not included
MOJA APOTEKA d.o.o., Vrsac, Serbia	100%	not included
STADA Hemofarm d.o.o., Ljubljana, Slovenia	100%	not included
STADA Hemofarm d.o.o., Zagreb, Croatia	100%	subsidiary
STADA HEMOFARM Poland Sp. z o.o., Warsaw, Poland	100%	subsidiary
STADA HEMOFARM S.R.L., Temisvar, Romania	100%	subsidiary
STADA PHARMA Bulgaria EOOD, Sofia, Bulgaria	100%	subsidiary
Velefarm A.D., Belgrade, Serbia	20.65%	not included
Vetfarm A.D., Belgrade, Serbia	15%	not included

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V., Hemofarm A.D and HF Pharmasuisse AG:

Name of the company, registered office	Share in capital	Form of consolidation
HF PharmaSwyzz Germany GmbH, Bad Homburg, Germany	100%	not included

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V., Hemofarm A.D and Hemofarm Inženjering d.o.o.:

Name of the company, registered office	Share in capital	Form of consolidation
Global Project d.o.o., Vrsac, Serbia	100%	subsidiary
OOO Hemofarm Inženjering Obninsk, Obninsk, Russia	100%	subsidiary

The exemption rule stated in Section 264 (3) of the HGB was applied to ALIUD PHARMA GmbH, BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, STADA GmbH, STADA Medical GmbH, STADApharm GmbH, STADA Pharma International GmbH and Mobilat Produktions GmbH.

6. Principles for the consolidation of subsidiaries, joint ventures and associated companies

According to IFRS, business combinations are to be accounted for using the acquisition method. Assets, liabilities and contingent liabilities from business combinations are generally recognized in full – irrespective of the amount of the shareholding – as of the acquisition date at their fair values. If the acquisition costs of the subsidiary acquired exceed the proportionate newly measured net assets of the acquiree, STADA recognizes the positive difference as goodwill. After critical examination of the premises underlying the purchase price allocation, a negative difference is recognized in income in the period of the acquisition. The shares of non-controlling interests are disclosed in the amount of their share in net assets of the subsidiary.

The acquisition of additional shares from an existing controlling position in a subsidiary is recognized directly in equity in accordance with IAS 27, as it is a transaction between the equity investors.

Subsidiaries are generally included in the consolidated financial statements from the acquisition date to the end of control by the parent company. Receivables and payables, expenses and income, as well as earnings between the companies included in the consolidated financial statements are eliminated, intercompany value adjustments and provisions are released. If these consolidation measures result in deviations between the IFRS carrying amounts and the tax base of assets and liabilities, deferred tax liabilities are recognized.

Joint ventures are consolidated according to the same principles, in accordance with the respective share in these companies.

Shares in associated companies are recognized according to the equity method at acquisition cost on the date when significant influence was established and carried forward from this date in the amount of the proportionate share of earnings in the financial year. A positive difference determined during the purchase price allocation is recognized as goodwill in the carrying amount of the investment in the associated company. A negative difference is recognized in income in the period of the acquisition in the results from associated companies. Profit and loss from transactions with associated companies is recognized in the consolidated financial statements only according to the share of minority interests.

If indications arise from the application of IAS 39 that the carrying amount of the associated company determined using the equity method may be impaired, an impairment test is carried out and, if applicable, an impairment loss in the amount of the difference between the carrying amount and the recoverable amount is recognized. The recoverable amount is the higher of the fair value less cost to sell and the value in use of the shares in an associated company.

7. Currency translation

The functional currency of STADA Arzneimittel AG is the euro and represents the reporting currency of the Group.

In the separate financial statements of companies included in the consolidated financial statements, foreign currency transactions are translated into the functional currency at the exchange rate applicable at the time of the transactions. On every balance sheet date, monetary items are translated using the closing rate and non-monetary items are translated using the exchange rate at the date of the transaction. Resulting currency translation differences are recognized in income as exchange gains or losses.

The translation of the companies with a functional currency other than the euro included in the consolidated financial statements into the Group functional currency is carried out using the closing rate method. Assets and liabilities are generally translated using the closing rate, while individual components of equity are translated using the historical rates at their respective dates of inflow from the Group's perspective. The income and expenses of the income statements are translated – and thereby also the resulting translation of the annual results to be entered in equity – using the average exchange rate of the period.

Currency translation differences arising from the use of different exchange rates are recognized directly in equity in the "Provisions for currency translation". These provisions are released and recognized in income if Group companies leave the scope of consolidation.

The exchange rate development of currencies important to STADA to the euro can be seen in the following chart.

Significant currency relations in local currency to 1 euro	Closing rate on Dec. 31 in local currency			Average rate for the reporting period in local currency		
	2011	2010	±%	2011	2010	±%
Pound sterling	0.83720	0.86300	-3%	0.86970	0.85746	1%
Russian ruble	41.73623	40.53506	3%	41.00041	40.20909	2%
Serbian dinar	106.04454	105.48523	1%	102.04082	103.62694	-2%
US Dollar	1.29379	1.32820	-3%	1.39960	1.32128	6%

8. Business combinations

In financial year 2011, there was a significant business combination as defined in IFRS 3 which is described in more detail below.

On July 22, 2011, STADA with Grünenthal GmbH, a globally active research pharmaceuticals company located in Aachen, Germany, signed contracts on the purchase of a branded product portfolio including the associated sales structures for numerous national markets in Eastern Europe and the Middle East. STADA gained control over the sales companies with an acquired share of 100% including the branded product portfolio on December 30, 2011.

In the current first quarter of 2012, STADA also acquired the branded product portfolio including related sales structures and various pipeline products for markets belonging to the EU in Central Europe from Grünenthal GmbH. The underlying contract between STADA Arzneimittel AG and Grünenthal GmbH was signed on January 27, 2012. The purchase price for this region amounted to a total of € 160 million. STADA gained control over the sales companies with an acquired share of 100% including the branded product portfolio on January 27, 2012.

The purchase price for the acquisition of the sales companies including the branded product portfolio for the markets in Eastern Europe and the Middle East as well as Central Europe amounted to a total of approx. € 312 million.

As control of the sales companies including the branded product portfolio of the first tranche started at a point in time that was in very close temporal relation to the preparation of the consolidated financial statements and, furthermore, since this tranche represents an economic unit together with the second tranche of the acquisition, no purchase price allocation had been carried out as of the preparation of the 2011 consolidated financial statements.

A preliminary purchase price allocation will be carried out in the first quarter of 2012 for all of the sales companies and the related branded product portfolio acquired from Grünenthal GmbH. It is therefore currently not possible to make statements regarding potential goodwill or the amount thereof.

The assets and liabilities assumed as of the balance sheet date with the first tranche of acquired sales companies including the related branded product portfolio were as follows:

Fair values in € 000s	
Intangible assets	150,261
Property, plant and equipment	345
Other non-current assets	33
Inventories	24
Trade accounts receivable	3,899
Other current assets	419
Cash and cash equivalents	1,110
Assets	**156,091**
Other non-current provisions	401
Other non-current liabilities	1,101
Trade accounts payable	2,364
Other current liabilities	675
Liabilities	**4,541**

Opening balance sheets for the sales companies acquired in the context of the second tranche in the current financial year 2012 were not available at the time of the preparation of the consolidated financial statements.

Income and expenses for the branded product portfolio in Eastern Europe and the Middle East will be consolidated in the STADA Group as of January 1, 2012. The income and expenses for the branded product portfolio for markets belonging to the EU in Central Europe will be consolidated in the STADA Group as of February 1, 2012. Therefore, there were no effects on the consolidated income statement from this business combination for financial year 2011.

Disclosures regarding revenue, gains and losses of the sales companies acquired in financial year 2011, under the assumption that the companies were acquired at the beginning of the period, cannot be made in isolation because the business combination, with respect to the two tranches of the acquisition, can only be regarded as an economic unit.

Moreover, there was an additional significant business combination after the balance sheet date in the context of the purchase of the generics business including the respective sales structures of Spirig Pharma AG, a Swiss pharmaceuticals company based in Egerkingen, Canton Solothurn. The underlying contract between STADA Arzneimittel AG and the shareholders of Spirig Pharma AG was signed on November 9, 2011. STADA consolidates the generics business of Spirig Pharma AG retroactively as of January 1, 2012.

The purchase price for this generics business totals approx. CHF 97 million (approx. € 78 million) and also includes the right to continue marketing the acquired products under the Spirig umbrella brand. The acquired portfolio includes 56 prescription (RX) and 15 non-prescription (OTC) and discretionary prescription (OTX) products.

STADA currently expects to uncover goodwill in the amount of approx. 33% of the purchase price. Goodwill thereby results primarily from the entry into the Swiss generics market.

9. Accounting policies

STADA's consolidated financial statements are based on uniform accounting policies. The basis for these are the accounting requirements which are mandatory for all companies included in the consolidated financial statements and which are described in more detail below.

Sales are recognized when goods have been delivered or services rendered, provided that it is reasonably probable that measurable economic benefits will flow to the entity and that the substantial risks and rewards of ownership have been transferred to the buyer. It must also be possible to reliably measure the Company's own costs incurred or to be incurred.

Sales are recognized before taxes and after deduction of revenue reductions (rebates or discounts) at fair value of the consideration received or receivable. Expenses from the creation of provisions for warranties are deducted from sales on the basis of estimated amounts. The estimates are based on experience regarding amounts used in the past. The estimated expense from the creation of provisions is determined as a percentage of sales. Discounts to health insurance organizations are also recognized with a reduction on sales based on the respective contract in force.

Income and expenses from the same transactions are generally recognized in the same period. Expenses related to accruals for future revenue reductions are thus recorded in the period in which the sales are realized.

Cost of sales includes the costs of conversion of the products sold and the purchase price of commercial goods sold or given free of charge. The expense is recognized in the period in which the associated income is realized. In addition, cost of sales also includes costs directly attributable to the commercial goods (e.g. cost of materials and personnel expenses), overhead costs (e.g. depreciation of production equipment and regulatory drug approvals and licenses) as well as value adjustments of excess or obsolete inventories.

Research expenses are costs that are incurred in relation to the research activity of a company that aims to provide new scientific or technical findings. The product portfolio of the STADA Group continues to focus on products that do not require the Group to conduct its own research. Just as in the previous years, no research expenses were thus incurred in financial year 2011.

Development expenses consist of expenses involved initially in the technical implementation of theoretical discoveries in production and production processes and ultimately their commercial implementation.

As a rule, the objective of a development process at STADA is to obtain national or multinational regulatory drug approval. Development costs relative to approvals for new drugs obtained by STADA result in capitalization as intangible assets if all the following preconditions are met:

- It is technically possible to complete the asset (generally, achieve regulatory approval), enabling it to become available for use or sale.
- The intention and ability exist as well as the necessary resources to complete the asset and to use or sell it in the future.
- The intangible asset provides the Group with a future economic benefit.
- It must be possible to reliably calculate the development costs of the intangible asset.

STADA immediately recognizes development costs not eligible for capitalization as expense in the periods in which they are incurred.

Interest income is reported in the income statement as a component of financial income. In this regard, both interest income and interest expenses for all financial instruments measured at amortized cost as well as interest-bearing financial assets classified as available for sale are recognized on the basis of the effective interest rate.

Dividends received from companies not included in the consolidated financial statements are disclosed within the investment income. This shall be recognized when the shareholder's right to receive payment is established.

Income taxes include actual taxes on income as well as deferred taxes. The tax receivables and liabilities recognized in the balance sheet include demands or liabilities for income taxes in Germany and outside Germany from financial year 2011 as well as from previous years, if applicable. The tax receivables and liabilities are calculated on the basis of tax rates effective as of the balance sheet date or known and already concluded for the future in the countries in which the taxable income is generated.

Deferred taxes are created for temporary differences between the tax base of the assets or liabilities and their valuation rate in the IFRS financial statements as well as for tax loss carryforwards. Deferred tax assets are recognized to the extent that it is probable that a taxable

profit will result against which the temporary difference can be utilized. Deferred tax liabilities are recognized for temporary differences taxable in the future. STADA determines deferred taxes on the basis of tax rates applicable at the balance sheet date or those that have already been resolved and communicated for the future. Deferred tax receivables and liabilities are offset if these relate to the same taxation authority.

The tax expense in the period is recognized in the income statement, provided the changes in value that are recognized directly in equity are not affected. To the extent that there are changes in the tax rate with an effect on deferred taxes, the resulting effects are recognized in the period in which they arise.

Goodwill is not amortized over the period of useful life. Instead, an impairment test is performed at least once per year (impairment-only approach). For this purpose, goodwill is allocated to cash-generating units, where a cash-generating unit corresponds to the respective operating segment within a country or a company. Goodwill generally relates to the two core segments Generics and Branded Products.

STADA carries out impairment tests for capitalized goodwill at least once a year. Additional reviews take place if indications of impairment become apparent. During the impairment test, the carrying amount of each cash-generating unit is compared with its recoverable amount. The carrying amount of a cash-generating unit comprises the carrying amounts of all assets and liabilities attributable to the valuation unit including the carrying amount of goodwill to be tested. If the recoverable amount of a cash-generating unit is lower than the carrying amount, an impairment loss results. The recoverable amount is generally defined as the higher of the fair value less costs to sell, if measurable, and the value in use of the cash-generating unit. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of the expected long-term inflation rate is assumed. Significant assumptions which are taken in order to determine the value in use include assumptions regarding sales development, regulatory conditions, investments, the discount rate as well as the growth rate. These assumptions are taken individually according to the individual national situations for every cash-generating unit.

Other intangible assets with determinable useful lives are recognized at cost and amortized on a straight-line basis over the period of useful life. Amortization shall begin when the asset is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the intended manner. The useful life of regulatory drug approvals, trademarks, licenses, dossiers with data for drug approvals or in preparation of drug approvals, software, concessions, property rights and similar rights is between three and 20 years. If on the balance sheet date, there are indications that these assets are impaired, the recoverable amount of the asset is re-evaluated and impairment losses are recognized according to the difference to the carrying amount. If the reasons for recognizing an impairment loss cease to exist, corresponding write-ups are carried out up to a maximum of the amortized cost.

Intangible assets with indeterminable useful lives are not amortized. In the context of annual impairment tests and additionally in all cases where there are indications of impairment, the recoverable amounts of these assets are compared with their carrying amounts and if necessary, an impairment loss is recognized. At STADA, this affects the umbrella brand Hemofarm acquired in the context of the acquisition of the Hemofarm group, which is checked for the requirement for impairment in the context of impairment tests of the goodwill in the Hemo-

farm group. Intangible assets that are not yet available for use are also generally put through annual impairment tests. Furthermore, in each reporting period, an audit is carried out to check whether the reasons for recognizing an indefinite useful life continue to exist.

Internal development costs are capitalized in accordance with the criteria in IAS 38. Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs, external services and directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life (generally 20 years).

Property, plant and equipment is reported at cost less depreciation and any impairment losses plus write-ups. Depreciation shall begin when the asset is available for use and is accordingly in the condition necessary for it to be capable of operating. Subsequent acquisition costs are capitalized. Capitalization requires that a future economic benefit will flow to the company and that the cost of the asset can be reliably measured. Expenses for repairs and maintenance which do not represent significant replacement investments are recognized as expenses in the financial year in which they are incurred.

Items of property, plant and equipment are depreciated according to their useful life using the straight-line method. The depreciation period may be up to 50 years in the case of buildings, eight to 20 years in the case of technical facilities and three to 14 years for other plant and office furniture and equipment. The component approach, according to which every significant component of property, plant and equipment with different useful lives, must be depreciated separately, is not applied at STADA due to a lack of relevance. To the extent necessary, impairment losses are recognized pursuant to IAS 36; these are reversed if the reasons for the original recognition of an impairment loss no longer exist.

Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are capitalized as part of the cost of the intangible asset or property, plant and equipment. Other borrowing costs are not capitalized. Where acquisitions are made in a currency other than the respective functional currency, subsequent changes in exchange rates have no impact on the recording of original costs.

Profits and losses from the disposal of intangible assets and property, plant and equipment are determined as the difference between the disposal proceeds and the respective carrying amounts and are recognized netted under the items “Other income” or “Other expenses” in the income statement.

Impairments on other intangible assets and property, plant and equipment exist when the recoverable amount of an asset is lower that its carrying amount. At each balance sheet date, STADA assesses whether indications for impairment are apparent. If this is the case, the asset’s recoverable amount is determined. For other intangible assets, STADA carries out an annual impairment test in addition to the event-related assessments. In a first step, an amortization calculation (payback method) is prepared. If certain defined critical values are exceeded, the asset’s recoverable amount is determined. The recoverable amount is the higher of the asset’s fair value less costs to sell and its value in use, where the value in use is calculated with a discounted cash flow method. Under this procedure, future cash flows of intangible assets are discounted at the weighted average cost of capital, which is determined individually for various groups of countries with specific parameters. Expenses arising from impairments are recognized under “Other expenses”.

If the reasons for an impairment no longer exist, the corresponding write-ups are carried out up to a maximum of the carrying amounts determined at amortized cost. Income from write-ups is reported under the item “Other income”.

Leases are classified either as operating lease or as finance lease, depending on whether the significant risks and rewards of ownership remain with the lessor or with the lessee. The lease is not recognized in the lessee’s balance sheet in case of operating leases. STADA records the lease payments for these leases in the income over the lease term. Assets from finance leasing are, on initial recognition, recognized at the lower of the fair value of the lease and the present value of minimum lease payments, and are depreciated according to their estimated useful lives or shorter contractual period. An amount is reported as lease liability, when, on initial recognition, it corresponds to the lease’s carrying amount and is extinguished and carried forward in subsequent periods with a constant effective interest rate. The interest that is part of the lease installment is recognized as an expense.

In addition, in case of sale and leaseback transactions that represent a finance lease, any excess of sales proceeds over the carrying amount is deferred and recognized in the income statement over the lease term.

The total value of capitalized leases is not of material significance for STADA when compared with the total volume of fixed assets.

Under **financial assets**, STADA recognizes shares in non-consolidated, affiliated companies, other investments as well as held-to-maturity securities. Shares in associated companies and other investments are classified as available-for-sale financial assets and are generally reported at fair value with no effect on income. If no quoted market prices in an active market are available to measure these shares and their fair value therefore cannot be determined reliably, they are measured at amortized cost. If any objective indications of impairment are determined, these are quantified by means of an impairment test and recognized in profit or loss in accordance with IAS 39.

Inventories include such assets that are held for sale in the ordinary course of business (finished goods), that are in the process of production for such sale (work in progress), and that are consumed in the production process or in the rendering of services (materials and supplies). Inventories are measured at the lower of cost and net realizable value. Costs are calculated based on weighted average costs. Costs of sales include both costs that are directly incurred in production and overheads that can be allocated to the production process, including reasonable depreciation on production facilities. Financing costs are not included, but are instead recognized as an expense in the period in which they occur. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Financial assets can be broken down into the following categories in accordance with IAS 39: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Financial assets are accounted for and measured pursuant to IAS 39. Accordingly, financial assets are, as a rule, initially recognized at fair value. In addition, for financial assets which are subsequently measured at amortized costs, transaction costs directly attributable to the acquisition are to be taken into account. Different measurement policies apply for subsequent measurement in accordance with the applicable categories for financial assets pursuant to IAS 39.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are allocated to current assets to the extent that they are due for settlement within twelve months after the balance sheet date. STADA reports loans and receivables under "Trade accounts receivable", "Other financial assets" and "Cash and cash equivalents". They are measured at amortized cost using the effective interest method.

STADA reports receivables from derivatives which, if applicable, may also be part of hedge accounting, as **financial assets at fair value through profit or loss**. Assets in this category are in principle reported under current assets in the "Other financial assets" item. They are measured at fair value. If these assets do not have a quoted market price in an active market, fair value is determined with appropriate measurement models. This includes the application of the discounted cash flow methods, which are largely based on input parameters observable in the market. Changes in the fair values are recognized in profit and loss at the time of the increase or decrease in value.

Held-to-maturity financial investments include non-derivative assets with fixed or determinable payments and a fixed term that STADA intends to hold to maturity. They are measured at amortized cost using the effective interest method. STADA reports these assets in financial assets under the item "Other financial assets".

Available-for-sale financial assets are non-derivative assets that are not allocated to any of the above categories. In particular, they comprise, in addition to shares in affiliated companies and other investments included in financial assets, equity securities which are recognized under "Other financial assets". They are measured at fair value, with recognition of changes under "Provisions Available for Sale" directly in equity. These measurement results are reclassified through profit and loss upon sale or valuation allowance of these assets. There must be objective evidence that there is a significant or continuing decrease in fair value below cost. Usually, published price quotations can be used for determining fair value.

Trade accounts receivable are measured at amortized cost less impairments using the effective interest rate method. Impairments are made in the form of individual impairments and general individual impairments for specific defaults and expected default risks resulting from the insolvency of customers. To quantify the expected default risk, STADA determines the expected future cash flows from receivables grouped by debtor. To this end, the maturity structures of net receivables and experience relating to derecognition of receivables in the past, the creditworthiness of the customers as well as changes in payment conditions are taken into account. In addition, a trade credit insurance that covers part of the loss in case of default is to be taken into consideration for German Group companies. The required impairment thus determined reduces the assets' carrying amounts through recognition of an impairment account.

The loss is recognized in profit and loss under "Other expenses". Bad debts are derecognized against the impairment account. Subsequent cash receipts for receivables already derecognized are presented net of expenses.

Non-current assets and disposal groups held for sale are classified as held for sale, if the related carrying amount will be recovered principally through a sale transaction rather than through continuing use, and if the sale is regarded as highly probable. Measurement of these assets is based on the lower of carrying amount and fair value less costs to sell.

Cash and cash equivalents include cash and call deposits as well as short-term and highly liquid financial investments with a maximum term of 90 days from the purchase date, which can be converted to cash immediately and are subject only to minor price fluctuation risks. They are measured at amortized cost. Cash and cash equivalents are reported in accordance with their definition in IAS 7.

Other assets, which are not based on any contractual rights involving the direct or indirect exchange of cash, are recognized under the item **Other assets**.

STADA maintains defined benefit pension plans in various countries, according to which the amount of pension benefits depends on the employees' pensionable remuneration and the length of their service. STADA has plan assets in the form of a reinsurance policy for a small number of former employees in Germany. In addition, there are plan assets in two foreign subsidiaries in the form of government bonds and securities funds. **Pension provisions** are measured in accordance with actuarial principles of the projected unit credit method. Accordingly, the amount recognized in the balance sheet corresponds to the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets adjusted for past service cost not recognized through profit and loss. The calculation includes, apart from earned pensions and entitlements, future salary and pension increases as well. For German Group companies, pension obligations are calculated based on the biometric accounting principles of the Heubeck 2005G mortality tables. Outside Germany, country-specific mortality tables are used. Future pension benefits are subject to individual pension agreements. Percentages contained in individual pension agreements may vary. The interest rate used for determining the present value of the obligations is based on high-quality fixed rate corporate bonds of the respective currency area.

STADA records actuarial gains and losses from adjustments as well as changes in actuarial assumptions in the period in which they occur directly in equity under retained earnings. The relevant amounts are reported separately in the consolidated statement of comprehensive income. Gains on plan assets are reported as interest income. The current service cost is recorded in staff costs of the individual functional areas. Past service cost is only immediately recognized in profit or loss in case of vested entitlements, otherwise it is recognized in profit and loss on a straight-line basis until the benefits become vested.

Individual Group companies additionally grant their employees defined contribution plans. Here, Group companies pay defined contributions to independent institutions due to legal or contractual requirements or on a voluntary basis; liabilities beyond this do not exist. Contributions to be paid for defined contribution plans are recognized as expense in the respective period in the relevant functional areas.

The **other non-current provisions** include anniversary provisions as other long-term employee benefits as well as other post-employment benefits in the form of one-time payments to employees upon their departure.

Anniversary provisions are recognized according to the principles of IAS 19 for other long-term employee benefits. As opposed to pension provisions, actuarial gains and losses are not recognized without an effect on the income statement. Such potential gains and losses are immediately recognized in the income statement as well as under other income or other expenses.

In some countries, companies grant benefits to employees upon their departure rather than pensions. These are recognized as other post-employment benefits pursuant to IAS 19 according to the same principles of pension provisions.

Other provisions are made by STADA if there are current legal or constructive obligations to third parties arising from past events and probably can lead to an outflow of resources embodying economic benefits that can be reliably determined. An outflow of resources embodying economic benefits is considered as probable if it is more likely than not. Other provisions are recognized in an amount that, taking into account all recognizable risks, offers the best possible estimate of expenditures necessary to fulfill the obligations. Any existing reimbursement claims by third parties are not netted with other provisions. Expenses from the creation of provisions are allocated to functional costs according to where they arise. If changes in estimates result in a reduction of the obligation, the other provisions are reversed on a pro rata basis and recognized in profit and loss under the item where the original expense was recognized.

STADA reports all other provisions as current liabilities, because a settlement date within twelve months of the balance date is expected. The amounts recognized are not discounted. Liabilities incurred due to outstanding accounts or obligations vis-à-vis personnel and tax authorities, as well as other liabilities are not recorded as provisions, but under “Trade accounts payable” or “Other liabilities”.

Differentiated from provisions, there are **contingent liabilities** for possible obligations based on past events but which will not become manifest until the occurrence of one or more uncertain future events, which are not under STADA’s control. In addition, there are also contingent liabilities for current obligations, for which however the associated outflow of resources is not considered probable or the amount of the obligation cannot be adequately estimated. In accordance with IAS 37, such contingent liabilities are not recognized.

Financial liabilities are measured on initial recognition at fair value plus transaction costs directly attributable to the acquisition. For financial liabilities that subsequently continue to be measured at fair value, any transaction costs are recognized as an expense in the period in which they occur. This relates to the accounting of derivative financial instruments with negative market values that are not part of an effective hedging relationship and allocated to the category “at fair value through profit or loss” in accordance with IAS 39. STADA reports these liabilities under current liabilities in the “Other financial liabilities” item. Here, those derivative financial instruments are also included which serve to hedge interest rate and currency risks resulting from operating activities, financial transactions and investments, and which are also measured at fair value in accordance with the regulations of IAS 39 on hedge accounting. Unless market prices are available, fair value is determined with measurement models based on discounted cash flow models.

Derivative financial instruments exist at STADA in the context of derivatives measured at fair value with an effect on income as well as in the context of derivative hedging instruments. In each case, depending on whether the market value of the derivatives is positive or negative, they are recognized under the item "Other financial assets" or "Other financial liabilities" (see accounting policies for financial assets and financial liabilities). Cash flow hedges, fair value hedges and hedges of net investments in a foreign operation can generally be recognized as derivative hedging instruments in the context of hedge accounting in accordance with IAS 39.

At STADA, cash flow hedges are used to hedge against fluctuations of cash flows associated with a recognized asset or a recognized liability or a highly probable planned transaction. Changes in the fair value of these hedging instruments are recognized in the amount of the effective part of the hedging relationship directly in equity under "Provisions for cash flow hedges". A transfer to the income statement takes place in the period when the underlying hedged item becomes effective. The ineffective part of the changes in value is, however, recognized directly in the income statement.

In the context of fair value hedges, the risk of a change in fair value of recognized assets or recognized liabilities or fixed off balance liabilities is hedged. Changes in the fair value of these hedging transactions are recorded in profit and loss like changes in the fair value of the underlying hedged items. If the requirements for hedge accounting are no longer met, the carrying amounts of the previously hedged items are adjusted on the basis of their remaining terms. Hedges of net investments in a foreign operation are treated according to the same accounting policies as cash flow hedges.

STADA regularly reviews the effectiveness of the hedging relationships as a prerequisite for hedge accounting pursuant to IAS 39. A hedging transaction is in general considered to be effective, if changes in fair value of the hedging transaction are both prospectively and retrospectively within a range of 80% to 125% of the offsetting changes in fair value of the hedged item.

STADA measures all other financial liabilities, in particular trade accounts payable as well as financial liabilities, at amortized cost using the effective interest method.

STADA has so far not made use of the option to designate financial liabilities on initial recognition as financial liabilities to be recognized at fair value through profit or loss.

Other liabilities, which are not based on any contractual rights involving the direct or indirect exchange of cash, are recognized under the item **Other liabilities**.

10. Estimates, assumptions and discretion in the application of accounting principles

The presentation of the business, financial and earnings situation in the consolidated financial statements is determined by recognition and valuation methods. To a certain extent, STADA makes estimates and assumptions relating to the future that are based on past experience as well as other factors that are considered to be appropriate in the particular circumstances. Although the estimates and assumptions are constantly re-evaluated, estimates derived in this way may differ from actual circumstances. The significant estimates, accounting judgments and related assumptions for the accounting issues concerned are detailed below.

As part of purchase price allocations in business combinations, goodwill is the difference between the acquired net assets valuated according to IFRS 3 and the consideration transferred plus the fair value of the previously held shares and the amount recognized of non-controlling shareholders. Various valuation methods are used for this, which are primarily based on estimates and assumptions.

STADA carries out an impairment test for capitalized goodwill at least once a year. The discounted future cash flows of the cash-generating units, which are based on certain assumptions, are to be determined for this purpose. The application of the discounted cash flow method thus requires the calculation of an individual interest rate for each cash-generating unit. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years based on approved budgets. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of the expected long-term inflation rate is assumed. The budget values for future financial years, which are subject to some uncertainty due to unforeseeable future legal developments and developments in the health care market, as well as the parameters determined in the context of current market information but also as a best possible estimate mean that the assessment of impairment may differ from actual circumstances, and despite good forecasts in the reporting year an impairment requirement may be necessary in subsequent years.

For items of property plant and equipment and intangible assets, the expected useful lives and associated amortization or depreciation expenses are determined on the basis of the expectations and assessments of management. If the actual useful life is less than the expected useful life, the amount of depreciation or amortization is adjusted accordingly. As part of the determination of impairment losses on fixed assets, estimates relating to the cause, timing and amount of the impairments are also made. Particularly in the context of impairment tests for yet unused approvals, which are recognized as advance payments, the growth rates applied for the present value test as well as the long-term price and cost development of active pharmaceutical ingredients are based on best possible estimates. This also applies to the impairment tests of other intangible assets with indefinite useful lives.

Development costs are capitalized based on the assessment of whether the capitalization requirements of IAS 38 are met. Planning calculations are necessary to determine the future economic benefit, which are by their nature subject to estimates and may therefore deviate from actual circumstances in the future.

STADA makes valuation allowances on receivables in order to anticipate losses expected in relation to insolvency of customers. The maturity structure of the net receivables and past experience in relation to bad debts as well as the customers' creditworthiness are used as the criteria for evaluating the appropriateness of the valuation allowances. This does not, however, exclude the possibility that the actual derecognitions will exceed the expected valuation allowances due to a significant worsening in the financial situation of the customer. Accounting judgments and estimates regarding the assessment of the value of receivables relate particularly to impaired receivables from debtors in CEE countries.

STADA operates in various countries and is obliged to pay respective income taxes in each tax jurisdiction. In order to calculate the income tax provisions and the deferred taxes in the Group, the expected income tax as well as the temporary differences resulting from the different treatment of certain items according to IFRS and their accounting in accordance with tax law are each to be determined on the basis of assumptions. If the final taxation imposed deviates from the assumed values, this has a corresponding effect on actual and deferred taxes and thus on the business, financial and earnings situation of the Group in the respective period.

When determining the fair values of derivatives and other financial instruments, for which no market price in an active market is available, valuation models based on input parameters observable in the market are applied. The cash flows which are already fixed or calculated by means of the current yield curve using so-called “forward rates” are discounted to the measurement date with the discount factors determined by means of the yield curve valid on the balance sheet date.

Pension obligations at STADA are generally covered with defined benefit plans and are calculated using actuarial methods. These methods are based on assumptions in relation to the interest rate, life expectancy, future salary and pension increases and, if applicable, the expected returns on plan assets. Changes to these assumptions can significantly influence the amount of future pension expenses.

The creation of other provisions is based on the assessment of management regarding the probability and amount of an outflow of resources. STADA creates provisions if there is a present external obligation and a probable outflow of resources, i.e. if it is more likely to occur than not. Provisions in relation to pending legal disputes are created based on how STADA estimates the prospects of success. The determination of provisions for damages is also associated with substantial estimates, which can change due to new information. The same applies for the recognition of the amount of contingent liabilities.

Expenses from the creation of provisions for warranties are considered in sales and charged against income. Estimated values based on past experience are used for this purpose. This means that the actual expenses for warranties may differ from the estimate and sales would accordingly turn out to be higher or lower. The same applies for the consideration of discounts (e.g. discounts to health insurance organizations) prescribed by law and due to other regulatory requirements, which are recognized with a reduction on sales based on the respective underlying contract with an estimated amount in expectation of probable sales.

Notes to the Consolidated Income Statement

11. Sales

STADA's sales primarily result from the supply of products. For information on the reporting of sales, please refer to the details included in Accounting Policies.

In 2011, the increase in sales compared to 2010 was primarily a result of good sales development in Russia and various Western European countries, which more than compensated for the sales decreases in Germany and the Philippines, among other countries. In the reporting year, exchange rate effects and portfolio changes had a total influence of € 3.2 million on sales. For information on how sales are broken down according to segments and regions, please refer to Segment Reporting in note 43.

12. Cost of sales

Expenses resulting from write-downs of inventories are also recognized, among other things, in cost of sales. The cost of sales in financial year 2011 include a total burden in the amount of € 33.0 million (previous year: € 30.3 million) as a result of valuation allowances.

One-time expenses from inventory write-downs in the amount of € 3.1 million were reported within cost of sales; these were recognized by STADA as a special effect of financial year 2011 arising from the restructuring of the sales models in the Czech Republic, Slovakia and Russia.

In addition, cost of sales also include all costs for logistics which occurred until the completion of the final product.

Total material expenses included in cost of sales amounted to € 726.9 million in financial year 2011 (previous year: € 702.9 million).

The cost of sales in the reporting year also included impairment, depreciation and amortization in the total amount of € 60.4 million (previous year: € 59.6 million). Of this, € 49.2 million (previous year: € 46.1 million) relate to amortization on such intangible assets, the ownership of which represents a necessary condition for the marking of the products manufactured (in particular drug approvals).

13. Selling expenses

Selling expenses comprise in addition to the costs for sales departments and sales force also the costs for advertising and marketing activities including samples for doctors. They also include all costs for logistics that occur for completed final products. Discounts in the form of free retail packages, so-called discounts in kind, – if possible under the legal regulations in a national market – are not included. The resulting expenses are recognized as a part of cost of sales.

In the reporting year, marketing expenses in the amount of € 127.0 million (previous year: € 115.7 million) corresponded to a share of 33% (previous year: 31%) of selling expenses. In addition, selling expenses included depreciation in the amount of € 6.9 million (previous year: € 7.0 million).

14. General and administrative expenses

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

In 2011, the general and administrative expenses included depreciation in the amount of € 8.0 million (previous year: € 6.8 million).

General and administrative expenses increased in the reporting year by a total of € 14.7 million.

15. Research and development expenses

For information on the composition of research and development expenses, please refer to the details included in Accounting Policies.

In financial year 2011, research and development expenses decreased by € 4.6 million compared to the previous year. The decrease is primarily attributable to the previous year's expenses under this item from the suspension of research activities for monoclonal antibodies in the amount of € 5.4 million before taxes, which STADA reported as a special effect.

The research and development expenses include depreciation in the amount of € 3.1 million (previous year: € 2.8 million). Development costs for new products in the amount of € 12.3 million (previous year: € 13.3 million) were capitalized in financial year 2011 (see the note on the item "Intangible assets").

16. Other income

Other income is divided into the following items:

in € 000s	2011	2010
Income from write-ups	5,381	1,078
Income from disposal of non-current assets	1,033	-
Currency translation gains	-	10,019
Remaining other income	23,460	29,289
Total	**29,874**	**40,386**

Other income in financial year 2011 included income from special effects among other things. This relates to income from write-ups as well as, in part, to earnings from the disposal of non-current assets in connection with the sale of a product from the German sales company cell pharm.

The remaining other income includes such items as income from insurance compensation, compensation claims and other income not directly associated with functional costs, which comprises many insignificant individual items in the Group companies

17. Other expenses

Other expenses are broken down as follows:

in € 000s	2011	2010
Expenses from valuation allowances on accounts receivable	94,874	27,028
Losses on the disposal of non-current assets	-	506
Currency translation expenses	6,043	-
Impairment losses on non-current assets excluding goodwill[1)]	27,057	21,708
Impairment losses on goodwill	1,926	4,043
Remaining other expenses	21,740	17,594
Total	**151,640**	**70,879**

Expenses for valuation allowances on accounts receivable, which were recognized netted with the corresponding income from their reversal, include value adjustments on receivables from various Serbian pharmaceutical wholesalers due to an increased risk of default in the amount of € 94.7 million (previous year: € 23.2 million), which were classified by STADA as a special effect of financial year 2011.

Other expenses include impairment losses in the amount of € 29.0 million (previous year: € 25.8 million), thereof € 1.9 million (previous year: € 4.0 million) from impairment losses on goodwill, which related to Croma Medic, Inc. in financial year 2011. The impairment losses were considered by STADA as a special effect of financial year 2011.

This item also included currency translation expenses in the amount of € 6.0 million in the reporting year. In the previous year, net currency translation income in the amount of € 10.0 million was incurred, which STADA reported under other income.

The offsetting of gains and losses from the disposal of non-current assets resulted in a disclosure of earnings in the amount of € 1.0 million (in the previous year, offsetting led to loss in the amount of € 0.5 million).

Within remaining other expenses, personnel expenses in the amount of € 5.7 million (previous year: € 5.6 million) are recognized, of which € 4.5 million relate to special effects of financial year 2011 due to unplanned personnel changes within the STADA Group.

18. Expenses in connection with the “STADA – build the future” project

The expenses in connection with the “STADA – build the future” project, which have been reported as special effects as well as separately in the income statement since financial year 2010, amounted to € 4.6 million (previous year: € 16.2 million) in financial year 2011.

1) In addition, impairment losses in the amount of € 5.8 million were recognized in the previous year as expenses in connection with the “STADA – build the future” project.

19. Financial result

The **result from associated companies** relates to the companies BIOCEUTICALS Arzneimittel AG, Pymepharco Joint Stock Company, Pharm Ortho Pedic SAS and AELIA SAS, which are accounted for using the equity method.

Investment income primarily relates to profit distributions from companies not included in the consolidated financial statements.

Financial income and financial expenses are composed of the interest result and other financial income and other financial expenses.

The interest result developed as follows:

in € 000s	2011	2010
Interest income	9,581	3,338
Interest expenses	62,447	56,694
Interest result	**-52,866**	**-53,356**
thereof: from financial instruments of the valuation categories in accordance with IAS 39:		
• Loans and receivables	9,581	3,338
• Financial assets at fair value through profit and loss	-	-
• Held-to-maturity investments	-	-
• Available-for-sale financial assets	-	-
• Financial liabilities measured at amortized costs	-59,770	-54,268

The interest expense included an amount of € 1.0 million (previous year: € 1.2 million) resulting from the reclassification of the provisions for cash flow hedges.

In addition, the interest result in financial year 2011 included interest expenses from the measurement of pension provisions and other long-term provisions in the amount of € 2.7 million (previous year: € 2.4 million).

In financial year 2011, the Group refinanced itself at interest rates of between 1.3% p.a. and 20.3% p.a. (previous year: between 1.0% p.a. and 19.2% p.a.). On the balance sheet date of December 31, 2011, the weighted average interest rate for non-current financial liabilities was approx. 4.6% p.a. (previous year: approx. 5.1% p.a.) and for current financial liabilities approx. 6.4% p.a. (previous year: approx. 7.0% p.a.).

Interest payments resulting from interest rate swaps designated by STADA as hedging instruments in cash flow hedges are netted for each swap contract and, depending on the net amount, are recognized as interest income or interest expense in the valuation category of the associated underlying hedged item. For the reporting period, this concerns only financial liabilities which are valued at amortized costs.

Borrowing costs capitalized as part of the cost of qualifying assets amounted to € 0.3 million in financial year 2011 (previous year: € 0.2 million). A capitalization rate of 4.3% for intangible assets (previous year: 3.8%) and 5.1% for property, plant and equipment (previous year: 3.6%) was taken as a basis for this.

Other financial income and other financial expenses consist of the following:

in € 000s	2011	2010
Other financial income	**1,208**	**480**
thereof:		
• from the measurement of financial instruments	1,208	480
Other financial expenses	**-**	**166**
thereof:		
• from the measurement of financial instruments	-	-
• from the disposal of financial instruments	-	166

In the reporting period, income from the measurement and expenses from the disposal of financial instruments resulted exclusively from interest rate swaps measured at fair value with an effect on income. There was a net relief on earnings in the amount of € 1.2 million before or € 0.9 million after taxes. In the previous year, there was a net relief on earnings from the measurement of derivative financial instruments in the amount of € 0.3 million before or € 0.2 million after taxes. The measurement of interest rate hedge transactions depends on the development of the money market interest rate.

20. Taxes on income

Actual income taxes in the income statement relate to taxes in Germany and abroad as follows:

in € 000s	2011	2010
Actual taxation	**46,678**	**44,433**
Germany	2,689	6,984
Outside Germany	43,989	37,449
Deferred taxes	**470**	**-3,956**
Germany	3,312	2,438
Outside Germany	-2,842	-6,394

The item “Taxes on income” includes taxes on income and earnings paid or owed in the individual countries as well as deferred taxes. Other taxes that cannot be meaningfully attributed to the sales, administration or research and development functions are included in “Other expenses”.

Actual income taxes can be divided according to timing as follows:

in € 000s	2011	2010
Actual income taxes	**46,678**	**44,433**
Tax expense in the current period	48,047	45,538
Tax expense from previous periods	24	23
Tax income from previous periods	1,393	1,128

The deferred taxes are as follows:

in € 000s	2011	2010
Deferred taxes	**470**	**-3,956**
from temporary differences	1,491	-5,335
from interest carryforwards	-	1
from loss carryforwards	-1,246	1,095
from tax credits	225	283

The income tax rate amounted to 67.8% for financial year 2011. For Germany, this includes corporation tax with a tax rate of 15.0% and the solidarity surcharge in the amount of 5.5% on the corporation tax as well as trade income tax with an average assessment rate of 320%. The income tax rate in the previous year was 37.1%.

The following overview explains how the income tax expense reported in the income statement was calculated from the expected income tax expense. The expected income tax expense is calculated by applying the weighted expected Group average tax rate on the earnings before taxes and takes into account for all domestic and foreign companies the respective national tax rates applicable to their various legal forms.

in € 000s	2011	2010
Earnings before taxes	**69,532**	**109,047**
Weighted expected Group average tax rate (in %)	39.6%	26.1%
Expected income tax expense	**27,556**	**28,463**
Adjustments to the expected income tax expense	**-**	**-**
Tax effects from non-deductible impairment on investments	808	2,317
Tax effects from loss carryforwards	-309	656
Tax effects from previous years	-1,369	-89
Effects from tax rate changes	-	-
Tax effects from non-deductible expenses	19,886	8,115
Other tax effects	576	1,015
Income tax expense shown on the income statement	**47,148**	**40,477**
Effective tax rate (in %)	67.8%	37.1%

The actual income taxes and deferred taxes recognized in the balance sheet developed as follows:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
Income tax receivables	21,310	34,943
Income tax liabilities	18,311	30,803

in € 000s	Dec. 31, 2011	Dec. 31, 2010
Deferred tax assets	28,032	29,717
Deferred tax liabilities	63,405	65,018
Deferred taxes as of December 31	-35,373	-35,301
Difference compared to previous year	-72	6,844
thereof:		
• recognized in income	-470	3,956
• recognized directly in equity	428	1,258
• acquisitions/disposals	31	123
• currency translation differences	-61	1,507

Deferred taxes result from the following balance sheet items and loss carryforwards:

in € 000s	Dec. 31, 2011 Deferred tax assets	Dec. 31, 2010 Deferred tax assets	Dec. 31, 2011 Deferred tax liabilities	Dec. 31, 2010 Deferred tax liabilities
Intangible assets	1,350	1,617	62,028	57,962
Property, plant and equipment	2,513	2,210	6,592	11,620
Financial assets	940	927	266	360
Inventories	10,680	12,785	2,113	2,461
Receivables	2,478	2,429	109	39
Other assets	3,533	4,609	75	8
Pension provisions	4,976	3,478	-	228
Other provisions	4,308	4,726	-	-
Liabilities	3,630	4,370	524	524
Loss carryforwards	1,926	750	-	-
Total	**36,334**	**37,901**	**71,707**	**73,202**
Offsetting	-8,302	-8,184	-8,302	-8,184
Deferred taxes as per balance sheet	**28,032**	**29,717**	**63,405**	**65,018**

Deferred tax liabilities reported by STADA result, among other things, from deferred taxes in the context of purchase price allocations carried out under IFRS 3.

Tax advantages that are highly probable and expected from the future utilization of tax loss carryforwards are recognized under "Deferred taxes from loss carryforwards".

Tax loss carryforwards are only capitalized if their future utilization is highly probable. Tax loss carryforwards capitalized as of the December 31, 2011 reporting date amounted to € 8.9 million (previous year: € 1.8 million) in financial year 2011.

The deduction of operating expenses for interest, which is limited under German tax law (so-called interest barrier), led to an net interest expense not deductible for tax purposes in the amount of € 20.1 million (previous year: € 14.3 million) in 2011. Deferred taxes could not be recognized, which led to a corresponding additional tax burden of € 4.9 million (previous year: € 3.4 million).

The taxes on income paid or owed were reduced by a total of € 1.6 million through the utilization of previously unrecognized tax loss carryforwards from previous years.

The future usable tax loss carryforwards are listed in the following chart according to their expiry date:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
Loss carryforward expiry date within		
• 1 year	318	496
• 2 years	-	-
• 3 years	-	-
• 4 years	-	-
• 5 years	2,218	-
• more than 5 years	5,061	931
• unlimited carryforward	1,297	354

No deferred taxes were recognized for the following loss carryforwards and temporary differences as it is not probable that they will be realized in the foreseeable future:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
Loss carryforward expiry date within		
• 1 year	-	-
• 2 years	-	-
• 3 years	-	-
• 4 years	-	-
• 5 years	-	-
• more than 5 years	2,834	4,488
• unlimited carryforward	-	-
Temporary differences	-	-

21. Income attributable to non-controlling interests

in € 000s	2011	2010
Earnings after taxes	22,384	68,570
• thereof net income distributable to shareholders of STADA Arzneimittel AG	22,036	68,432
• thereof net income relating to non-controlling interests	348	138

Shares of non-controlling interests are held within the Hemofarm Group, Serbia, as well as in the subsidiary STADA Asiatic. Net income relating to non-controlling interests thus concerns the shares of net income attributable to these minority interests.

22. Earnings per share

The basic and diluted earnings per share are as follows:

Basic earnings per share	2011	2010
Net income (in € 000s)	22,036	68,432
Adjustment	-	-
Adjusted net income (basic) (in € 000s)	**22,036**	**68,432**
Average number of ordinary shares issued (in unit shares)	58,929,002	58,865,610
Average number of treasury shares (in unit shares)	98,793	102,118
Adjusted average number of shares (basic) (in unit shares)	**58,830,209**	**58,763,492**
Basic earnings per share (in €)	**0.37**	**1.16**

Basic earnings per share are calculated by dividing the adjusted net income distributable to the shareholders of STADA Arzneimittel AG by the time-weighted average number of ordinary shares outstanding.

Diluted earnings per share	2011	2010
Adjusted net income (diluted) (in € 000s)	22,036	68,432
Dilutive effects on profit from share options (after taxes) (in € 000s)	-	-
Adjusted net income (diluted) in € 000s	**22,036**	**68,432**
Adjusted average number of shares (basic) (in unit shares)	58,830,209	58,763,492
Potentially diluting shares from share options (in unit shares)	1,140,824	1,305,110
Average number of shares (diluted) (in unit shares)	**59,971,033**	**60,068,602**
Diluted earnings per share (in €)	**0.37**	**1.14**

Diluted earnings per share are generally calculated with the formula used to calculate the basic earnings per share. They are also adjusted for the effect of outstanding share options on the basis of the average share price of the financial year. This is carried out based on the assumption that all potentially dilutive share options are exercised. Details on currently valid equity instruments are included in the note on equity.

23. Number of employees and personnel expenses

The average number of employees at STADA developed as follows:

	2011	2010
Sales/marketing	2,111	2,546
Production/procurement	3,864	3,760
Product development	519	510
Administration	1,332	1,264
Entire Group	**7,826**	**8,080**
Personnel expenses (in € million)	**272.2**	**268.6**

The average number of employees was 7,826 in the reporting year (previous year: 8,080) and thus under the level of the previous year. On the balance sheet date, the STADA Group's number of employees in 2011 totaled 7,900 (previous year: 8,024). Joint ventures that were proportionately consolidated employed an average number of 684 employees in 2011 (previous year: 649).

Personnel expenses, which are included in expenses of the individual functional areas according to their functional relevance, increased in financial year 2011 to € 272.2 million (previous year: € 268.6 million). This total also includes severance compensation in the amount of € 1.4 million (previous year: € 8.3 million) for employees affected by the personnel reductions in the context of the Group-wide cost efficiency program "STADA – build the future".

24. Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses are included in expenses of the individual functional areas according to their functional relevance and can be attributed to intangible assets, property, plant and equipment as follows:

in € 000s	2011	2010
Depreciation/amortization	**78,454**	**76,316**
Intangible assets	49,157	46,077
Property, plant and equipment	29,297	30,239
Impairment losses	**28,983**	**31,505**
Intangible assets	24,339	21,679
thereof:		
• goodwill	1,926	4,043
Property, plant and equipment	-	5,754
thereof:		
• land and buildings	-	4,041
• technical equipment and machinery	-	1,713
Financial assets	4,644	4,072
thereof:		
• investments	4,644	4,072

The impairment of intangible assets concerns numerous drug approvals and trademarks.

Impairments of goodwill reported in financial year 2011 apply exclusively to the Philippine subsidiary Croma Medic, Inc.

The impairments of financial assets primarily relate in the reporting year to the valuation allowances against the carrying amounts of equity holdings of the two Serbian pharmaceutical wholesalers Velefarm A.D. and Vetfarm A.D.

Depreciation and amortization increased by approx. 2.8% compared to the previous year. More information on amortization, depreciation and impairment losses is included in the Notes on non-current assets.

Notes to the Consolidated Balance Sheet

25. Intangible assets

Intangible assets developed as follows in financial year 2011:

2011 in € 000s	Regulatory drug approvals, trademarks, software, licenses and similar rights	Goodwill	Payments made and capitalized development costs for current projects	Total
Cost as of Jan. 1, 2011	**896,634**	**330,589**	**137,830**	**1,365,053**
Currency translation	-2,779	-1,540	-260	-4,579
Changes in the scope of consolidation	-	-	-	-
Acquisitions	47,552	-	39,521	87,073
Additions from business combinations according to IFRS 3	6	-	150,255	150,261
Disposals	4,943	-	1,423	6,366
Transfers	19,560	-	-20,814	-1,254
Cost as of Dec. 31, 2011	**956,030**	**329,049**	**305,109**	**1,590,188**
Accumulated amortization as of Jan. 1, 2011	**333,768**	**7,714**	**37,619**	**379,101**
Currency translation	-608	231	-353	-730
Changes in the scope of consolidation	-	-	-	-
Amortization	49,157	-	-	49,157
Impairments	14,204	1,926	8,209	24,339
Disposals	3,369	-	111	3,480
Write-ups	5,380	-	-	5,380
Transfers	357	-	-357	-
Accumulated amortization as of Dec. 31, 2011	**388,129**	**9,871**	**45,007**	**443,007**
Residual carrying amounts as of Dec. 31, 2011	**567,901**	**319,178**	**260,102**	**1,147,181**
Residual carrying amounts as of Dec. 31, 2010	**562,866**	**322,875**	**100,211**	**985,952**

Included in intangible assets was software in the amount of € 8.0 million (previous year: € 10.5 million), which was recognized with the present value of the minimum lease payments in accordance with IAS 17 in the context of a sale-and-leaseback transaction carried out in financial year 2009, and which has since been amortized. There is a purchase option at residual value for this software at the end of the term of the lease contract.

The umbrella brand Hemofarm capitalized in 2006 in the context of the acquisition of the Hemofarm group is included in recognized trademarks as an intangible asset with an indefinite useful life, as STADA intends to make continuing use of it. As at December 31, 2011, it has a carrying amount of € 54.3 million (previous year: € 54.6 million). The change compared to the previous year figure is a result of different exchange rates.

Borrowing costs capitalized in 2011 for intangible assets and directly attributable to the acquisition or the production of a qualifying asset amounted to € 0.2 million (previous year: € 0.05 million). In financial year 2011, the capitalization rate taken as a basis for determining borrowing costs eligible for capitalization was 4.3% (previous year: 3.8%).

Development costs of € 12.8 million were capitalized in the reporting year (previous year: € 13.5 million). Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs and external services, together with directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life (generally 20 years). STADA immediately recognizes development costs that do not qualify for capitalization as expense in the period in which they are incurred (see Note 15.). In financial year 2011, these development costs amounted to € 50.4 million (previous year: € 54.9 million).

Amortization on intangible assets mainly relates to regulatory drug approvals as well as trademarks and is recognized in the income statement primarily under cost of sales. In the reporting year, this related to an amount of € 49.2 million (previous year: € 46.1 million).

In financial year 2011, impairments on intangible assets were recognized in the total amount of € 24.3 million.

Details on changes in the scope of consolidation can be found in the note on the scope of consolidation (see Note 5.).

Intangible assets developed as follows in the previous year:

2010 in € 000s	Regulatory drug approvals, trademarks, software, licenses and similar rights	Goodwill	Payments made and capitalized development costs for current projects	Total
Cost as of Jan. 1, 2010	**850,929**	**334,807**	**129,499**	**1,315,235**
Currency translation	-11,703	-4,218	-467	-16,388
Changes in the scope of consolidation	-	-	-	-
Acquisitions	38,285	-	32,208	70,493
Disposals	3,759	-	486	4,245
Transfers	22,882	-	-22,924	-42
Cost as of Dec. 31, 2010	**896,634**	**330,589**	**137,830**	**1,365,053**
Accumulated amortization as of Jan. 1, 2010	**280,278**	**3,562**	**31,308**	**315,148**
Currency translation	-1,269	109	-	-1,160
Changes in the scope of consolidation	-	-	-	-
Amortization	46,077	-	-	46,077
Impairments	11,096	4,043	6,540	21,679
Disposals	1,384	-	193	1,577
Write-ups	1,078	-	-	1,078
Transfers	48	-	-36	12
Accumulated amortization as of Dec. 31, 2010	**333,768**	**7,714**	**37,619**	**379,101**
Residual carrying amounts as of Dec. 31, 2010	**562,866**	**322,875**	**100,211**	**985,952**
Residual carrying amounts as of Dec. 31, 2009	**570,651**	**331,245**	**98,191**	**1,000,087**

The following amortization expense is expected for the intangible assets in the next five years:

in € 000s	Expected amortization
2012	50,254
2013	53,231
2014	51,862
2015	52,576
2016	53,528

The subsequent chart shows which cash-generating units the capitalized goodwill can be attributed to:

in € million	Residual carrying amount Generics segment Dec. 31, 2011	Residual carrying amount Branded Products segment Dec. 31, 2011	Residual carrying amount Commercial Business segment Dec. 31, 2011	Residual carrying amount total Dec. 31, 2011
Hemofarm A.D. subgroup, Serbia	76.8	30.9	-	107.7
OAO Nizhpharm/MAKIZ group, Russia	32.3	35.9	-	68.2
Laboratorio STADA S.L., Spain	56.5	-	-	56.5
Britannia Pharmaceuticals Ltd., United Kingdom	-	22.2	-	22.2
Ciclum Farma Unipessoal LDA, Portugal	20.8	-	-	20.8
Clonmel Healthcare Limited, Ireland	10.8	-	-	10.8
Other	24.3	8.0	0.7	33.0
Total	**221.5**	**97.0**	**0.7**	**319.2**

In the previous year, the capitalized goodwill for cash-generating units was as follows:

in € million	Residual carrying amount Generics segment Dec. 31, 2010	Residual carrying amount Branded Products segment Dec. 31, 2010	Residual carrying amount Commercial Business segment Dec. 31, 2010	Residual carrying amount total Dec. 31, 2010
Hemofarm A.D. subgroup, Serbia	77.1	31.1	-	108.2
OAO Nizhpharm/MAKIZ group, Russia	33.3	36.9	-	70.2
Laboratorio STADA S.L., Spain	56.5	-	-	56.5
Britannia Pharmaceuticals Ltd., United Kingdom	-	21.5	-	21.5
Ciclum Farma Unipessoal LDA, Portugal	20.8	-	-	20.8
Clonmel Healthcare Limited, Ireland	10.8	-	-	10.8
Other	24.2	8.0	2.7	34.9
Total	**222.7**	**97.5**	**2.7**	**322.9**

STADA defines a cash-generating unit as the respective operating segments within a country or company in accordance with the Group's strategic planning and control. Goodwill of the MAKIZ group and OAO Nizhpharm, both Russia, are grouped together related to the respective operating segment as one cash-generating unit because of their structural network.

In comparison with the previous year, there were the following significant changes in the carrying amounts of goodwill:

- Based on existing knowledge and expectations related to the market and competitive environment for Croma Medic, Inc., Manila, the Philippines, the impairment tests carried out in the reporting year resulted in an impairment requirement in the amount of € 1.9 million. The impairment tests in the previous year revealed an impairment requirement for Ciclum Pharma, Unipessoal, LDA, Paco de Arcos, Portugal, as well as Croma Medic, Inc., Manila, the Philippines, in the amount of € 4.0 million.

The extensive impairments carried out in Serbia gave reason to examine the value of goodwill attributable to the Generics and Branded Products segments of the Hemofarm Group throughout the year. In the context of the respective impairment test of September 30, 2011 on the basis of the current sales and cash flow projections of the local Serbian management, no necessity for impairment of the cash-generating units of generics and branded products of the subgroup Hemofarm was revealed. These projections consider the conversion of the distribution model of the Hemofarm Group to primarily direct sales in the Serbian domestic market, which was already resolved as of September 30, 2011. The primary goal of this measure involves direct delivery and billing of governmental and private pharmacies, which will be associated with a significant reduction in days sales outstanding and default risks. Uncertainties in estimates can naturally arise in planned sales and days sales outstanding. However, the currently observable days sales outstanding is used for the purposes of the impairment test. Future sales and cash flow estimations of the Hemofarm Group relate here to a more concentrated focus on non-reimbursable products, which are not subject to regulation by the national health insurance system.

The weighted average cost of capital (WACC) used for the impairment test of the Hemofarm Group's goodwill reduced in financial year 2011 from 18.4% to 14.4%, among other things, as a result of the use of a long-term estimation of the inflation rate. The growth rate of the forward-projection phase reduced respectively in an offsetting effect.

In the context of the impairment test for capitalized goodwill, the discounted cash flow method is used to determine anticipated cash inflows, applying the following parameters defined for the individual cash-generating units according to segment:

each relating to segments, defined as cash-generating units:	Growth rates of forward-projection phase 2011 in %	Growth rates of forward-projection phase previous year in %	WACCs 2011 in %	WACCs previous year in %
Hemofarm A.D., subgroup, Serbia	4%	8.9%	14.4%	18.4%
OAO Nizhpharm/MAKIZ group, Russia	6.5%	7.5%	14.7%	18.9%
Euro zone	1.6%–2.0%	0.7%–3.2%	9.1%–12.9%	8.4%–12.5%
Asia	4%	2.8%	15.8%	19.7%

The discounted cash flow method is used to determine the value in use of the cash-generating units, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of the expected long-term inflation rate is assumed. The changes in the growth rates as compared to the previous year result from the assumption of lower inflation rates.

Changes in the calculation parameters used for the impairment tests may influence the fair values of cash-generating units. If, for example, the underlying discount rates had been 1.0 percentage points higher or lower, impairment losses would have been € 26.8 million higher or € 0.4 million lower as of December 31, 2011. An increase or decrease of the growth rate by 0.5 percentage points would have resulted in an impairment loss € 0.4 million lower or € 0.8 million higher as of December 31, 2011.

26. Property, plant and equipment

Property, plant and equipment developed as follows in financial year 2011:

2011 in € 000s	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other fixtures and fittings tools and equipment	Advance payment and construction in progress	Total
Cost as of Jan. 1, 2011	**233,070**	**170,855**	**84,803**	**11,641**	**500,369**
Currency translation	-1,845	-1,920	-474	-404	-4,643
Changes in the scope of consolidation	-56	-6	-49	-	-111
Additions	2,963	2,628	6,079	20,056	31,726
Additions from business combinations according to IFRS 3	31	-	314	-	345
Disposals	1,483	509	4,357	157	6,506
Changes in non-current assets held for sale and disposal groups	5,616	-	-	-	5,616
Transfers	10,471	5,137	3,105	-17,459	1,254
Cost as of Dec. 31, 2011	**248,767**	**176,185**	**89,421**	**13,677**	**528,050**
Accumulated depreciation as of Jan. 1, 2011	**59,314**	**93,911**	**49,176**	**-**	**202,401**
Currency translation	-317	-1,153	-241	-	-1,711
Changes in the scope of consolidation	-11	-6	-13	-	-30
Depreciation	7,142	13,244	8,911	-	29,297
Impairments	-	-	-	-	-
Disposals	316	459	3,155	-	3,930
Write-ups	-	-	1	-	1
Changes in non-current assets held for sale and disposal groups	2,544	-	-	-	2,544
Transfers	-352	196	156	-	-
Accumulated depreciation as of Dec. 31, 2011	**68,004**	**105,733**	**54,833**	**-**	**228,570**
Residual carrying amounts as of Dec. 31, 2011	**180,763**	**70,452**	**34,588**	**13,677**	**299,480**
Residual carrying amounts as of Dec. 31, 2010	**173,756**	**76,944**	**35,627**	**11,641**	**297,968**

In the reporting year, property, plant and equipment included vehicles and passenger cars from finance leases in the amount of € 3.8 million (previous year: € 1.2 million), which, in accordance with IAS 17, were recognized at the present value of minimum lease payments and have since then been subjected to depreciation.

Borrowing costs capitalized in 2011 in property, plant and equipment amounted to € 0.1 million (previous year: € 0.1 million). The capitalization rate taken as a basis for determining borrowing costs eligible for capitalization amounted to 5.1% (previous year: 3.6%).

Property, plant and equipment developed as follows in the previous year:

2010 in € 000s	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other fixtures and fittings tools and equipment	Advance payment and construction in progress	Total
Cost as of Jan. 1, 2010	**229,671**	**175,121**	**81,215**	**20,232**	**506,239**
Currency translation	-5,402	-2,496	-1,641	-79	-9,618
Changes in the scope of consolidation	-	-	-	-	-
Additions	3,071	4,833	5,438	17,426	30,768
Disposals	10,662	11,479	4,508	1,431	28,080
Changes in non-current assets held for sale and disposal groups	582	-	-	-	582
Transfers	15,810	4,876	4,299	-24,507	478
Cost as of Dec. 31, 2010	**233,070**	**170,855**	**84,803**	**11,641**	**500,369**
Accumulated depreciation as of Jan. 1, 2010	**60,131**	**91,071**	**45,993**	**11**	**197,206**
Currency translation	-2,168	-1,560	-1,423	-11	-5,162
Changes in the scope of consolidation	-	-	-	-	-
Depreciation	7,332	13,814	9,093	-	30,239
Impairments	4,041	1,713	-	-	5,754
Disposals	10,045	11,410	4,286	-	25,741
Transfers	23	283	-201	-	105
Accumulated depreciation as of Dec. 31, 2010	**59,314**	**93,911**	**49,176**	**-**	**202,401**
Residual carrying amounts as of Dec. 31, 2010	**173,756**	**76,944**	**35,627**	**11,641**	**297,968**
Residual carrying amounts as of Dec. 31, 2009	**169,540**	**84,050**	**35,222**	**20,221**	**309,033**

27. Financial assets

Financial assets developed as follows in financial year 2011:

2011 in € 000s	Shares in associated companies and other investments	Other financial assets	Total
Cost as of Jan. 1, 2011	**28,336**	**14**	**28,350**
Currency translation	-65	-	-65
Changes in the scope of consolidation	-11	-	-11
Additions	1,041	-	1,041
Disposals	180	-	180
Changes in non-current assets held for sale and disposal groups	-	-	-
Transfers	-	-	-
Cost as of Dec. 31, 2011	**29,121**	**14**	**29,135**
Accumulated impairments as of Jan. 1, 2011	**13,928**	**3**	**13,931**
Currency translation	478	-	478
Impairments	4,644	-	4,644
Disposals	-	-	-
Changes in non-current assets held for sale and disposal groups	-	-	-
Transfers	-	-	-
Accumulated impairments as of Dec. 31, 2011	**19,050**	**3**	**19,053**
Residual carrying amounts as of Dec. 31, 2011	**10,071**	**11**	**10,082**
Residual carrying amounts as of Dec. 31, 2010	**14,408**	**11**	**14,419**

Financial assets developed as follows in the previous year:

2010 in € 000s	Shares in associated companies and other investments	Other financial assets	Total
Cost as of Jan. 1, 2010	**30,058**	**40**	**30,098**
Currency translation	-1,352	-	-1,352
Changes in the scope of consolidation	-55	-	-55
Additions	7,995	-	7,995
Disposals	285	26	311
Changes in non-current assets held for sale and disposal groups	2,103	-	2,103
Transfers	-10,128	-	-10,128
Cost as of Dec. 31, 2010	**28,336**	**14**	**28,350**
Accumulated impairments as of Jan. 1, 2010	**10,529**	**3**	**10,532**
Currency translation	-685	-	-685
Impairments	4,072	-	4,072
Disposals	-12	-	-12
Accumulated impairments as of Dec. 31, 2010	**13,928**	**3**	**13,931**
Residual carrying amounts as of Dec. 31, 2010	**14,408**	**11**	**14,419**
Residual carrying amounts as of Dec. 31, 2009	**19,529**	**37**	**19,566**

Financial assets are primarily the carrying amounts of those shares in non-consolidated investments which are entirely measured at amortized cost for lack of available market prices. There is currently no intention to sell these financial assets. Held-to-maturity financial investments are recognized under other financial assets.

28. Investments in associates

The disclosure relates to the accounting of shares in the associated companies BIOCEUTICALS Arzneimittel AG and Pymepharco Joint Stock Company, as well as for the first time in financial year 2011 also shares in the associated companies Pharm Ortho Pedic SAS and AELIA SAS, using the equity method. The shares in associated companies developed as follows in financial year 2011 compared with the previous year:

in € 000s	2011	2010
As of January 1	**17,332**	**7,200**
Increase in investment share	16,482	10,128
Total income from associates	553	106
Elimination of dividend income	-206	-95
Currency translation differences	-158	-7
As of December 31	**34,003**	**17,332**

In financial year 2011, the increase of the investment share in associates related to the increase of shares in Pymepharco Joint Stock Company with € 15.1 million, as well as the purchased shares in Pharm Ortho Pedic SAS and AELIA SAS with € 1.4 million.

29. Trade accounts receivable

Trade accounts receivable are composed as follows:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
Trade accounts receivable from third parties	565,979	495,543
Trade accounts receivable from non-consolidated companies	8,790	8,948
Valuation allowances vis-à-vis third parties	-128,555	-55,545
Total	**446,214**	**448,946**

Of the gross carrying amount of trade receivables, € 35.8 million (previous year: € 44.0 million) are due after one year. This is, as in the previous year, primarily due to a restructuring plan introduced in the third quarter of 2010 in Serbia, in the framework of which receivables from a Serbian wholesaler were re-negotiated. The value of these receivables was completely impaired in financial year 2011 and the resulting expense was reported as a special effect of financial year 2011. Of the net amount of trade receivables, after consideration of impairments, € 2.8 million (previous year: € 10.4 million) are due after one year. These resulted from the delivery of goods in the context of regular business activities.

Collateral exists for trade accounts receivable whose value was not impaired in the form of mortgages, assignments of receivables as well as pledged inventories, which cover a part of the named accounts receivable.

The following non-impaired trade accounts receivable were past due at the balance sheet date:

			thereof: not impaired as at the balance sheet date and past due in the following time periods:			
in € 000s	Carrying amount	thereof: neither impaired nor past due as at the balance sheet date	up to 30 days	between 31 and 90 days	between 91 and 180 days	more than 180 days
Dec. 31, 2011	446,214	387,704	29,745	11,950	5,232	11,583
Dec. 31, 2010	448,946	393,292	26,618	12,996	8,228	7,812

There were no recognizable indications as of the balance sheet date that the debtors would not meet their payment obligations. Therefore, the trade accounts receivable neither impaired nor past due are considered to be unconditionally recoverable. There are also no indications of impairment for the overdue receivables that have not been impaired.

Overall, valuation allowances on trade accounts receivable developed as follows:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
As of January 1, 2011	55,545	25,162
Added	81,148	29,693
Utilized	4,296	107
Reversed	3,425	2,665
Currency translation differences	-417	3,462
As of December 31, 2011	128,555	55,545

In 2011, the largest special effect reported under other expenses resulted from impairments on receivables from various Serbian pharmaceutical wholesalers in connection with an increased risk of default. Against the background of a once again worsening financial and economic crisis and its impact on the Serbian economy, the Serbian health care system and the liquidity in the distribution channels of the health care market, expenses in the total amount of € 98.4 million were recognized in this context.

30. Other financial assets

Other financial assets are composed as follows:

	Dec. 31, 2011		Dec. 31, 2010	
in € 000s	Total	thereof: current	Total	thereof: current
Loan receivables	26,148	14,208	32,407	584
Outstanding purchase price receivables	1,800	1,800	2,892	1,146
Derivative financial assets	-	-	109	109
Available-for-sale financial assets	61	61	71	71
Other financial assets	17,996	17,789	15,182	14,284
Total	46,005	33,858	50,661	16,194

Loans primarily include loans granted by STADA Arzneimittel AG to BIOCEUTICALS Arzneimittel AG. As of the balance sheet date, € 23.9 million (previous year: € 31.8 million) of the available credit line facility had been used.

The outstanding purchase price receivables recognized in financial year 2011 primarily result, as in the previous year, from a partial amount of the purchase price receivable from the disposal of Health Vision Enterprise Ltd. in the fourth quarter of 2009.

The derivative financial assets include the positive market values of foreign currency derivatives (see Note 47.7.). Available-for-sale financial assets are shares that are measured at fair value based on market prices.

Remaining financial assets comprise many insignificant individual items in the Group companies.

Other financial assets are impaired in the amount of € 10.0 million (previous year: € 0.1 million). There were no outstanding amounts as in the previous year.

31. Other assets

Other assets are composed as follows:

	Dec. 31, 2011		Dec. 31, 2010	
in € 000s	Total	thereof: current	Total	thereof: current
Other receivables due from the tax authorities	20,038	20,038	12,094	12,094
Prepaid expenses/deferred charges	12,036	11,294	7,719	6,830
Other assets	15,495	14,398	18,908	18,202
Total	**47,569**	**45,730**	**38,721**	**37,126**

Other assets comprise many insignificant individual items in the Group companies.

Other assets are impaired the amount of € 4.4 million. In the previous year, there were no impairments.

32. Inventories

Inventories can be subdivided as follows:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
Materials and supplies	74,144	61,870
Work in progress	21,553	15,851
Finished goods	296,961	301,409
Advance payments	6,467	6,958
Total	**399,125**	**386,088**

In financial year 2011, impairments were made on the net realizable value of inventories in the amount of € 33.0 million (previous year: € 30.3 million), which were already deducted from the amounts recognized above through profit and loss.

33. Non-current assets and disposal groups held for sale

In financial year 2011, the asset held for sale in the amount of € 0.1 million (previous year: € 2.9 million) was a building of a STADA subsidiary in Serbia, which is to be allocated to the Generics operating segment. In the previous year, the property and buildings of a STADA subsidiary in England was recognized, which were reclassified to non-current assets in financial year 2011 due to failed sales negotiations.

34. Cash and cash equivalents

Cash and cash equivalents include cash on hand and call deposits as well as short-term and highly liquid financial investments with a maximum term of 90 days from the purchase date. In certain countries, specific transactions are subjected to special monitoring in the context of the requirements of the respective national bank or foreign exchange acts in force. Restrictions on disposal for cash and cash equivalents extending beyond this do not exist.

The increase of cash and cash equivalents from € 199.1 million as of December 31, 2010 to € 320.7 million as of December 31, 2011 is primarily due to reporting date effects. Further details on the development of cash and cash equivalents can be found in the consolidated cash flow statement.

35. Equity

Group equity amounted to € 863.9 million as of the balance sheet date (previous year: € 868.5 million). This corresponds to an equity-to-assets ratio of 30.9% (previous year: 34.6%).

35.1. Subscribed capital

As of December 31, 2011, share capital amounted to € 153,312,536 and was divided into 58,966,360 registered shares with restricted transferability (previous year: 58,876,360), each with an arithmetical share of share capital of € 2.60 per share, and is fully paid.

Each registered share grants one vote in the Annual General Meeting.

The increase in the number of shares in 2011 was due to the exercise of 4,500 options from STADA warrants 2000/2015 in 2011. The number of shares as of December 31, 2011 thereby increased by 90,000 to 58,966,360 and the share capital of STADA Arzneimittel AG increased by € 234,000 to € 153,312,536. As of December 31, 2011, 171,193 warrants 2000/2015 for the subscription of 3,423,860 STADA ordinary shares continued to be outstanding.

As of December 31, 2011, authorized share capital and conditional capital were comprised as follows:

	Amount in €	Registered shares with restricted transferability	Purpose
Authorized capital 2008/I	76,346,010	29,363,850	Increase of share capital (until June 10, 2013)
Conditional capital 2004/I	8,902,036	3,423,860	Settlement of subscription rights from share options (STADA warrants 2000/2015)
Conditional capital 2008/I	66,823,458	25,701,330	Settlement of options and/or conversion rights (until June 9, 2013) in context with issued bonds with warrants and/or convertible bonds in the total nominal amount of up to € 1.0 billion and a maturity of up to 20 years, or in the scope of a guarantee assumed for bonds with warrants and/or convertible bonds issued by subordinated Group companies

In accordance with a declaration published on the Company's website on June 10, 2008, the Executive Board resolved, with regard to the authorizations listed above

- to increase the share capital from the authorized share capital and
- to issue bonds with warrants and/or convertible bonds,

in each case with regard to the exclusion of subscription rights only subject to the following restrictions:
The Executive Board will utilize these authorizations only to an aggregate amount of 20% of the outstanding share capital at the time of the first effective date of one of above-mentioned authorizations or – if this amount is lower – at the time of the first utilization of one of the above-mentioned authorizations. The capital increases by way of excluding the subscription rights of the shareholder on the basis of the aforementioned authorizations are limited to a maximum amount of € 30,538,404, corresponding to 11,745,540 registered shares with restricted transferability.

35.2. Capital reserve

Changes in the capital reserve of the Group are shown in the consolidated statement of changes in equity and include in particular the capital reserve of STADA Arzneimittel AG. Differences to the capital reserve determined according to the provisions of German commercial law primarily result from the recognition at their market value of the shares of STADA Arzneimittel AG newly issued in 2003 as well as the associated treatment of issuing costs, which were deducted from the capital reserve.

35.3. Retained earnings

Retained earnings include the amounts transferred to retained earnings. In addition, actuarial gains and losses from defined benefit plans that were recognized directly in equity are reported under this item.

35.4. Other provisions

Other provisions comprise net income for the financial year as well as earnings generated in previous periods, provided these were not transferred to retained earnings or distributed. They also include results recognized directly in equity. This relates to foreign exchange gains and losses resulting from the currency translation with no effect on income of financial statements of companies included in the Group, which are recognized in the statement of changes in equity under the currency translation reserve. The provisions available for sale and the provisions for cash flow hedges include the results from the measurement at fair value of financial instruments categorized as available for sale, and the measurement results from cash flow hedges from the effective portion of the hedge, allowing for deferred taxes respectively.

35.5. Treasury shares

As of the balance sheet date, the Company held 96,391 treasury shares (previous year: 100,706), each with an arithmetical par value of € 2.60 per share, which is equivalent to 0.16% (previous year: 0.17%) of the share capital. In financial year 2011, 4,315 treasury shares were thereby sold at an average price of € 20.76.

35.6. Shares relating to non-controlling shareholders

Shares of non-controlling shareholders relate to minority interests of other shareholders in companies of the Hemofarm Group as well as in STADA Asiatic.

36. Other non-current provisions

Other non-current provisions made by STADA as of the balance sheet date in Germany and outside Germany related to pension provisions and other non-current provisions in the form of anniversary provisions and provisions for one-time payments to employees upon their departure as follows:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
Germany	27,042	26,685
Outside Germany	7,875	5,927
Total	**34,917**	**32,612**

In Germany, STADA has plan assets in the form of a reinsurance policy for a small number of former employees, which is used to serve the pension entitlements of these employees. The pension entitlements of all other employees are covered in the scope of the pension provisions recognized. In addition, there are plan assets in two foreign subsidiaries in the form of government bonds and securities funds. Due to an excess of these plan assets, they were recognized in 2009 under other assets. In financial year 2010, the pension obligations of these companies exceeded the plan assets and were recognized under pension provisions. The respective opening balance figures of the previous year are shown in the following charts as reclassifications of assets in financial year 2010.

For German Group companies, pension provisions developed as follows:

Projected benefit obligations for pension commitments in € 000s	2011	2010
As of January 1, 2011	**35,386**	**26,142**
Current service cost	1,014	759
Interest cost	1,580	1,418
Actuarial gains (-)/losses (+)	-711	6,520
Benefits paid	-589	-575
Business combinations	-	1,122
As of December 31, 2011	**36,680**	**35,386**

For international Group companies, pension provisions developed as follows:

Projected benefit obligations for pension commitments in € 000s	2011	2010
As of January 1, 2011	**23,174**	**565**
Current service cost	625	650
Interest cost	1,052	950
Actuarial gains (-)/losses (+)	51	7,155
Benefits paid	-607	-555
Transfer of assets	-	15,849
Employee contributions	106	46
Plan curtailments	-	-1,545
Business combinations	401	-
Currency changes	-	-
Other	-183	59
As of December 31, 2011	**24,619**	**23,174**

The fair value of plan assets underlying the pension obligations developed as follows:

Fair value of plan assets in € 000s	2011	2010
As of January 1, 2011	**29,402**	**6,541**
Expected income from plan assets	1,342	1,086
Actuarial gains (-)/losses (+)	-1,346	3,176
Employer contributions	1,777	1,772
Employee contributions	148	201
Pension payments	-793	-545
Transfer of assets	-	15,821
Business combinations	-	1,350
Other	-365	-
As of December 31, 2011	**30,165**	**29,402**

The cumulative value of the actuarial losses recognized in equity under retained earnings amounted to € 14.7 million in financial year 2011 (previous year: € 14.2 million).

The amount of the pension provisions recognized as of the balance sheet date for companies with plan assets is therefore as follows:

in € 000s	2011	2010
Projected benefit obligations for pension commitments	60,525	58,027
Fair value of plan assets	30,165	29,402
Net obligation	**30,360**	**28,625**
Unamortized past service cost	-277	-317
Employee contributions	42	-
Net liability recognized in balance sheet	**30,125**	**28,308**

The amount of the pension provisions recognized as of the balance sheet date for companies without plan assets is therefore as follows:

in € 000s	2011	2010
Projected benefit obligations for pension commitments	774	533
Net obligation	**774**	**533**
Unamortized past service cost	-	-
Net liability recognized in balance sheet	**774**	**533**

Expenses for defined benefit plans totaled € 3.2 million in financial year 2011 (previous year: € 1.2 million) and consisted of the following components:

in € 000s	2011	2010
Current service cost	1,639	1,409
Past service cost	40	-
Interest cost	2,632	2,368
Expected return on plan assets	-1,342	-1,086
Plan curtailments	-	-1,545
Plan settlements	-	-
Other	182	87
Total	**3,151**	**1,233**

The actual return on plan assets amounted to € 0.5 million in financial year 2011 (previous year: € 0.7 million).

The following actuarial parameters were used as a basis for measuring the pension obligations and pension costs:

Parameters for pension obligations for German Group companies	Dec. 31, 2011	Dec. 31, 2010
Discount rate	4.9%	4.5%
Salary trend	3.0%	2.5%
Benefits trend	1.8%	1.3%
Expected yield on plan assets	4.0%	5.0%
Inflation	1.8%	0.0%

Parameters for pension obligations for international Group companies (weighted)	Dec. 31, 2011	Dec. 31, 2010
Discount rate	4.9%	4.4%
Salary trend	3.0%	2.6%
Benefits trend	1.7%	1.4%
Expected yield on plan assets	4.6%	1.8%
Inflation	1.9%	2.3%

Components of periodic pension costs for German Group companies are as follows:

Components of pension costs for German Group companies in € 000s	2011	2010
Service cost	1,014	759
Interest cost	1,580	1,418
Net pension cost	**2,594**	**2,177**

Components of periodic pension cost for international Group companies are as follows:

Components of pension costs for international Group companies in € 000s	2011	2010
Service cost	625	650
Interest cost	1,052	950
Net pension cost	**1,677**	**1,600**

Overall, the development of pension obligations and plan assets was composed as follows for the reporting year and the three previous financial years, each as of the balance sheet date:

in € 000s	2011	2010	2009	2008
Projected pension obligations for pension commitments	61,299	58,560	26,707	24,555
Fair value of plan assets	30,165	29,402	6,541	5,679
Net obligation	**31,134**	**29,158**	**20,166**	**18,876**

Experiential adjustments of the pension obligations and plan assets were as follows in financial year 2011 and the three previous financial years:

in %	2011	2010	2009	2008
Experiential increase (+)/decrease (-) of pension obligation	0%	+12%	-1%	-11%
Experiential increase (+)/decrease (-) of plan assets	-1%	-1%	0%	0%

For financial year 2012, payments in the amount of € 1.6 million are expected for employer contributions to defined benefit plans.

The contributions for defined contribution plans, which are reported as expense in the respective period in in the relevant functional areas, amounted to € 22.0 million in financial year 2011.

The other non-current provisions developed as follows:

Other non-current provisions in € 000s	2011	2010
As of Jan. 1, 2011	**3,771**	**4,016**
Current service cost	650	165
Interest cost	45	58
Actuarial gains (-)/losses (+)	-32	-907
Benefits paid	-396	-437
Reclassification from/to liabilities	-	1,186
Currency changes	-25	-310
Other	5	-
As of Dec. 31, 2011	**4,018**	**3,771**

Actuarial gains and losses for other long-term provisions in the amount of € 0.03 million were recognized directly in equity under other comprehensive income and result from the provisions for other post-employment benefits in the form of one-time payments upon the departure of employees. In the previous year, actuarial gains and losses were completely recognized in income, because these, as opposed to financial year 2011, resulted from anniversary provisions.

The following actuarial parameters were used as a basis for measuring the other long-term provisions:

Parameters for other long-term provisions for international Group companies (weighted)	Dec. 31, 2011	Dec. 31, 2010
Discount rate	7.4%	7.0%
Salary trend	1.4%	1.4%
Benefits trend	1.0%	1.0%

37. Financial liabilities

Financial liabilities are comprised as follows in accordance with their remaining terms as of the balance sheet date:

	Liabilities promissory notes		Amounts due to banks		Liabilities from bond		Total	
in € 000s	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Remaining terms up to 1 year	35,000	186,000	61,229	95,685	-	-	96,229	281,685
Remaining terms over 1 year to 3 years	456,000	279,000	49,959	58,816	-	-	505,959	337,816
Remaining terms over 3 year to 5 years	238,500	50,500	17,141	19,685	350,000	350,000	605,641	420,185
Remaining terms over 5 years	-	-	13,229	23,626	-	-	13,229	23,626
Financial liabilities	**729,500**	**515,500**	**141,558**	**197,812**	**350,000**	**350,000**	**1,221,058**	**1,063,312**

The contractually agreed undiscounted cash flows, as of the balance sheet date December 31, 2011, from interest payments and repayment of financial liabilities for the coming years can be seen in the following chart:

	2012			2013			2014–2016		
in € 000s	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from financial liabilities	39,285	12,849	96,132	35,149	10,827	284,264	27,816	15,920	844,023

The following cash flows were generated in the previous year:

	2011			2012			2013–2015		
in € 000s	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from financial liabilities	39,611	8,987	237,374	32,709	4,149	61,485	68,751	5,261	685,847

For the financial liabilities existing as of the balance sheet date, a repayment in accordance with the maturity disclosed in the balance sheet was generally assumed. For current liabilities due to banks, an extension of existing credit lines was partly assumed. The variable interest payments from the promissory notes were determined based on the interest rate last fixed before December 31, 2011.

Internal measures to ensure the necessary liquidity for repayment of financial liabilities are detailed in the notes on the management of liquidity risk (Note 47.5.).

38. Trade accounts payable

Trade accounts payable are composed as follows:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
Trade accounts payable to third parties	205,306	191,768
Trade accounts payable to non-consolidated Group companies	2,868	4,366
Advances received on orders from third parties	3,424	1,124
Liabilities from outstanding accounts	29,963	36,245
Total	**241,561**	**233,503**

Of the total amount of trade accounts payable, € 3.3 million (previous year: € 1.4 million) are due after one year.

39. Other financial liabilities

Other financial liabilities are broken down as follows:

	Dec. 31, 2011		Dec. 31, 2010	
in € 000s	Total	thereof: current	Total	thereof: current
Outstanding purchase price liabilities	81,950	81,950	-	-
Finance lease liabilities	10,293	2,883	11,390	2,694
Liabilities from derivative financial instruments	9,272	266	9,533	641
Other financial liabilities	150,871	141,284	97,714	89,783
Total	**252,386**	**226,383**	**118,637**	**93,118**

The outstanding purchase price liabilities relate to the partial amount, which had not yet been paid as of December 31, 2011, for the acquisition of the first tranche of the branded product portfolio including the related sales structures from Grünenthal for the markets of Eastern Europe and the Middle East.

Finance lease liabilities relate to a sale-and-leaseback transaction for software in the amount of € 7.7 million (previous year: € 9.8 million) as well as other lease liabilities in 2011 for vehicles and passenger vehicles in the amount of € 2.6 million (previous year: € 1.6 million). Considering interest in the amount of € 1.7 million (previous year: € 1.4 million), lease installments payable in subsequent years total € 12.0 million (previous year: € 12.8 million). The lease liabilities are due as follows:

	Lease installments		Interest		Liabilities finance lease	
in € 000s	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Remaining term up to 1 year	3,568	3,299	685	605	2,883	2,694
Remaining terms over 1 year to 3 years	7,059	6,032	788	695	6,271	5,337
Remaining terms over 3 year to 5 years	1,336	3,478	197	119	1,139	3,359
Remaining terms over 5 years	-	-	-	-	-	-
Total	**11,963**	**12,809**	**1,670**	**1,419**	**10,293**	**11,390**

In addition, the negative market values of derivatives measured at fair value through profit or loss were reported in liabilities from derivative financial instruments. In financial year 2011, this continued to relate, as in the previous year, to interest rate swaps, which are partly used as hedging instruments (see Note 47.7.), and, furthermore, currency swaps in financial year 2011. Within the scope of the maturity date analysis, the following contractually agreed remaining terms result for these derivative financial liabilities:

	Derivative financial liabilities	
in € 000s	Dec. 31, 2011	Dec. 31, 2010
Remaining term up to 1 year	266	641
Remaining terms over 1 year to 3 years	3,726	4,875
Remaining terms over 3 year to 5 years	5,280	4,017
Remaining terms over 5 years	-	-
Total	**9,272**	**9,533**

Other financial liabilities comprise many insignificant individual items in the Group companies and become due in the amount of € 141.3 million (previous year: € 89.8 million) within one year, in the amount of € 9.6 million after one year up to five years (previous year: € 0.0 million), as well as in the amount of € 0.0 million after five years (previous year: € 7.9 million).

The contractually agreed undiscounted cash flows, as of the balance sheet date December 31, 2011, from interest payments and repayment of finance lease liabilities and for the liabilities from derivative financial instruments for the coming years can be seen in the following chart:

	2012			2013			2014–2016		
in € 000s	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from liabilities finance leases	685	-	2,883	490	-	2,721	495	-	4,689
Cash flows from derivatives	3,352	-	-	2,964	-	-	2,244	-	-

The following cash flows were generated in the previous year:

	2011			2012			2013–2015		
in € 000s	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from liabilities finance leases	605	-	2,694	418	-	2,664	396	-	6,032
Cash flows from derivatives	4,768	-	-	4,017	-	-	5,902	-	-

Included were all financial instruments used by STADA which existed as of December 31, 2011 and for which payments had already been contractually agreed.

Further details on liabilities from derivative financial instruments can be found in the notes on financial instruments (Note 46. and Note 47.7.).

40. Other liabilities

Other liabilities were comprised as follows:

	Dec. 31, 2011		Dec. 31, 2010	
in € 000s	Total	thereof: current	Total	thereof: current
Tax liabilities	18,117	18,117	13,288	13,288
Personnel related liabilities	39,071	35,361	39,157	34,744
Other liabilities	35,273	33,181	32,902	31,614
Total	**92,461**	**86,659**	**85,347**	**79,646**

Other liabilities comprise many insignificant individual items in the Group companies.

41. Other provisions

Other provisions are composed as follows:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
Provisions set aside for damages	1,950	2,632
Warranties	9,885	6,380
Total	**11,835**	**9,012**

The current portion of pension provisions, which was still included under other provisions in financial year 2010 in the amount of € 0.7 million, has been reported accumulated with the non-current portion of pension provisions under other non-current provisions since the beginning of 2011. The development of the pension provisions is presented in Note 36.

Provisions set aside for damages include possible utilization from pending legal disputes including the associated legal costs and developed as follows:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
As of January 1	**2,632**	**2,350**
Added	1,057	361
Utilized	75	85
Reversed	1,682	37
Currency translation differences	18	43
As of December 31	**1,950**	**2,632**

Provisions for warranties developed as follows:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
As of January 1	**6,380**	**7,448**
Added	4,289	1,553
Reversed	96	421
Utilized	688	2,200
As of December 31	**9,885**	**6,380**

Other Disclosures

42. Notes to the cash flow statement

Cash flow from operating activities consists of changes in items not covered by capital expenditure, financing, exchange differences on the conversion of foreign financial statements or transactions in foreign currencies or through changes in the scope of consolidation and measurement. Cash flow from operating activities amounted to € 169.0 million in the reporting year (previous year: € 194.8 million). The change in cash flow from operating activities of € 25.8 million compared to the previous year is primarily attributable to a cash-effective increase of trade accounts receivable of € 87.5 million in financial year 2011. In financial year 2010, a reduced cash-effective increase of trade accounts receivable of € 56.5 million as compared to 2011 had less of a relieving effect on cash flow from operating activities.

Cash flow from investment activities reflects the cash outflows for investments reduced by the inflows from disposals. This amounted to € -187.1 million in the reporting year (previous year: € -92.4 million).

In financial year 2011, payments for investments in intangible assets in the amount of € 87.9 million (previous year: € 59.1 million) were made, of which € 57.4 million (previous year: € 26.9 million) related to significant investments in intangible assets for the short-term expansion of the product portfolio. At € 34.6 million, the largest individual item here was attributable to the purchase of the British branded product Cetraben®. Acquisition-related sales growth was generally associated with these investments in the reporting year. Proceeds from the disposal of non-current assets increased in the financial year to € 8.0 million (previous year: € 4.7 million).

Payments for investments in business combinations according to IFRS 3 in the amount of € 68.5 million (net of acquired cash and cash equivalents) relate to the partial amount of the purchase price already paid as of December 31, 2011 for the acquisition of the first tranche of the branded product portfolio including the related sales companies for the markets in Eastern Europe and the Middle East in consideration of acquired cash and cash equivalents, where a further € 82.0 million were not paid out until January 2012. Payments in the previous year totaling € 3.0 million resulted from final purchase price payments for the acquisition of the MAKIZ Group carried out in 2007.

A total of € 16.5 million was spent on investments in shares in consolidated companies in financial year 2011 (previous year: € 3.5 million). This item relates to a further increase of shares in Pymepharco Joint Stock Company as well as the French companies Pharm Ortho Pedic SAS and AELIA SAS included as associated companies in financial year 2011. In the previous year, the increase of shares in Pymepharco Joint Stock Company which has been included as an associated company in the consolidated financial statements since financial year 2010 was included here.

Proceeds from the disposal of shares in consolidated companies in the reporting year primarily related to a payment received for a purchase price installment resulting from the sale of the consolidated company Health Vision Enterprise Ltd. in financial year 2009. Disclosures from the previous year resulted from the receipt of the final purchase price installment from the sale of the Forum Products division carried out in 2008.

Cash flow from financing activities encompasses payments from changes in financial liabilities, dividend distribution payments and payments for treasury shares as well as additions to shareholders' equity.

Proceeds from taking up financial liabilities were primarily characterized by securing new promissory notes in the amount of € 400 million in financial year 2011. Reduced payments from the settlement of financial liabilities in comparison to the previous year led to an overall positive cash flow from financing activities in the amount of € 140.5 million (previous year: € -59.4 million).

Dividend distribution payments of € 21.7 million primarily related to the dividend paid to the shareholders of STADA Arzneimittel AG for financial year 2010.

Proceeds from the capital increase are the result of the exercise of STADA warrants 2000/2015 (see Note 35.1.).

Free cash flow as the sum of cash flow from operating activities and cash flow from investing activities amounted to € -18.1 million in financial year 2011 due to the high volume of acquisitions (previous year: € 102.4 million).

Free cash flow adjusted for significant exceptional items, effects from significant investments in intangible assets, shares in consolidated companies and significant disposals is calculated as follows:

in € 000s		2011	2010
Cash flow from operating activities		169,008	194,750
Cash flow from investing activities		-187,059	-92,399
+	Payments for investments in shares in consolidated companies	16,482	3,452
+	Payments for investments in business combinations according to IFRS 3	68,490	3,000
+	Payments for significant investments in intangible assets for the short-term expansion of the product portfolio	57,417	26,896
⁄.	Proceeds from the disposal of shares in consolidated companies	1,060	744
⁄.	Proceeds from the disposal of intangible assets in significant disposals	-	-
Adjusted free cash flow		**123,278**	**134,955**

43. Segment Reporting

The measurement approaches for segment reporting are in accordance with the financial reporting methods used in the IFRS consolidated financial statements. Services between the segments are charged based on market prices.

Segmentation within the STADA Group is based on sales differentiation. Thus, the allocation to the individual segments is determined to a large extent by the sales positioning. If this positioning changes for parts of the product portfolio, associated sales are reallocated.

Generally, STADA's operating segments are divided into the two core segments, Generics and Branded Products, as well as into the non-core segment Commercial Business.

Pursuant to STADA's segment definition, which has been used since 2006, Generics are products for the health care market – usually with a drug character – which contain one or several active ingredients whose commercial property rights have expired or will expire shortly and whose sales positioning complies with one of the two following criteria:

- The product is offered by emphasizing its low price, usually in contrast to the product of another supplier which contains the identical active pharmaceutical ingredient

  or

- the product is an integral part of a marketing concept targeting more than one product and indication for primarily prescription products with active ingredients whose commercial property rights have usually expired.

According to STADA's segment definition, which has been used since 2006, Branded Products are products for the health care market which contain one or several active ingredients whose commercial property rights have usually expired and whose sales positioning complies with one of the two following criteria:

- The product is sold under a product-specific brand name and with emphasis on specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products,

  or

- the product is part of a marketing concept for primarily non-prescription products which are mainly sold under a product-specific brand name and with emphasis on different specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products.

STADA also conducts business and has equity interests in fields outside the core segments. As a rule, the objective of these activities is to supplement and support the Group's activities in the core segments. Transactions that mainly involve trading and selling – such as in wholesaling activities – are grouped together in the Commercial Business segment. All other income, expenses and assets, which cannot be directly allocated to the segments, as well as the elimination of sales between segments are recognized under the reconciliation Group holdings/other and consolidation.

Disclosures on significant non-cash items include impairments on inventories and trade accounts receivable; they do not, however, include depreciation and amortization as well as the offsetting of impairments and write-ups. Reporting of the segment liabilities is waived, as this is without relevance for Group monitoring and for Group reporting. Furthermore, starting with this Annual Report, the individual non-current segment assets will not be included, because this information is also not used for Group controlling purposes and, as a result of the amendment to IFRS 8, it is no longer required to report the individual segment assets as of financial year 2010.

43.1. Information by operating segment

in € 000s		2011	2010
Generics	**External sales**	**1,188,332**	**1,124,219**
	Sales with other segments	1,162	969
	Total sales	1,189,494	1,125,188
	Operating profit	84,900	145,909
	Depreciation/amortization	40,402	40,979
	Impairment losses/write-ups	8,132	13,510
	Significant non-cash items	106,966	39,300
Branded Products	**External sales**	**471,898**	**424,956**
	Sales with other segments	2,524	2,531
	Total sales	474,422	427,487
	Operating profit	89,305	83,675
	Depreciation/amortization	30,916	28,441
	Impairment losses/write-ups	2,490	2,403
	Significant non-cash items	18,017	14,147
Commercial Business	**External sales**	**32,866**	**66,933**
	Sales with other segments	138	300
	Total sales	33,004	67,233
	Operating profit	-1,364	-18,908
	Depreciation/amortization	348	1,613
	Impairment losses/write-ups	1,927	-
	Significant non-cash items	624	6,328
Reconciliation Group holdings/ other and consolidation	**External sales**	**22,300**	**10,868**
	Sales with other segments	-3,824	-3,800
	Total sales	18,476	7,068
	Operating profit	-52,777	-48,877
	Depreciation/amortization	6,788	5,283
	Impairment losses/write-ups	11,054	14,514
	Significant non-cash items	2,284	186
Group	**External sales**	**1,715,396**	**1,626,976**
	Sales with other segments	-	-
	Total sales	1,715,396	1,626,976
	Operating profit	120,064	161,799
	Depreciation/amortization	78,454	76,316
	Impairment losses/write-ups	23,603	30,427
	Significant non-cash items	127,891	59,961

43.2. Reconciliation of segment results to net profit

in € 000s	2011	2010
Operating segment profit	172,841	210,676
Reconciliation Group holdings/other and consolidation	-52,777	-48,877
Result from associated companies	553	128
Investment income	573	162
Financial income	10,789	3,818
Financial expenses	62,447	56,860
Earnings before taxes, Group	**69,532**	**109,047**

43.3. Reconciliation of segment assets to Group assets

in € 000s	Dec. 31, 2011	Dec. 31, 2010
Segment assets	1,233,920	1,071,755
Reconciliation Group holdings/other and consolidation	222,823	226,583
Other non-current assets	76,021	83,112
Current assets	1,267,081	1,125,283
Total assets, Group	**2,799,845**	**2,506,733**

43.4. Information by region

	Development of sales by the customer's registered office		Development of sales by the company's registered office		Non-current assets	
in € 000s	2011	2010	2011	2010	Dec. 31, 2011	Dec. 31, 2010
Germany	479,863	516,428	501,802	536,376	512,587	332,544
Russia	279,628	221,212	287,695	229,081	198,009	205,670
Italy	146,118	136,782	145,565	136,652	65,898	69,260
Belgium	140,924	134,891	143,623	136,333	10,476	11,036
Spain	112,696	82,833	109,064	79,986	61,041	62,847
Serbia	106,572	99,076	124,355	117,824	372,664	377,166
Rest of Europe	379,264	362,338	366,663	351,808	219,165	215,724
Rest of world	70,331	73,416	36,629	38,916	6,821	9,672
Total, Group	**1,715,396**	**1,626,976**	**1,715,396**	**1,626,976**	**1,446,661**	**1,283,919**

In the presentation of sales by the customer's registered office, net sales to third parties generated by consolidated Group companies with customers in national markets that are significant for STADA are shown. In the presentation of sales by the company's registered office, sales to third parties are shown according to the invoicing company's registered office.

Disclosures on assets by region relate to non-current assets (intangible assets, property, plant and equipment). Starting with this Annual Report, assets by region are reported according to a company's registered office and no longer, as in previous years, according to fixed codes linking sales by the customers' registered offices. The figures for the previous year were adjusted accordingly.

43.5. Information on important customers

In accordance with IFRS 8.34, a company must provide notification when sales revenues from business activities from a single external customer amount to at least 10% of the company's total sales revenues. As in the previous year, this did not relate to any customers in the reporting year.

44. Contingent liabilities

Contingent liabilities describe possible obligations with respect to third parties which result from past events and which may lead to a future outflow of resources depending on specific events. As of the balance sheet date, these contingent liabilities were considered improbable and are therefore not recognized.

At STADA, contingent liabilities concern a guarantee amounting to € 25.0 million with respect to Hospira Inc., Lake Forest, Illinois, USA, in connection with a supply agreement between Hospira and the shares in the associated company BIOCEUTICALS Arzneimittel AG which are recognized under the equity method.

STADA, as guarantor, has recognized this guarantee in the reporting year as financial guarantee in accordance with IAS 39 at its fair value in the amount of € 0.3 million (previous year: € 0.3 million). Utilization of this guarantee granted is currently not expected.

In addition, there are contingent liabilities in connection with legal risks from the pending proceedings. This primarily relates to patent risks for certain active pharmaceutical ingredients. The resulting possible obligations amounted to approx. € 9.6 million (previous year: € 7.1 million). Furthermore, there are legal risks in the amount of € 4.0 million relating to legal proceedings ongoing since 2008 regarding the violation of competition law in Serbia. There are also contingent liabilities in connection with tax-related risks in Russia in the amount of € 1.4 million. Provisions were not created for these, as the probability of an outflow of assets is under 50%. Outflows potentially resulting from these risks would generally be short-term.

45. Other financial obligations

In addition to the contingent liabilities, there were other future financial obligations, which can be broken down as follows:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
Operating lease liabilities	51,483	46,760
Remaining financial obligations	9,609	10,941
Total	**61,092**	**57,701**

Liabilities from operating leases relate particularly to IT equipment and vehicles. In addition, there are liabilities from long-term rental agreements for office buildings with an average contract term of 12 years. Liabilities from financial leases related in financial year 2011 to a sale-and-leaseback transaction for software as well as other lease obligations for vehicles and passenger cars (see Note 25.). The resulting liabilities were recognized under other financial liabilities (see Note 39.).

The total of future minimum lease payments under operating leases amounted to € 51.5 million as of the end of the financial year (previous year: € 46.8 million) and can be broken down according to remaining term as follows:

	Operating lease	
in € 000s	Dec. 31, 2011	Dec. 31, 2010
Remaining term up to 1 year	16,973	13,389
Remaining terms over 1 year to 5 years	27,308	24,554
Remaining terms over 5 years	7,202	8,817
Total	**51,483**	**46,760**

Lease payments in the amount of € 21.5 million (previous year: € 18.4 million) were recognized as an expense in financial year 2011.

The remaining financial liabilities related, among other things, to further guarantees assumed by the STADA Group.

46. Disclosures about financial instruments

46.1. Carrying amounts, valuation rates and fair values according to valuation categories

The following disclosures are made on carrying amounts, valuation rates and fair values by valuation category, whereby the following abbreviations are made pursuant to IAS 39: LaR (loans and receivables), HtM (held-to-maturity investments), AfS (available-for-sale financial assets), FAHfT (financial assets held for trading), FLHfT, (financial liabilities held for trading) and FLAC (financial liabilities measured at amortized cost).

in € 000s	Carrying amount Dec. 31, 2011	Valuation category pursuant to IAS 39	Valuation rate balance sheet in accordance with IAS 39			Valuation rate in accordance with IAS 17	
			Amortized cost	Fair value not included in the income statement	Fair value included in the income statement		
Assets							
Cash and cash equivalents	320,740	LaR	320,740				
Trade accounts receivable	446,214	LaR	446,214				
Held-to-maturity financial assets	11	HtM	11				
Available-for-sale financial assets	10,132	AfS	10,071	61			
Derivative financial assets with hedging relationship	-	n/a					
Derivative financial assets without hedging relationship	-	FAHfT					
Other financial assets	45,944	LaR	45,944				
Equity and liabilities							
Trade accounts payable	238,137	FLAC	238,137				
Amounts due to banks	141,558	FLAC	141,558				
Promissory notes	729,500	FLAC	729,500				
Bonds	350,000	FLAC	350,000				
Liabilities financial leasing	10,293	n/a				10,293	
Derivative financial liabilities with hedging relationship	6,222	n/a		6,222			
Derivative financial liabilities without hedging relationship	3,050	FLHfT			3,050		
Other financial liabilities	232,821	FLAC	232,821				
Thereof aggregated according to valuation categories in accordance with IAS 39:							
Loans and receivables	812,898	LaR	812,898				
Held-to-maturity investments	11	HtM	11				
Available-for-sale financial assets	10,132	AfS	10,071	61			
Financial assets held for trading	-	FAHfT					
Financial liabilities measured at amortized costs	1,692,016	FLAC	1,692,016				
Financial liabilities held for trading	3,050	FLHfT			3,050		

		Valuation rate balance sheet in accordance with IAS 39					
	Fair Value Dec. 31, 2011	Carrying amount previous year	Amortized cost	Fair value not included in the income statement	Fair value included in the income statement	Valuation rate in accordance with IAS 17	Fair Value Dec. 31, 2010
	320,740	199,102	199,102				199,102
	446,214	448,946	448,946				448,946
	11	11	11				11
	10,132	14,479	14,408	71			14,479
	-	-	-				-
	-	109			109		109
	45,944	50,481	50,481				50,481
	238,137	196,134	196,134				196,134
	142,817	197,812	197,812				199,833
	782,735	515,500	515,500				538,217
	358,334	350,000	350,000				357,875
	10,293	11,390				11,390	11,390
	6,222	5,541		5,541			5,541
	3,050	3,992			3,992		3,992
	232,821	97,714	97,714				97,714
	812,898	698,529	698,529				698,529
	11	11	11				11
	10,132	14,479	14,408	71			14,479
	-	109			109		109
	1,754,844	1,357,160	1,357,160				1,389,773
	3,050	3,992			3,992		3,992

Since cash and cash equivalents as well as trade accounts receivable mainly have short remaining terms, their carrying amounts as of the closing date correspond approximately to the fair value.

Deviations of the fair values from the carrying amounts occur as shown in the following chart in the case of promissory notes, bonds, as well as non-current liabilities to banks with a maturity of more than five years. The cash flows calculated by means of the current yield curve were discounted to the measurement date to determine the fair values.

Available-for-sale financial assets are, in addition to a smaller portion of shares measured at fair value, primarily the carrying amounts of those shares in non-consolidated investments which are entirely measured at amortized cost for lack of available market prices.

The fair values of remaining financial receivables as well as of held-to-maturity financial investments with remaining terms of more than a year correspond to the present values of the payments connected with the assets taking into consideration the respectively current interest parameters that reflect market and partner-related changes in the conditions and expectations. Trade accounts payable as well as remaining financial liabilities also regularly have short remaining terms so that the recognized values approximate the fair values.

For the disclosures according to class of financial instrument necessary in accordance with IFRS 7, STADA defines each valuation category as a class.

The chart below shows how the valuation rates of financial instruments measured at fair value were determined for the respective classes of financial instruments:

Fair values by levels of hierarchy in € 000s	Level 1 Quoted prices in active markets		Level 2 Valuation methods with input parameters observable in the market		Level 3 Valuation methods with input parameters not observable in the market	
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Available-for-sale financial assets (AfS)	61	71	-	-	-	-
Financial assets held for trading (FAHfT)	-	-	-	109	-	-
Financial liabilities held for trading (FLHfT)	-	-	3,050	3,992	-	-
Derivative financial liabilities with a hedging relationship	-	-	6,222	5,541	-	-

Available-for-sale financial assets (AfS) relate to shares for which market prices are available for measurement. Derivative financial assets (FAHfT) and derivative financial liabilities (FLHfT) include positive or negative market values of derivative financial instruments (interest rate or currency swaps) not part of a hedging relationship. The fair values were determined using appropriate valuation models. This includes the application of the discounted cash flow methods, which are largely based on input parameters observable in the market. The cash flows which are already fixed or calculated by means of the current yield curve are discounted to the measurement date with the discount factors determined by means of the yield curve valid on the balance sheet date. The same applies for the calculation of the fair values of the derivative financial liabilities with a hedging relationship, which reflect the negative market values of the interest rate swaps used as hedging instruments.

46.2. Net earnings from financial instruments by valuation category

Net earnings recognized in income from financial assets and liabilities can be broken down as follows:

Net earnings by valuation category in € 000s	From interest and dividends	From subsequent measurement			from disposals	Net earnings	
		at fair value	currency translation	valuation allowance		Dec. 31, 2011	Dec. 31, 2010
Loans and receivables (LaR)	9,581	-	-1,728	-94,874	-	-87,021	-22,955
Available-for-sale financial assets (AfS)	565	-	-	-4,644	-	-4,079	-3,897
Financial assets held for trading (FAHfT)	-	16	-	-	125	141	-542
Financial liabilities measured at amortized costs	-59,770	-	-4,252	-	-	-64,022	-47,666
Financial liabilities held for trading (FLHfT)	-	942	-	-	-	942	3,371
Total	**-49,624**	**958**	**-5,980**	**-99,518**	**125**	**-154,039**	**-71,689**

The disclosure of interest from financial instruments is made in financial income and financial expenses in the interest result, dividends received are disclosed in investment income. With the exception of valuation results from interest rate swaps recognized at fair value with an effect on income, which are reported under financial income or financial expenses, disclosure of the remaining components of net earnings is made in other income or other expenses. Earnings from the disposal of financial instruments relate to currency swaps that expired in the financial year.

Valuation results from financial assets held for sale and cash flow hedges, which are reported under other comprehensive income in equity, are not included in this presentation as they had no effect on income.

47. Risk management, derivative financial instruments and disclosures on capital management

47.1. Principles of risk management

The basic principles of financial policy and of financial risk management are determined or confirmed at least once annually by the Executive Board. All transactions above a relevance threshold determined by the Executive Board additionally require the prior approval of the Executive Board, who is regularly informed on the nature, scope and the amount of the current risks. Regarding assets, liabilities and scheduled transactions, these risks comprise particularly risks from changes to exchange rates, interest rates and market prices. It is the objective of financial risk management to limit these market risks through the current operative and finance-related activities. For this purpose, depending on the assessment of the financial risk, derivative and non-derivative hedging instruments are used.

However, on principle, only those financial risks are hedged which have significant consequences on the Group's cash flow.

47.2. Currency risks

STADA's currency risks result mainly from operating activities, investments and financing measures.

Foreign currency risks that do not significantly influence the Group's cash flows remain unhedged while risks due to foreign currencies are usually hedged to the extent that they can significantly influence the Group's cash flows.

In the operating area, the individual Group companies carry out their activities mainly in their individual functional currency. Therefore, from today's perspective, STADA estimates the currency risk from current operating activities as being low, even if forecasts for currency relations cannot be accurately made against the backdrop of the current economic situation. Some Group companies are exposed to foreign currency risks in connection with planned payments outside their functional currencies. These mainly relate to the refinancing of the Serbian Hemofarm group and the Russian subsidiary Nizhpharm.

STADA, on principle, employs different financial derivatives to hedge assets, liabilities and anticipated future cash flows denominated in foreign currency. In the reporting year 2011, STADA made particular use of foreign-exchange futures contracts among other things. The maturity dates of futures contracts are selected to match the Company's anticipated cash flows. Generally, however, their terms do not exceed one year. Based on the respective foreign currency planning, a hedge strategy is thereby developed in the context of a risk analysis, making use of the variance-covariance method.

However, it cannot be ruled out that the hedging strategies against currency risks turn out to be insufficient, wrong or suboptimal because, for example, the financial markets develop contrary to expectations and that adverse effects for STADA result from this.

STADA determines quantitative disclosures on risks in connection with currency changes by means of aggregating all of the Group companies' foreign currency items that are not denominated in the respective Group company's functional currency. In case of hedging transactions they are compared with the positive or negative balances from the aggregation. This results in the subsequent material outstanding foreign currency items as of the respective balance sheet dates, which in case of a change to the foreign currency item due to a 10% appreciation or a 10% depreciation of the euro are as follows:

	Dec. 31, 2011			Dec. 31, 2010		
in € 000s	Russian ruble	Serbian dinar	Pound Sterling	Serbian dinar	Kazakhstani tenge	Ukrainian hrywnja
Outstanding foreign currency item	-3,764	+21,592	+11,548	-16,473	-8,868	-5,457
Income (+)/expense (-) from an appreciation of the euro by 10%	-4,621	+2,159	-1,642	-1,647	-887	-546
Income (+)/expense (-) from a depreciation of the euro by 10%	+4,621	-2,159	+1,642	+1,647	+887	+546

Here, any currency risk is isolated, i.e. it is taken into account without mutual dependencies.

The outstanding foreign currency items recognized in the reporting year exclusively relate to foreign currency reserves at international Group companies in euro. The risk in connection with currency changes from the Group's perspective results from the functional currency of the respective international Group company.

The outstanding foreign currency items in Russian ruble and Pound sterling relate to the balance from foreign currency reserves at foreign Group companies in euro and outstanding foreign currency reserves in Russian ruble and Pound sterling.

47.3. Interest rate risks

Interest rate risks primarily exist for STADA in the euro area, in the United Kingdom as well as in Serbia and Russia. In order to minimize the effects of interest rate fluctuations, STADA manages the interest rate risk, where possible, for the financial liabilities denominated in euro and ruble with derivative hedging instruments in the form of interest rate swaps. Taking into account these hedging transactions, an average of 88% (previous year: 96%) of financial liabilities denominated in euro and 100% (previous year: 100%) of those denominated in ruble had fixed interest rates in 2011.

STADA calculates existing interest rate risks with sensitivity analyses that show the effects of changes in market interest rates on interest payments, interest income and expenses as well as on equity. The following factors are included in the calculation:

- changes in the market interest rate of interest rate derivatives designated as hedging instruments in the context of cash flow hedges,
- changes in the market interest rate of original financial liabilities with variable interest rates that are not hedged against interest rate risks, and
- changes in the market interest rate of interest rate derivatives not part of a hedging relationship.

in € million	Dec. 31, 2011	Dec. 31, 2010
Income (+)/expense (-) from an increase in the market interest rate level of 100 basis points	-0.8	+0.5
Income (+)/expense (-) from a decrease in the market interest rate level of 100 basis points	+0.8	-0.5
Equity increase (+)/equity reduction (-) from an increase in the market interest rate level of 100 basis points	+3.7	+2.5
Equity increase (+)/equity reduction (-) from a decrease in the market interest rate level of 100 basis points	-5.7	-2.6

47.4. Default risks

STADA may be exposed to a default risk in its operating business or as a result of financing activities if contracting parties fail to meet their obligations. To avoid default risks in financing activities, such transactions are only concluded with counterparties of impeccable financial standing. Past due receivables in the operating area are continuously monitored and potential default risks are anticipated through the creation of valuation adjustments.

The supply of goods and services to international wholesalers is subject to special monitoring. Concentrations of risk are assumed if debtors exceed a particular credit volume, for which no securities were transferred. As of the balance sheet date however, there are no significant concentrations of risks at STADA exceeding the value adjustments for receivables with respect to local wholesalers in CEE countries classified as a special effect in the financial year.

STADA's maximum credit default risk is calculated from the carrying amounts of the financial assets recognized. In addition, STADA granted guarantees, which amounted to a total nominal volume of € 30.4 million (previous year: € 28.8 million) as of the balance sheet date (see Note 44.). STADA has various forms of collateral for credit securities such as mortgages, assignments of receivables and pledged inventories.

47.5. Liquidity risks

The Group's liquidity was guaranteed at all times in financial year 2011. For this purpose and to secure the financial stability of STADA, a liquidity reserve in the form of credit lines and, insofar as it is necessary, cash reserves, are maintained. For this, STADA concluded bilateral credit contracts with various banks. Detailed information on the remaining terms and maturities of individual financial liabilities can be found in the notes on the respective balance sheet items.

47.6. Other price risks

Other price risks exist in relation to market prices. However, as of the balance sheet date, STADA only recognizes available-for-sale financial assets, whose fair values are determined based on market prices, only to a minor extent.

47.7. Derivative financial instruments and hedging instruments

STADA counters risks from fluctuations in cash flow with derivative financial instruments, which are exclusively used to hedge interest and currency risks resulting from operating activities, financial transactions and investments. Derivative financial instruments are neither held nor issued for speculation purposes.

In financial year 2011, there are cash flow hedges exclusively in the form of payer interest rate swaps. Here, variable interest payments are transformed into fixed interest payments and the cash flow risk of variable interest liabilities is thus hedged. In the context of these hedging relationships, interest rate related cash flow changes of the hedged items are netted with cash flow changes of interest rate swaps.

In financial year 2011, two new payer interest-rate swaps were designated as cash flow hedges in order to secure interest payments from promissory notes.

	Start	Term	Nominal value	Reference interest rate
Payer interest-rate swap	Dec. 8, 2011	5 years	€ 30,000,000	6M Euribor
Payer interest-rate swap	Dec. 8, 2011	5 years	€ 36,500,000	6M Euribor

Foreign currency derivatives are generally held to hedge the fair value of assets or liabilities. As of the balance sheet date, there are two currency swaps, which serve to hedge foreign currency loans, but which were not designated as fair value hedge.

	Start	Term	Swap from nominal volume	Swap to nominal volume
Currency swap	Dec. 12, 2011	92 days	883,000,000 RUB	20,687,000 EUR
Currency swap	Dec. 20, 2011	42 days	12,348,000 GBP	14,751,000 EUR

Losses from the valuation of this hedging transaction in the amount of € 0.3 million were recognized under currency translation expenses in other expenses.

The total volume of currency and interest rate related derivatives is comprised as follows:

	Dec. 31, 2011		Dec. 31, 2010	
in € 000s	Nominal value	Fair value	Nominal value	Fair value
Derivatives without hedging relationship				
Interest rate swaps	60,000	-2,784	90,000	-3,992
thereof				
• fixed rate payer	60,000	-2,784	90,000	-3,992
• fixed rate recipient	-	-	-	-
Other derivatives	35,438	-266	8,276	109
Derivatives with hedging relationship				
Interest rate swaps	146,500	-6,222	80,000	-5,541
thereof				
• fixed rate payer	146,500	-6,222	80,000	-5,541
• fixed rate recipient	-	-	-	-
Other derivatives	-	-	-	-
Total	**241,938**	**-9,272**	**178,276**	**-9,424**

The terms of the cash flow hedges existing as of the balance sheet date end between 2013 and 2016.

The effectiveness of hedging relationships is retrospectively and prospectively reviewed on the basis of effectiveness tests. As of the balance-sheet date, all of the hedging relationships presented above were effective. All changes in the fair value of the derivative hedging instruments were therefore recognized directly in equity under “Provisions for cash flow hedges”. In financial year 2011, the resulting expenses amounted to € 0.5 million (previous year: € 0.3 million).

47.8. Disclosures on capital management

With its capital management, STADA in general aims to ensure the going concern, the ability to meet its obligations and to preserve the Company’s financial substance. With regard to the reduction of cost of capital, this in particular also includes the maintenance of an optimal capital structure.

Capital is monitored on the basis of net debt, which results from current and non-current financial liabilities minus cash and cash equivalents as well as current securities. As an important key figure for capital management at STADA, the net debt to adjusted EBITDA ratio amounted to 2.7 in financial year 2011 (previous year: 2.7) and was thus below the maximum value of 3 envisaged by the Executive Board. Thus, this value remained the same – despite the burdening balance sheet date effect, where the completion of the partial acquisition of the branded product portfolio in Eastern Europe and the Middle East immediately prior to year-end on December 30, 2011 had already increased the debt as of the balance sheet date without this being able to first generate a contribution to EBITDA. Excluding this balance sheet date effect, the accordingly adjusted net debt to adjusted EBITDA ratio only amounted to 2.5.

The debt-to-equity ratio is another important key figure for capital management and results from the relation of net debt to equity less shares relating to non-controlling shareholders.

In this connection, the net debt and net debt to adjusted EBITDA ratio were as follows:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
Non-current financial liabilities	1,124,829	781,627
Current financial liabilities	96,229	281,685
Gross debt	**1,221,058**	**1,063,312**
Cash, cash equivalents and current securities	320,801	199,173
Net debt	**900,257**	**864,139**
EBITDA (adjusted)	**337,158**	**315,890**
Net debt to adjusted EBITDA ratio	**2.67**	**2.74**

48. Related party transactions

In the scope of the ordinary course of business, STADA Arzneimittel AG and/or its consolidated companies have entered into related party transactions. In accordance with IAS 24, “related parties” refers to directly or indirectly controlled subsidiaries that are not consolidated due to lack of material significance, associates and joint ventures as well as persons in key positions and their close relatives. In principle, all trades are settled with related companies and natural persons at market-rate conditions.

48.1. Transactions with related persons

Persons in key positions are the board members of STADA Arzneimittel AG, the remuneration of whom, including further information on the principles of the remuneration system, is presented in detail in the Management Report (see “Business and General Conditions – Remuneration Report”), as well as the summary in Note 49. in relation to quantitative disclosures.

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

The wife of the Chief Production and Development Officer is the owner of a pharmacy with which STADA maintains exclusively business relations usual for the industry as with other third parties.

In financial year 2011, Supervisory Board member Constantin Meyer received a progress payment in the amount of € 77,350 from an indirect subsidiary of STADA Arzneimittel AG for a formula development contract.

48.2. Transactions with related companies

Within assets and liabilities, the following amounts are primarily related to transactions involving affiliated companies:

in € 000s	Dec. 31, 2011	Dec. 31, 2010
Trade accounts receivable		
Non-consolidated subsidiaries / joint ventures	9,853	9,135
Associated companies	-	-
Joint ventures	238	180
Other investors	-	3
Trade accounts payable		
Non-consolidated subsidiaries / joint ventures	5,455	4,348
Associated companies	-	18
Joint ventures	584	419
Other investors	10	-

Expenses and income essentially relate to related party transactions as follows:

in € 000s	2011	2010
Sales		
Non-consolidated subsidiaries / joint ventures	6,148	5,426
Associated companies	-	-
Joint ventures	253	454
Other investors	-	-
Interest income		
Non-consolidated subsidiaries / joint ventures	142	65
Associated companies	1,673	1,502
Joint ventures	-	22
Other investors	-	2
Interest expense		
Non-consolidated subsidiaries / joint ventures	32	26
Associated companies	-	1
Joint ventures	-	-
Other investors	-	-

In addition, the following disclosures on related party transactions are made:

STADA continues to provide the associated company BIOCEUTICALS Arzneimittel AG with a credit line facility[1] with an interest rate that is partly usual for risk capital and of which a total of € 23.9 million (previous year: € 31.8 million) had been used as of December 31, 2011.

There is a service contract with BIOCEUTICALS Arzneimittel AG, as well as semi-exclusive distribution rights for Epo-zeta in Germany granted by BIOCEUTICALS Arzneimittel AG to, among others, cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH. In some other European countries (such as Serbia or Russia, for example), a local STADA-owned subsidiary can receive or has already received at the same time a semi-exclusive local sales license as well. BIOCEUTICALS Arzneimittel AG has so far not made use of any own personnel – except for the company's boards according to stock corporation law – but has exclusively assigned companies from the STADA Group with this, which invoice at normal market conditions.

STADA also has various business relations with its fellow partner in the joint ventures STADA Import/Export Ltd., British Virgin Islands, as well as STADA Vietnam J.V. Co., Ltd., Vietnam. The fellow partners of STADA Import/Export Ltd. and STADA Vietnam J.V. Co. receive an appropriate management remuneration for their activities as general managers of the joint venture companies, which amounted to € 122,000 (previous year: € 115,000) in financial year 2011. In financial year 2011, STADA also achieved total sales of € 10.9 million with its fellow partner in the joint venture STADA Vietnam J.V. Co. Ltd. As of the balance sheet date, outstanding receivables in the amount of € 2.8 million resulted from this business relationship. The loan that was granted by the fellow partner of STADA Import/Export Ltd. to that company was already redeemed in financial year 2010 and no longer exists as of December 31, 2011.

Furthermore, STADA has granted the non-consolidated joint venture Breathe Pharmaceuticals Ltd. J.V. a loan in the amount of € 90,000.

49. Remuneration of the Executive Board and the Supervisory Board

The aggregate remuneration of the Executive Board and the Supervisory Board including further information on the principles of the remuneration system are presented in detail in the Management Report (see "Business and General Conditions – Remuneration Report").

In summary, the following disclosures regarding the remuneration of the Executive Board and Supervisory Board at STADA Arzneimittel AG are made according to IAS 24 in consideration of the disclosure requirements of Section 314 (1) no. 6a sentence 1–4 of the German Commercial Code:

	Fixed and variable current remuneration		Termination benefits		Post-employment benefits		Expenses for pension commitments earned in the current year		Other remuneration planned for the longer-term		Total remuneration in accordance with IFRS	
in € 000s	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Members of the Executive Board	5,631[2]	4,546[3]	-	1,460	-	-	983	941	-	-	6,614	6,947
Members of the Supervisory Board	630	779	-	-	-	-	-	-	-	-	630	779

1) In financial year 2010, two loans in the amount of € 6.7 million and € 5.5 million respectively were extended until December 31, 2012 and one loan in the amount of € 25.0 million was extended until December 31, 2014.
2) Thereof progress payments on variable long-term special remuneration in the total amount of € 1,106,250.00 as a result of achieving the annual interim goals in the respective individual contracts for financial year 2012.
3) Thereof progress payments on variable long-term special remuneration in the total amount of € 87,500.00 as a result of achieving the annual interim goals in the respective individual contracts for financial year 2011.

Remuneration to former members of the Executive Board amounted to a total of € 280,000 in financial year 2011. Current pension provisions for former Executive Board members in financial year 2011 amounted to € 7,672,000.

There were no loans granted to members of the Executive Board and Supervisory Board at STADA Arzneimittel AG as of the balance sheet date. Nor has STADA taken on any contingent liabilities for the benefit of the Board members of STADA Arzneimittel AG.

50. Fees for the auditor

In financial year 2011, the following professional fees were recognized as expenses for services rendered by the auditor of the consolidated financial statements, PKF Deutschland GmbH:

in € 000s	2011	2010
Fees for the auditor	617	427
• thereof for audits	350	282
• thereof for other confirmation services	104	92
• thereof for other services	163	53

The fees for audits relate to payment for the audit of the consolidated financial statements as well as the audit of the financial statements of STADA Arzneimittel AG and its German subsidiaries, each at the end of the financial year.

Other confirmation services include the review of the interim consolidated financial statements as well as the review of the financial statements of STADA Arzneimittel AG and its German subsidiaries, each as of June 30 of the corresponding financial year as well as confirmation services in connection with the initially planned placement of a bond.

Other services relate to diverse consulting services.

51. Corporate Governance

The declaration on the German Corporate Governance Code prescribed by Section 161 of the German Stock Corporation Act (AktG) was last issued by the Executive Board and Supervisory Board on September 1, 2011. The declaration is publicly available via the Company's website (www.stada.de in German or www.stada.com in English) and is also presented in the Annual Report under "Additional Information".

52. Events after balance-sheet date

The events that occurred between the end of financial year 2011 and the date of the signing of the Management Report and the financial statements for 2011 and have a significant or possibly significant effect on the business, financial and earnings position of the STADA Group were as follows:

- On January 1, 2012, STADA exercised its contractual right to withdraw from the purchase of a branded product portfolio from Grünenthal for EU markets in Central Europe according to which the responsible anti-trust authorities had not approved the transaction prior to the expiry of the contractually agreed so-called "long stop date" (as of December 31, 2011).[1)] In the framework of successful subsequent negotiations, however, STADA was also able to acquire the branded product portfolio including related sales structures and various pipeline products for markets belonging to the EU in Central Europe in the current first quarter of 2012.[2)] The purchase price for this region

1) See the Company's ad hoc update of vom January 1, 2012.
2) See the Company's ad hoc updates of January 27, 2012 and January 31, 2012.

amounted to a total of approx. € 160 million and was thereby approx. € 48 million below the originally planned purchase price for this region's product package of € 208 million. The branded product portfolio for markets belonging to the EU in Central Europe has been consolidated in the STADA Group from February 1, 2012. As of December 30, 2011, STADA already purchased the branded product portfolio for numerous markets in Eastern Europe and the Middle East.[1)]

- On January 31, 2012, STADA successfully concluded the purchase of a generics business in Switzerland including the respective sales structures.[2)] On May 19, 2011, STADA resolved to enter into concrete negotiations with the shareholders of Spirig Pharma AG, a Swiss pharmaceuticals company based in Egerkingen, on the acquisition of Spirig's generics business in Switzerland.[3)] On November 9, 2011, both negotiating partners signed the respective contract.[4)] The purchase price for this generics business amounted to a total of approx. CHF 97 million (applying the exchange rate of the date of the signing of the contract, approx. € 78 million) and also includes the right to continue marketing the purchased products under the Spirig umbrella brand. The acquired portfolio contains 56 prescription (RX) and 15 non-prescription (OTC) and discretionary prescription (OTX) products. The acquisition does not include any production facilities.

- On February 6, 2012 STADA and the mutares group signed contracts on the sale of the Irish production facility STADA Production Ireland Limited, which previously belonged to the STADA Group via the Irish STADA subsidiary Clonmel Healthcare Ltd. In the context of the transaction, the employment contracts of the facility's then current number of approx. 180 employees were transferred to the mutares group. STADA will report the one-time burden in the amount of € 16.6 million before and € 16.5 million after taxes in the first quarter of 2012 as a one-time special effect.[5)]

- In the current first quarter of 2012 – following the successful securing of promissory notes in the amount of € 400 million in the fourth quarter of 2011 – STADA was able to secure additional promissory notes in the amount of € 100 million. The promissory notes consist of four tranches with a term until February 2017 that are partially furnished with a variable interest rate and partially with a fixed interest rate. The average fixed interest rate is 4.21% p.a. The average variable interest rate is currently 3.91% p.a. The proceeds from the issue serve general business purposes.

- In the current first quarter of 2012, the Russian STADA subsidiary OAO Nizhpharm, Nizhny Novgorod, signed contracts for the purchase of the trademark rights for the nutritional supplement Vuka Vuka® and Vuka Drive®, a further development of Vuka Vuka®, for Russia, as well as Vuka Vuka® for the so-called CIS countries (Commonwealth of Independent States). The purchase price totaled € 9.7 million. Sellers included Carotex Holdings Ltd., Cyprus, and OOO "Vuka Vuka", Russia. In 2011, the last full financial year before the takeover, sales generated with these products amounted to a total of approx. € 2.8 million. Sales responsibility will be assumed in the second quarter of 2012 upon official registration by the respective national authorities. The product was previously sold via in-licensing by the Russian STADA subsidiary.

- In the current first quarter of 2012, the Russian STADA subsidiary OAO Nizhpharm, Nizhny Novgorod, concluded contracts for the purchase of rights for the brand Tranexam®, positioned in the gynecology area of indication. The purchase price for the acquired rights, which relate to Russia, amounted to € 40.0 million. Sellers included a Cypriot company and two Russian companies. In 2011, the last full financial year before the takeover, sales generated with this brand amounted to approx. RUB 302.3 million (approx. € 7.4 million). Sales responsibility will be assumed in the second quarter of 2012 upon official registration by the respective national authorities.

1) See the Company's ad hoc update of December 30, 2011.
2) See the Company's ad hoc update of January 31, 2012.
3) See the Company's ad hoc release of May 19, 2011.
4) See the Company's ad hoc update of November 9, 2011.
5) See the Company's ad hoc release of February 6, 2012.

- Since the end of December 2011, authorities in Vietnam have been investigating whether the Vietnamese joint venture may have violated specific export regulations in the export of local OTC products to Papua New Guinea. An internal analysis of these commercially insignificant export activities with the inclusion of the Compliance and Internal Auditing corporate departments in the current first quarter of 2012, however, did not reveal any noteworthy violations.

- On February 21, 2012, the French STADA subsidiary EG Labo - Laboratoires Eurogenerics SAS, Boulogne-Billancourt, signed contracts for the purchase of the French company LABORATOIRES D'ETUDES ET DE RECHERCHES EN OLIGO ELEMENTS THERAPHIE SA, Colombes, which specializes in nutritional supplements and dermatology products. The purchase price was € 3.96 million. Sellers included various private individuals and a company. The company has a 26-year history and currently employs 21 sales representatives. Sales in financial year 2011, the last full financial year before the takeover, amounted to € 6.03 million. The company is consolidated within the STADA Group as of March 1, 2012.

- In Australia in the current first quarter of 2012, STADA began preparatory activities for the establishment of an Australian generics business by founding an own subsidiary, STADA Pharmaceuticals Australia Pty Ltd, which should already lead to a start in the market within 2012.

- On March 1, 2012, the Executive Board resolved and published to propose a dividend in the amount of € 0.37 per STADA common share (previous year: € 0.37) for financial year 2011.[1)]

- The German Financial Reporting Enforcement Panel carried out an audit (random sample audit) on STADA's Consolidated Financial Statements of December 31, 2010 and of the Group Management Report 2010 in accordance with Section 342b (2) sentence 3 HGB. With the letter dated March 7, 2012, STADA was informed that the responsible department of the Panel did not determine any errors in the financial reporting for financial year 2010.

53. Dividend

According to the German Stock Corporation Act, the distributable dividend is determined according to the distributable profit reported by STADA Arzneimittel AG in its annual financial statements prepared in accordance with the rules and regulations of German Commercial Code. This amounted to € 23,316,623.53 as of December 31, 2011. The Executive Board of STADA Arzneimittel AG proposes that a dividend of € 0.37 per common share be appropriated from this distributable profit for financial year 2011. In financial year 2011, a dividend in the amount of € 0.37 per common share was distributed to shareholders from the distributable profit of financial year 2010.

Bad Vilbel, March 14, 2012

H. Retzlaff	H. Kraft	Dr. A. Müller
Chairman of the Executive Board	Chief Financial Officer	Chief Production and Development Officer

1) See the Company's ad hoc release of March 1, 2012.

RESPONSIBILITY STATEMENT

To the best of our knowledge and in accordance with the applicable reporting principles for consolidated financial statements reporting, the consolidated financial statements give a true and fair view of the business, financial position and results of operations and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the Group's expected development.

Bad Vilbel, March 14, 2012

H. Retzlaff
Chairman of the Executive Board

H. Kraft
Chief Financial Officer

Dr. A. Müller
Chief Production and Development Officer

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by STADA Arzneimittel Aktiengesellschaft, Bad Vilbel, comprising the balance sheet, the income statement, statement of comprehensive income, statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the legal representatives of the company. Our responsibility is to express an opinion on these consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report.

We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt, March 14, 2012

PKF Deutschland GmbH
Wirtschaftsprüfungsgesellschaft

Roman Brinskelle
German Public Accountant

Santosh Varughese
German Public Accountant

GLOSSARY FROM A TO Z

Active pharmaceutical ingredient: The pharmaceutically effective component of a drug (also API).

AMNOG: German Pharmaceutical Market Restructuring Act, which became effective as of January 1, 2011.

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

Audit: On the pharmaceutical market: control of equipment and documentation of manufacturers or their suppliers.

Biosimilar: Biopharmaceutical product, i.e. drugs with a protein as biopharmaceutical active ingredient which is produced by genetically modified cell lines which, despite different producing cell lines, compared to an initial supplier product which is already on the market, is so similar that the biosimilar has proven therapeutic equivalence.

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

Commercial property rights: Provide inventors or companies with protection against competition for an invention for a limited time period. The best-known commercial property right is the patent. In addition, SPCs play an important role in the pharmaceutical market.

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

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

Indication: Diseases for which a certain drug is used.

Label: Term used in the STADA Group for a uniform sales concept for different products.

Monoclonal Antibodies: Monoclonal antibodies are immunologically active proteins which are used against an individual epitope (surface structure) of an antigen (infectious substances or certain molecules) and specifically bind to that substance. Monoclonal antibodies are generated with molecular biological methods and produced biotechnologically through genetically engineered cell lines.

Nephrology: Branch of internal medicine dealing with diagnostics and non-surgical therapy of kidney diseases.

Oncology: Science that deals with the study of cancer.

Parallel import: Pharmaceutical products are described as parallel import pharmaceuticals when a third party, i.e. a company that is independent of the holder of the approval and/or the manufacturer, acquires them in another EU or EEA member state and imports them to Germany in order to also market them there – parallel to the original pharmaceutical company.

Patent: In the pharmaceutical market: commercial property right granting active pharmaceutical ingredients market exclusivity for a limited period (in the EU 20 years for example).

Pharmaceutical production: Conversion of pharmaceutical substances into a dosage form and its packaging into a finished pharmaceutical product, e.g. tablet.

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

Protein: Albumen structure.

Rituximab: Rituximab is a monoclonal antibody used in the treatment of various forms of cancer, such as non-Hodgkin lymphomas, as well as various auto-immune diseases, such as rheumatoid arthritis.

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

Trastuzumab: Trastuzumab is a monoclonal antibody used in the treatment of specific forms of breast and stomach cancer.

FINANCIAL CALENDAR

2012

March 29, 2012	Publication of 2011 results with analysts' and press conference
May 10, 2012	Publication of Q1/2012 results
May 30, 2012	Annual General Meeting
August 8, 2012	Publication of 2012 interim results with analysts' and press conference
November 8, 2012	Publication of Q3/2012 results

2013

March 21, 2013	Publication of 2012 results with analysts' and press conference
May 7, 2013	Publication of Q1/2013 results
June 5, 2013	Annual General Meeting
August 8, 2013	Publication of 2013 interim results with analysts' and press conference
November 13, 2013	Publication of Q3/2013 results

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

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

PUBLISHING INFORMATION

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Forward-looking-statements

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

Rounding

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

FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

Group sales in € million	2011	2010	2009	2008	2007
Total Group sales	1,715.4	1,627.0	1,568.8	1,646.2	1,570.5
• Core segment Generics	1,188.3	1,124.2	1,115.6	1,154.5	1,154.4
• Core segment Branded Products	471.9	425.0	392.6	368.9	304.0
• Commercial Business	32.9	66.9	51.6	58.4	69.0
• Other sales	22.3	10.9	9.0	64.4	43.1

Sales by region[1] in € million	2011	2010	2009	2008	2007
Europe	1,645.1	1,553.6	1,501.0	1,590.6	1,513.1
• Belgium	140.9	134.9	125.7	110.7	101.8
• Bosnia-Herzegovina	13.1	11.6	14.8	19.0	19.9
• Bulgaria	6.4	5.9	6.1	5.9	4.6
• Denmark	31.4	34.4	25.9	18.5	22.0
• Germany	479.9	516.4	531.6	564.0	579.8
• Finland	6.0	5.9	5.1	9.2	6.1
• France	79.4	81.0	82.4	91.4	87.0
• United Kingdom	52.2	54.4	51.3	100.9	75.7
• Ireland	20.6	19.7	20.1	25.3	23.5
• Italy	146.1	136.8	117.1	124.2	117.2
• Macedonia	2.9	3.0	2.7	2.7	2.9
• Montenegro	6.4	6.3	6.0	7.4	9.4
• The Netherlands	56.2	47.2	38.2	41.3	40.7
• Austria	14.7	15.0	15.3	14.5	13.1
• Poland	2.7	2.1	3.4	-0.3	5.2
• Portugal	13.7	12.0	11.3	9.1	12.3
• Romania	4.7	4.6	4.1	3.0	6.7
• Russia	279.6	221.2	191.9	183.4	133.8
• Sweden	5.0	4.3	4.8	3.2	2.5
• Serbia	106.6	99.1	118.6	144.5	145.1
• Slovakia	8.5	7.1	5.7	4.9	3.8
• Spain	112.7	82.8	73.9	65.9	62.7
• Czech Republic	11.5	10.3	12.2	10.0	8.9
• Ukraine	25.4	23.3	19.7	17.1	13.0
• Rest of Europe	18.5	14.0	13.0	14.8	15.5
Africa	13.1	9.5	7.1	1.6	4.1
The Americas	9.2	12.5	14.5	5.7	8.1
• USA	8.5[2]	11.9[2]	13.7[2]	3.9[2]	6.5[2]
• Rest of Americas	0.8	0.6	0.8	1.8	1.6
Asia	48.0	51.4	45.9	47.2	44.7
• China	3.1	2.4	2.0	6.8	8.0
• Kazakhstan	11.9	8.6	8.0	6.9	5.4
• The Philippines	5.0	12.2	12.1	11.1	9.8
• Thailand	2.4	2.5	2.2	2.2	3.1
• Vietnam	12.5	11.4	9.8	7.5	7.9
• Rest of Asia	13.1	14.3	11.6	12.7	10.6
Rest of world	-	-	0.2	1.1	0.4

1) Broken down according to the national market in which the sales were achieved.
2) Exclusively export sales to the USA.

Financial key figures in € million	2011	2010	2009	2008	2007[1]
Operating profit	120.1	161.8	191.9	176.4	215.5
EBITDA	223.2	268.8	280.1	255.4	288.6
Adjusted EBITDA[2]	*337.2*	*315.9*	*287.5*	*294.3*	*315.5*
EBIT	121.2	162.1	192.5	175.2	186.8
Earnings before taxes (EBT)	69.5	109.0	141.5	105.5	149.8
Net income	22.0	68.4	100.4	76.2	104.2
Adjusted net income[2]	*146.6*	*133.3*	*115.8*	*116.0*	*144.9*
Cash flow from operating activities	169.0	194.8	250.5	129.3	92.9

Asset/capital structure in € million	2011	2010	2009	2008	2007[1]
Balance sheet total	2,799.8	2,506.7	2,451.7	2,469.5	2,541.5
Non-current assets	1,532.7	1,381.4	1,406.6	1.412.9	1.499.4
Current assets	1,267.1	1,125.3	1,045.1	1.056.6	1.042.0
Equity	863.9	868.5	869.7	839.7	919.6
Equity-to-assets ratio in percent	30.9%	34.6%	35.5%	34.0%	36.2%
Non-current liabilities	1,254.9	910.5	683.5	887.7	757.6
Current liabilities	681.0	727.7	898.5	742.1	864.2
Net debt	900.3	864.1	899.0	1,015.7	958.5

Capital expenditure/depreciation and amortization in € million	2011	2010	2009	2008	2007
Total capital expenditure	286.6	109.3	124.8	137.3	193.5
• on intangible assets	237.3	70.5	73.9	60.3	150.5
• on property, plant and equipment	31.7	30.8	50.8	72.2	42.0
• on financial assets	17.6	8.0	0.1	4.8	1.0
Total depreciation and amortization	107.4	107.8	90.3	80.2	101.7
• on intangible assets	73.5	67.7	57.6	49.3	71.0
• on property, plant and equipment	29.3	36.0	32.4	30.9	27.6
• on financial assets	4.6	4.1	0.3	-	3.1

Employees	2011	2010	2009	2008	2007
Average number per year[3]	7,826	8,080	8,064	8,318	7,792
Number as of the balance sheet date	7,900	8,024	7,981	8,299	8,425

Key figures per STADA share	2011	2010	2009	2008	2007[1]
Market capitalization (year-end) in € million	1,135.1	1,494.3	1,424.2	1,204.6	2,469.2
Year-end closing price ordinary share in €	19.25	25.38	24.20	20.50	42.05
Average number of shares (without treasury shares)	58,830,209	58,763,492	58,662,392	58,632,021	58,315,643
Basic earnings per share in €[4]	0.37	1.16	1.71	1.30	1.79
Adjusted earnings per share[2]	*2.49*	*2.27*	*1.97*	*1.98*	*2.48*
Diluted earnings per share in €[5]	0.37	1.14	1.70	1.28	1.72
Dividend per ordinary share in €	0.37[6]	0.37	0.55	0.52	0.71
Total dividend payments in € million	21.8[6]	21.7	32.3	30.5	41.6
Distribution ratio in percent	99%[6]	32%	32%	40%	40%

1) The accounting treatment of shareholdings in BIOCEUTICALS Arzneimittel AG was changed retroactively for the years 2007 to 2001.
2) Adjustment for the one-time special effects as well as effects from currency influences and interest rate hedge transactions respectively incurred.
3) Employees of companies consolidated at only 50% have been included in accordance with their respective consolidation rate.
4) In accordance with IAS 33.10.
5) In accordance with IAS 33.31.
6) Proposed.

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