

STADA Arzneimittel Aktiengesellschaft

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Annual Financial  
Statements of  
December 31, 2014  
and Management Report  
for financial year

2014



# Annual Financial Statements of December 31, 2014

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## BALANCE SHEET

Balance Sheet as of December 31 in € Assets	Dec. 31, 2014	Dec. 31, 2013
<b>A. Non-current assets</b>		
<b>I. Intangible assets</b>		
1. Concessions acquired against payment, commercial property rights and similar rights and values as well as licenses for such rights and values	268,714,260.49	304,188,450.66
2. Goodwill	79,837,690.16	94,503,919.37
3. Advance payments	50,448,974.60	50,702,932.58
	<b>399,000,925.25</b>	<b>449,395,302.61</b>
<b>II. Property, plant and equipment</b>		
1. Land, leasehold rights and buildings including buildings on third-party land	42,171,236.35	43,952,950.72
2. Plant and tools and machinery equipment	11,794,647.32	12,740,884.89
3. Other fixtures and fittings, tools and equipment	12,386,357.86	13,662,451.93
4. Advance payment and construction in progress	955,216.15	914,573.58
	<b>67,307,457.68</b>	<b>71,270,861.12</b>
<b>III. Financial assets</b>		
1. Shares in associates	1,279,044,510.24	1,285,452,183.42
2. Loans to associates	544,525,127.13	489,344,820.97
3. Investments	9,692,690.51	9,848,690.51
4. Loans to associates and other participating interests	3,320,000.00	15,642,000.00
	<b>1,836,582,327.88</b>	<b>1,800,287,694.90</b>
	<b>2,302,890,710.81</b>	<b>2,320,953,858.63</b>
<b>B. Current assets</b>		
<b>I. Inventories</b>		
1. Raw and auxiliary materials and manufacturing supplies	8,162,159.21	9,697,862.78
2. Work in progress	4,617,844.40	6,142,187.67
3. Finished goods and merchandise	52,917,566.97	51,731,703.10
4. Advance payments	879,402.35	2,483,847.37
	<b>66,576,972.93</b>	<b>70,055,600.92</b>
<b>II. Receivables and other assets</b>		
1. Trade accounts receivable	3,119,019.16	41,514,640.73
2. Receivables form associates	207,653,417.45	414,980,937.31
3. Receivables from associates and other participating interests	308,736.60	544,580.67
4. Other assets	37,765,611.13	25,491,629.92
	<b>248,846,784.34</b>	<b>482,531,788.63</b>
<b>III. Cash on hand and balances with banks</b>	<b>50,296,444.21</b>	<b>7,234,309.24</b>
	<b>365,720,201.48</b>	<b>559,821,698.79</b>
<b>C. Prepaid expenses / deferred charges</b>	<b>4,114,373.29</b>	<b>4,888,713.77</b>
	<b>2,672,725,285.58</b>	<b>2,885,664,271.19</b>

Balance Sheet as of December 31 in € Equity and Liabilities	Dec. 31, 2014	Dec. 31, 2013
<b>A. Equity</b>		
<b>I. Share Capital</b>	<b>157,629,420.00</b>	<b>157,150,500.00</b>
Treasury shares	-233,571.00	-239,171.40
<b>Issued capital</b> <b>Conditional capital € 73,773,492 (previous year: € 74,252,412)</b>	<b>157,395,849.00</b>	<b>156,911,328.60</b>
<b>II. Capital reserve</b>	<b>495,744,898.97</b>	<b>493,164,073.94</b>
<b>III. Retained earnings</b>		
1. Statutory reserve	376,883.98	376,883.98
2. Other retained earnings	150,478,473.00	150,445,624.50
<b>IV. Distributable profit</b>	<b>49,317,995.91</b>	<b>116,578,257.14</b>
	<b>853,314,100.86</b>	<b>917,476,168.16</b>
<b>B. Provisions</b>		
1. Provisions for pensions and similar obligations	6,928,299.46	25,542,154.03
2. Tax provisions	1,882,970.13	2,525,793.51
3. Other provisions	145,760,841.90	159,710,527.46
	<b>154,572,111.49</b>	<b>187,778,475.00</b>
<b>C. Liabilities</b>		
1. Bonds, of which convertible € 0.00	700,000,000.00	700,000,000.00
2. Amounts due to banks	652,544,944.20	696,651,162.64
3. Trade accounts payable	29,920,541.76	33,043,530.14
4. Liabilities to associates	250,129,806.59	312,075,436.46
5. Other liabilities thereof from taxes € 1,449,535.12 (previous year: € 10,741,686.96) in the context of social security € 0.00 (previous year: € 0.00)	32,243,780.68	38,639,498.79
	<b>1,664,839,073.23</b>	<b>1,780,409,628.03</b>
	<b>2,672,725,285.58</b>	<b>2,885,664,271.19</b>

## INCOME STATEMENT

Income Statement for the period of Jan. 1 to Dec. 31 in €	2014	2013
1. Sales	420,259,915.92	412,895,813.51
2. Increase in inventories of finished goods and work in progress	1,253,608.27	0.00
Decrease in inventories of finished goods and work in progress	0.00	5,194,393.01
3. Other operating income thereof from currency translation: € 21,313,561.90 (previous year: € 17,420,990.46)	87,229,663.37	365,233,179.85
	<b>508,743,187.56</b>	<b>772,934,600.35</b>
4. Cost of materials Cost of raw and auxiliary materials and manufacturing supplies and goods purchased	183,918,038.16	177,514,648.49
5. Personnel expenses		
a) Salaries	78,378,425.30	76,111,354.15
b) Social security contributions and expenses for retirement benefits and support thereof for retirement benefits: € 3,163,275.55 (previous year: € 1,787,145.07)	13,688,064.04	12,128,268.16
	<b>92,066,489.34</b>	<b>88,239,622.31</b>
6. Amortization/ depreciation on non-current intangible assets and property, plant and equipment	81,369,067.54	59,551,856.86
7. Other operating expenses thereof from currency translation: € 24,504,481.05 (previous year: € 19,596,542.63)	206,154,470.22	230,443,882.21
8. Investment income thereof from associates € 22,511,793.76 (previous year: € 77,291,229.96)	22,511,793.76	77,291,229.96
9. Income from profit transfer agreements	24,624,770.76	10,855,738.26
10. Income from loans thereof from associates € 32,213,454.05 (previous year: € 6,550,403.51)	32,661,187.35	7,417,999.46
11. Other interest and similar income thereof from associates € 15,483,255.64 (previous year: € 16,905,125.96)	18,421,205.01	20,773,208.47
12. Depreciation on financial assets and current securities	14,360,000.00	47,024,769.48
13. Interest and similar expenses thereof from associates € 353,773.93 (previous year: € 260,040.75)	54,582,385.49	61,492,062.73
<b>14. Net profit or loss from ordinary business activities</b>	<b>-25,488,306.31</b>	<b>225,005,934.42</b>
15. Extraordinary expenses	2,008,943.20	243,480.00
<b>16. Extraordinary profit or loss</b>	<b>2,008,943.20</b>	<b>243,480.00</b>
17. Taxes on income and earnings	-344,385.51	47,518.75
18. Other taxes	275,528.01	64,838.19
<b>19. Net profit</b>	<b>-27,428,392.01</b>	<b>224,650,097.48</b>
20. Profit brought forward from the previous year	76,746,387.92	1,928,159.66
21. Allocation to retained earnings	0.00	110,000,000.00
<b>22. Distributable profit</b>	<b>49,317,995.91</b>	<b>116,578,257.14</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS 2014 OF STADA ARZNEIMITTEL AG

### Accounting requirements applied

In accordance with Section 267 of the German Commercial Code (Handelsgesetzbuch, HGB), STADA Arzneimittel AG is a major incorporated body. In addition to general requirements to the books of account (Sections 238 ff. of the German Commercial Code), the supplementing requirements for incorporated bodies with regard to annual financial statements and management report (Sections 264 ff. of the German Commercial Code) and the supplementing regulations of the German Stock Corporation Act (Aktiengesetz, AktG) apply.

The income statement was prepared according to the total-cost method.

### Accounting policies

Intangible assets acquired are recognized at cost less scheduled, and, to the extent necessary, unscheduled amortization, generally with application of the straight-line method. Intangible assets are amortized over a useful lifetime of 3 to 15 years. Intangible assets reported by STADA Arzneimittel AG include drug approvals, brands, licenses, marketing rights, software and goodwill. Internally-created intangible assets are not capitalized.

Property, plant and equipment are also recognized at cost less depreciation over their useful life and generally depreciated using the straight line method. The cost of self-constructed assets include directly attributable costs as well as appropriate proportions of overhead costs. To the extent necessary, unscheduled depreciation was carried out.

Useful life of property, plant and equipment:	Expected depreciation
Factory and office buildings	15 to 50 years
Operating facilities	10 to 15 years
Plant and office furniture and equipment	3 to 13 years

Movable assets with a limited life of up to € 150 are fully depreciated in the year they were added. Independently usable movable assets with a limited life from € 150 to € 1,000 are allocated to a compound item which is reversed over five years. At the time they have become fully amortized, these assets are reported as a disposal in the assets analysis. For simplification, the compound tax item method is also reported in the commercial balance sheet.

Financial assets are recognized at cost or in the case of expected long-term impairment, if it is lower than cost, at fair value. If the reasons for impairment are completely or partially inapplicable and if a value adjustment was carried out in the previous years, a reversal of an impairment loss is carried out, up to a maximum of the historical cost.

Inventories are measured at cost. Cost includes, apart from individual cost, production overheads and material overheads as well as administrative expenses on a pro rata basis. Cost does not include interest on borrowings. The inventories are written down at the end of the reporting period provided the replacement cost or the market value is lower. Inventory risks resulting from the storage period are taken into account.

Receivables, other assets and cash are recognized at nominal value. For the receivables, identifiable risks are accounted for through appropriate individual valuation adjustments. General credit risks are sufficiently accommodated with a general bad debt provision. Low-interest or non interest-bearing items with a remaining maturity of more than 12 months are discounted. Existing cash and cash equivalents in foreign currency are measured at the mean spot exchange rate.

For financial instruments that are hedged (hedged item and hedging transaction), the net hedge presentation method was used, i.e., unrealized losses were not booked that result from the hedged risks provided they are matched with unrealized gains in the same amount.

Prepaid expenses are disclosed as a separate item. Prepaid expenses include the discount that resulted from the difference between the settlement amount and the lower issue price of a financial liability. The discount is depreciated over the period of the financial liability.

Pension provisions were measured using actuarial techniques in accordance with the Projected Unit Credit Method (PUC). In the case of pension obligations, use was made of the option to apply as a discount rate the average market interest rate determined and published by the German Central Bank with a 15-year term. The covered funds were offset against the pension provisions. The offset covered funds are measured at fair value.

Tax and other provisions are recognized at the settlement amount necessary based on reasonable commercial judgment, taking into account any identifiable risks and uncertain obligations. Price and cost increases expected in the future were taken into account. Provisions with a remaining term of over one year were discounted in accordance with the average market interest rate of the last seven years.



Liabilities are reported at nominal value or the higher settlement amount. If the settlement amount of a liability is higher than the issue price, it is recognized in income as prepaid expenses depreciated over the respective term.

Foreign currencies are translated on the day they originate, at their bid price for receivables and their asking price for liabilities.

Receivables and liabilities in foreign currencies were measured at nominal value or the settlement amount at the mean spot exchange rate as of the balance sheet date. Gains are only taken into account if they relate to receivables and liabilities with a remaining term of up to one year.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS 2014

### Balance Sheet

#### 1. Non-current assets

For the development of non-current assets in 2014 including cumulated cost and cumulated depreciation, please see the following assets analysis.

Statement of changes in non-current assets of STADA Arzneimittel AG as of Dec. 31, 2014 in €	As of Jan. 1, 2014	Historic costs of acquisition				As of Dec. 31, 2014
		Additions 2014	A	Disposals Reclassifications 2014	D R	
<b>Non-current assets</b>						
<b>I. Intangible assets</b>						
1. Concessions acquired against payment, commercial property rights and similar rights and values as well as licenses for such rights and values	568,714,292.74	8,611,914.19	A	1,960,298.74 14,801,371.46	D R	590,167,279.65
2. Goodwill	103,882,170.91	0.00	A	0.00	D	103,882,170.91
3. Advance payments	84,287,672.46	14,850,474.68	A	32,959.08 14,801,371.46	D R	84,303,816.60
	<b>756,884,136.11</b>	<b>23,462,388.87</b>		<b>1,993,257.82</b>		<b>778,353,267.16</b>
<b>II. Property, plant and equipment</b>						
1. Land, leasehold rights and buildings including buildings on third-party land	68,367,838.27	225,479.61	A	490,871.04	R	69,084,188.92
2. Plant and tools and machinery equipment	30,813,959.40	1,217,053.84	A	77,715.75	R	32,108,728.99
3. Other fixtures and fittings, tools and equipment	44,780,008.24	1,278,062.11	A	293,698.03 295,855.77	D R	46,060,228.09
4. Advance payment and construction in progress	914,573.58	905,085.13	A	864,442.56	R	955,216.15
	<b>144,876,379.49</b>	<b>3,625,680.69</b>		<b>293,698.03</b>		<b>148,208,362.15</b>
<b>III. Financial assets</b>						
1. Shares in associates	1,338,388,797.30	3,498,220.61	A	15,893.79	D	1,341,871,124.12
2. Loans to associates	489,344,820.97	55,180,306.16	A	0.00	D	544,525,127.13
3. Investments	19,349,690.51	0.00	A	0.00	D	19,349,690.51
4. Loans to associates and other participating interests	15,642,000.00	0.00	A	12,322,000.00	D	3,320,000.00
	<b>1,862,725,308.78</b>	<b>58,678,526.77</b>		<b>12,337,893.79</b>		<b>1,909,065,941.76</b>
	<b>2,764,485,824.38</b>	<b>85,766,596.33</b>		<b>14,624,849.64</b>		<b>2,835,627,571.07</b>

As of Jan. 1, 2014	Accumulated depreciation				As of Dec. 31, 2014	Residual carrying amount Dec. 31, 2014	Residual carrying amount Dec. 31, 2013
	Additions Write-ups 2014	A WR	Disposals Reclassifications 2014	D R			
264,525,842.08	58,286,796.25	A	1,924,908.92 565,289.75	D R	321,453,019.16	268,714,260.49	304,188,450.66
9,378,251.54	14,666,229.21	A	0.00	D	24,044,480.75	79,837,690.16	94,503,919.37
33,584,739.88	837,300.95	A	1,909.08 565,289.75	D R	33,854,842.00	50,448,974.60	50,702,932.58
<b>307,488,833.50</b>	<b>73,790,326.41</b>		<b>1,926,818.00</b>		<b>379,352,341.91</b>	<b>399,000,925.25</b>	<b>449,395,302.61</b>
24,414,887.55	2,498,065.02	A	0.00	D	26,912,952.57	42,171,236.35	43,952,950.72
18,073,074.51	2,241,007.16	A	0.00	D	20,314,081.67	11,794,647.32	12,740,884.89
31,117,556.31	2,839,668.95	A	283,355.03	D	33,673,870.23	12,386,357.86	13,662,451.93
0.00	0.00	A	0.00	D	0.00	955,216.15	914,573.58
<b>73,605,518.37</b>	<b>7,578,741.13</b>		<b>283,355.03</b>		<b>80,900,904.47</b>	<b>67,307,457.68</b>	<b>71,270,861.12</b>
52,936,613.88	13,540,000.00 3,650,000.00	A WR	0.00	D	62,826,613.88	1,279,044,510.24	1,285,452,183.42
0.00	0.00	A	0.00	D	0.00	544,525,127.13	489,344,820.97
9,501,000.00	820,000.00 664,000.00	A WR	0.00	D	9,657,000.00	9,692,690.51	9,848,690.51
0.00	0.00	A	0.00	D	0.00	3,320,000.00	15,642,000.00
<b>62,437,613.88</b>	<b>10,046,000.00</b>		<b>0.00</b>		<b>72,483,613.88</b>	<b>1,836,582,327.88</b>	<b>1,800,287,694.90</b>
<b>443,531,965.75</b>	<b>91,415,067.54</b>		<b>2,210,173.03</b>		<b>532,736,860.26</b>	<b>2,302,890,710.81</b>	<b>2,320,953,858.63</b>

The useful life of twelve years for goodwill takes account of the future economic benefits in the intangible assets. The useful lives of individual items of goodwill were determined on the basis of the expected economic benefits of acquired businesses and are oriented on the useful lives of product rights purchased via acquisition and evaluated by a valuer.

## 2. Trade accounts receivable

The item includes receivables in the amount of € 0.00 (previous year: € 581,704.85) with a remaining term of more than one year.

## 3. Receivables from associated companies and participating interests

As of the balance sheet date, there are loan receivables in the amount of € 87,437,833.60 (previous year: € 96,963,137.64) with a remaining term of more than one year. All trade receivables (€ 8,177,027.26) and loans to associates (€ 39,038,556.59) have a remaining term of up to one year.

The item receivables from associates and other participating interests includes, as in the previous year, exclusively trade accounts receivable with a remaining term of up to one year.

## 4. Other assets

The item in the amount of € 37,765,611.13 (previous year: € 25,491,629.92) includes tax receivables in the amount of € 16,167,794.35 (previous year: € 9,858,730.99). Other assets have a remaining term of up to one year as in the previous year.

## 5. Accrued items

As of the balance sheet date, there were accrued receivables from accruals of interest-bearing transactions in the amount of € 1.3 million and deferred liabilities in the amount of € 21.5 million.

## 6. Prepaid expenses/deferred charges

Prepaid expenses/deferred charges include a discount in the amount of € 1,191,171.90 (previous year: € 1,608,113.24) as well as proportionate expenses for the next year in the amount of € 2,923,201.39 (previous year: € 3,280,570.31)

## 7. Deferred taxes

From 2010, deferred taxes are created for temporary differences between the commercial and tax valuation rates of assets, liabilities or prepaid expenses/deferred charges. The income tax rate (consisting of corporation tax, solidarity surcharge and trade tax) used for deferral of taxes amounts to 27.03%. In the case of deferred taxes, use was made of the option not to recognize the active excess resulting from the comparison of balance sheet items after offsetting the deferred tax assets and liabilities.

Deferred taxes are therefore also not included in tax expenses. The positive excess of the deferred tax assets not recognized amounts to € 1,006,000. Unnetted, deferred tax assets amount to € 1,742,000 and deferred tax liabilities to € 736,000.

Deferred tax liabilities primarily result from differing valuation rates of assets in foreign currencies with a remaining term of one year or less. Deferred tax assets primarily result from differing valuation rates of provisions as well as the offsetting of plan assets in accordance with BilMoG.

## 8. Equity

### Subscribed share capital

Share capital amounted to € 157,629,420.00 (previous year: € 157,150,500.00) and was divided into 60,626,700 registered shares with restricted transferability, each with an arithmetical share of share capital of € 2.60 per share. As of December 31, 2013, share capital still consisted of 60,442,500 registered shares with restricted transferability. The increase in share capital resulted from the exercising of warrants. Offsetting against treasury shares in the amount of € 233,571.00 results in a recognized share capital of € 157,395,849.00 as of December 31, 2014.

As of December 31, 2014, STADA assumes, in accordance with the announcements on exceeding or falling below reporting thresholds available to the Company, according to Section 21 (1) of the German Securities Trading Act (WpHG) that Empyrean Capital Partners, LP, Dover, Delaware, USA, with 3.03%, holds a stake that exceeds the legal reporting threshold of 3%. Empyrean Capital, LLC, Dover, Delaware, USA, also reported a share in voting rights according to Section 21 (1) of the German Securities Trading Act of 3.03%.

In addition, STADA assumes, in accordance with the announcements available to the Company as of December 31, 2014 according to Section 21 (1) of the German Securities Trading Act that LSV Asset Management, Wilmington, Delaware, USA, has a share in voting rights of 3.07%. According to Section 22 (1) Sentence 1 No. 1 of the WpHG, 0.36% of the voting rights is to be attributed to the company. According to Section 22 (1) Sentence 1 No. 6 of the WpHG, 2.71% of the voting rights is to be attributed to the company.

In addition, STADA assumes, in accordance with the announcements available to the Company as of December 31, 2014 according to Section 21 (1) of the German Securities Trading Act that Deutsche Asset & Wealth Management Investment GmbH, Frankfurt, Germany, has a share in voting rights of 4.996%. According to Section 22 (1) Sentence 1 No. 6 of the WpHG, 0.117% of the voting rights is to be attributed to the company.

Furthermore, STADA assumes, as of December 31, 2014, in accordance with the announcements on exceeding or falling below reporting thresholds available to the Company according to Section 25a (1) of the German Securities Trading Act (WpHG) that SOCIETE GENERALE EFFEKTEN GMBH, Frankfurt, Germany, has the option to purchase, via financial or other instruments according to Section 25a of the German Securities Trading Act, a 3.92% shareholding in STADA Arzneimittel AG.

In accordance with Deutsche Börse AG regulations, the free float of STADA Arzneimittel AG thus remains 100%.

### Authorized capital

In accordance with the resolution of the Annual General Meeting of June 5, 2013, there is an authorized capital in the amount of € 77,134,304.00. According to this resolution, the Executive Board, with approval of the Supervisory Board, is authorized until June 4, 2018 to increase the authorized capital once or repeatedly by up to € 77,134,304.00 by issuing up to 29,667,040 registered shares with transfer restrictions against cash or non-cash contributions.

### Conditional capital

The share capital is conditionally increased by up to € 69,188,340.00 by issuing up to 26,610,900 registered shares with restricted transferability and carrying a dividend right as of the beginning of the financial year in which they are issued. The conditional capital increase serves the purpose of granting shares to the holders or creditors of bonds with warrants and/or convertible bonds issued by the Company

or a subordinated group company on the basis of the authorization of the Annual General Meeting of June 5, 2013 (Conditional Capital 2013). In addition, the share capital of the company is conditionally increased by up to € 4,585,152.00 by issuing up to 1,763,520 restricted registered common shares (Conditional Capital 2004/I). The conditional capital increase will be effected only insofar as the holders of warrants exercise their option rights.

The Executive Board was authorized, with approval of the Extraordinary General Meeting of March 8, 2000, on or before March 7, 2005, on one or more occasions, to issue convertible bonds in bearer form with attached bearer warrants in an aggregate nominal amount of up to € 100,000,000.00 with a maturity of up to 7 years.

Of the warrants issued in 2000 – the warrants had been added to a holder partial debenture, which was repaid on June 26, 2005, while the exercise period of the warrants runs until June 26, 2015 – as of December 31, 2014, the exercise of 88,176 warrants for the subscription of 1,763,520 STADA registered shares was still outstanding.

The option price was adjusted accordingly based on several capital measures carried out. The option price of a warrant which authorizes subscription of now 20 shares of STADA Arzneimittel AG (Section 1 (2) Sentence 1 of the option terms and conditions), continues to amount to € 329.00.

### **Capital reserve**

The capital reserve amounts to € 495,744,898.97 (previous year: € 493,164,073.94). The change as compared to the previous year results from the exercising of warrants (€ 2,551,170.00) as well as earnings from the disposal of treasury shares in the context of an employee stock ownership program (€ 29,655.03).

### **Retained earnings**

The retained earnings in the amount of € 150,478,473.00 (previous year: € 150,445,624.50) primarily include allocations from net profit. The change compared to the previous year results from disposal of treasury shares in the context of an employee stock ownership program (€ 32,848.50).

### **Treasury shares**

As of the reporting date, the Company held 89,835 treasury shares, each with an arithmetical par value of € 2.60. This is equivalent to a share capital of € 233,571.00 or 0.15% of share capital. As of December 31, 2013, the Company held 91,989 treasury shares.

In 2014, 2,154 shares were sold and no shares were purchased. The resulting gain in the amount of € 29,655.03 was added to the capital reserve. Treasury shares were exclusively issued to employees in the context of an employee stock ownership program. The proceeds from the disposal of treasury shares led to an inflow to the operating business.

Treasury shares may be disposed of against a contribution in kind, in particular in connection with business combinations, the acquisition of business undertakings or the acquisition of participations in business undertakings.

Following the resolution adopted at the Annual General Meeting on June 5, 2013, in accordance with Section 71 (1) No. 8 AktG, the Company was authorized from June 6, 2013 until June 5, 2018 to acquire own shares of up to 10% of the share capital. The Executive Board has not made use of this authorization to date.

#### Disposal of treasury shares

Disposal date	Number	% of share capital	Arithmetical par value (in €)	Disposal price (in €)	Disposal result (in €)
January	112	0.0%	291.20	4,092.00	2,092.80
February	280	0.0%	728.00	10,042.14	5,044.14
March	414	0.0%	1,076.40	14,555.44	7,165.54
June	41	0.0%	106.60	1,398.86	667.01
July	61	0.0%	158.60	2,069.25	980.40
August	337	0.0%	876.20	9,723.40	3,707.95
September	80	0.0%	208.00	2,397.80	969.80
October	306	0.0%	795.60	8,753.16	3,291.06
November	265	0.0%	689.00	7,622.80	2,892.55
December	258	0.0%	670.80	7,449.08	2,843.78
<b>Total</b>	<b>2,154</b>	<b>0.0%</b>	<b>5,600.40</b>	<b>68,103.93</b>	<b>29,655.03</b>

#### 9. Provisions

As a result of adjustments due to the German Accounting Law Modernization Act, the balance sheet item "Pensions" required an addition in the amount of € 2,009,000 p.a., which was recognized as an extraordinary result in the reporting year and includes a further addition due to the outsourcing of a pension plan. For accounting of pension obligations, use was made of the option to allocate the expenses resulting from the adjustments due to the German Accounting Law Modernization Act over a period of 15 years.

As a result of discounting the pension obligation in accordance with the average market interest rate of the past 7 years, which was calculated and published by the German Central Bank, an addition to pension provisions in the amount of € 504,000 was necessary.

Pension provisions were calculated in accordance with actuarial principles based on the biometric accounting principles of the Heubeck 2005 G mortality tables by Dr. Klaus Heubeck as well as based on an interest rate of 4.53% p.a., a pension trend of 1.75% p.a. and a salary trend of 3.00% p.a.

Liabilities from pension commitments are partially secured by assets (reinsurance policy). Assets removed from the claims of creditors were offset against the underlying liabilities.

The total settlement amount (not including German Accounting Law Modernization Act allocation) of pension commitments amounts to € 10,526,000. The fair value of the pledged reinsurance policy amounts to € 3,597,000. € 504,000 were offset against income in the amount of € 112,000 in the financial result.

Other provisions in particular include expenses in the area of personnel (€ 13,940,000), for warranties (€ 7,989,000) and for outstanding settlements from health insurance organizations resulting from the discount agreements with health insurance organizations (€ 75,820,000).

## 10. Bond

In 2010, a non-convertible bond with a nominal value of € 350 million was issued. The bond has a term of 5 years.

A second, also non-convertible bond with a nominal value of € 350 million was issued in the year 2013. This bond also has a term of 5 years.

## 11. Amounts due to banks

Remaining maturities of financial liabilities due to banks in € million	up to 1 year (previous year)	1 to 5 years (previous year)	over 5 years (previous year)
Amounts due to banks	50.5 (274.8)	602.0 (421.9)	0.0 (0.0)

## 12. Trade and other payables

Remaining maturities of trade payables in € million	up to 1 year (previous year)	1 to 5 years (previous year)	over 5 years (previous year)
Liabilities to associates	250.1 (312.1)	0.0 (0.0)	0.0 (0.0)
Liabilities to other suppliers	29.9 (33.0)	0.0 (0.0)	0.0 (0.0)
Other liabilities	32.1 (38.5)	0.1 (0.1)	0.0 (0.0)

Liabilities to associates include loan liabilities in the amount of € 187 million, the remaining liabilities result from trade accounts.



### 13. Income statement

In 2014, sales of STADA Arzneimittel AG in the amount of € 420,260,000 include an international share of € 162,376,000. € 157,499,000 was attributable to Europe, € 96,000 to MENA and € 4,781,000 to Asia. Sales can be broken down into the following activities:

in € 000s	2014	2013	2012
Sales from the delivery of goods	293,215	338,671	326,741
License revenue	24,634	24,251	44,381
Sale of approvals	0	30,013	15
Services	102,411	19,961	0
<b>Total</b>	<b>420,260</b>	<b>412,896</b>	<b>370,537</b>

Unscheduled depreciation on non-current assets was at € 32,600,000 (previous year: € 8,831,000) in financial year 2014. Unscheduled amortization of financial assets amounted to € 14,360,000 (previous year: € 47,025,000) in financial year 2014.

Other operating income includes income outside of the reporting period from credits in the amount of € 217,000 (previous year: € 186,000) as well as € 3,892,000 (previous year: € 3,084,000) from the reversal of provisions.

In addition, other operating income from the sale of non-current assets in the amount of € 158,000 (previous year: € 280,095,000) as well as income from additions to financial assets in the amount of € 4,314,000 are recognized (previous year: € 0).

Other operating expenses include expenses from outside of the reporting period for insurance payments of € 59,000 (previous year: € 152,000).

Extraordinary profit or loss in the amount of € 2,009,000 resulted exclusively from the option used to depreciate over a period of 15 years the difference resulting from adjustments due to the German Accounting Law Modernization Act in the measurement of pension obligations.

Current taxes on income and earnings are attributed to the earnings of normal business activities.

### 14. Other notes and disclosures

In 2014, the average number of employees was 1,021, thereof, among other things,

- 130 employees in warehousing and shipping,
- 284 employees in production and packaging,
- 607 employees in administration.

The appointment and dismissal of Executive Board members are subject to the provisions of Section 84 of the German Stock Corporation Act. The members of the Executive Board are or were:

- Hartmut Retzlaff, Chairman
- Helmut Kraft, Chief Financial Officer
- Dr. Matthias Wiedenfels, Chief Business Development & Central Services

The Executive Board members held the following mandates during the financial year 2014:

Hartmut Retzlaff is also member of the Administrative Board of HSBC Trinkaus & Burkhardt AG, member of the Supervisory Board/Board of Directors of SA Neocare N.V. (up to June 6, 2014), SA Eurogenerics N.V., STADA Pharmaceuticals (Asia) Ltd., STADAPharm AB (up to April 25, 2014), Clonmel Healthcare Limited, STADA Financial Investments Limited and STADA Vietnam J.V. Co., Limited.

Helmut Kraft is also member of the Regional Advisory Board Central of Commerzbank AG, member of the Supervisory Board of BIOCEUTICALS Arzneimittel AG, member of the Supervisory Board/Board of Directors of STADA Vietnam J.V. Co. Limited and Managing Director of STADAvita GmbH.

Dr. Matthias Wiedenfels is also Managing Director of STADA LUX S.à R.L. and member of the Supervisory Board/Board of Directors of Spirig HealthCare AG and Pegach AG.

## 15. Remuneration of the Executive Board and the Supervisory Board

In financial year 2014, total compensation paid to the Executive Board amounted to € 8,000,980.00<sup>1)</sup> for STADA Arzneimittel AG (previous year: € 6,266,260.51).

In financial year 2014, total compensation paid to the Supervisory Board amounted to € 1,045,745.97 for STADA Arzneimittel AG (previous year: € 1,061,600.00).

The compensation paid to former members of the Executive Board amounted to a total of € 292,830.66 in financial year 2014.

Current pension provisions for former Executive Board members in financial year 2014 amounted to € 8,515,094.00 before the netting with the actuarial reserve.

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.

1) Thereof payments of variable long-term special remuneration in the total amount of € 2,759,275.00 as a result of achieving the annual interim goals in the respective individual contracts for financial year 2014.

## 16. Information on the Company's Supervisory Board

### Composition of the Supervisory Board and its committees

The members of the Supervisory Board during financial year 2014 were:

- Dr. Martin Abend, Attorney, Dresden (Chairman)
- Carl Ferdinand Oetker, Banker, Düsseldorf (Deputy Chairman since July 9, 2014)
- Manfred Krüger, member of Worker's Council released from duty, Mühlheim am Main (Deputy Chairman until June 4, 2014), member of the Supervisory Board until June 4, 2014
- Dr. Eckhard Brüggemann, Doctor, in retirement, Heme
- Halil Duru, Warehouse specialist, Frankfurt am Main, member of the Supervisory Board since June 4, 2014
- Heike Ebert, Head of Packaging, Niddatal, member of the Supervisory Board until June 4, 2014
- Dr. K. F. Arnold Hertzsch, Self-employed pharmacist, Dresden
- Dieter Koch, Pharmacist, Kiel
- Constantin Meyer, Self-employed pharmacist, Seelze
- Dr. Ute Pantke, Director Internal Communications, Wettenberg, member of the Supervisory Board since June 4, 2014
- Karin Schöpfer, Head of Market Research, Bad Vilbel, member of the Supervisory Board until June 4, 2014
- Jens Steegers, Chairman of the Worker's Council released from duty, member of the Supervisory Board since June 4, 2014

Halil Duru, Dr. Ute Pantke and Jens Steegers are Supervisory Board members who were elected by the employees as their representatives.

### Mandates of Supervisory Board members

Carl Ferdinand Oetker is at the same time member of the Advisory Board, Board of Trustees and Board of Directors of EWABO Chemikalien GmbH & Co. KG (Chairman of the Advisory Board), EWABO Verwaltungs- und Beteiligungsgesellschaft mbH (Managing Director), of EWABO Beteiligungsgesellschaft mbH & Co. KG (Managing Director), FO Holding GmbH (Managing Director), FO Energie GmbH (Managing Director), of wink Holding GmbH (Managing Director), wink Verwaltungsgesellschaft mbH (Managing Director), Cloverfield Inc. (Board of Directors), CFO Equities LLC (Managing Member), ODK Investments LLC (Managing Member), TGI Management LLC (Managing Member), JAF Equities LLC (Managing Member), Eufra GmbH (Managing Director), wink Stanzwerkzeuge GmbH & Co. KG (Chairman of the Advisory Board), Hela Gewürzwerk Hermann Laue GmbH (member of the Advisory Board), Lampe Asset Management GmbH (member of the Advisory Board), Lampe Privatinvest Management GmbH (member of the Advisory Board), Dale Investment Advisors GmbH (Chairman of the Advisory Board), FOCAM AG (member of the Economic Advisory Board), Stiftung Hamburger Admiralität (member of the Board of Trustees), member of the Board of Trustees of North Rhine-Westphalia of the Stifterverband für die Deutsche Wissenschaft, of informedia-Stiftung (member of the Board of Trustees), of Deutsche AIDS-Stiftung (member of the Board of Trustees) and of Deutsche Welthungerhilfe e.V. (member of the Board of Trustees).

## 17. Information on the Company's Advisory Board

### Composition of the Advisory Board

The members of the Advisory Board during financial year 2014 were:

- Dr. Thomas Meyer, Seelze (Chairman)
- Dr. med. Frank-R. Leu, Doctor, Gießen (Deputy Chairman)
- Rika Aschenbrenner, Pharmacist, Mainburg
- Wolfgang Berger, Pharmacist, Gießen
- Gerd Berlin, Pharmacist, Haßloch
- Alfred Böhm, Pharmacist, Munich
- Jürgen Böhm, Doctor, Kirchhain
- Axel Boos, Pharmacist, Darmstadt
- Dr. Wolfgang Schlags, Pharmacist, Mayen
- Jürgen Schneider, Managing Director, Offenbach
- Reimar Michael von Kolczynski, Pharmacist, Stuttgart

## 18. Contingent liabilities pursuant to Section 251 of the German Commercial Code

At the balance sheet date, there were contingent liabilities pursuant to Section 251 of the German Commercial Code of € 156,470,848.90 (previous year: € 208,544,310.11). Of this, € 117,987,357.54 (previous year: € 52,166,745.41) relate to contingent liabilities from guarantees to associated companies.

Due to an ongoing evaluation of the risk situation and in view of the findings gathered until the balance sheet date, STADA assumes that the liabilities underlying the contingent liabilities will be met. Utilization of contingent liabilities is considered to be unlikely.

## 19. Transactions not included in the balance sheet and other financial obligations

Remaining other financial liabilities from lease and rental agreements amounted to € 41,619,391.82.

Maturities of remaining other financial liabilities:

in € million	
2015	12.2
2016	7.3
2017	7.0
2018	5.7
2019	4.4
After 2019	4.9

As of the balance sheet date, STADA Arzneimittel AG had transferred the majority of trade accounts receivable for the improvement of liquidity to an external third party. As the contract also transferred the risks of collectability to the buyer (real factoring), there are no liabilities to be recognized by STADA Arzneimittel AG from this transfer.

There is an order obligation from liabilities for future expenses and investments in the amount of € 78 million.

## 20. List of equity interests of STADA Arzneimittel AG in accordance with Section 285 No. 11 of the German Commercial Code

The following list shows the earnings of the companies regardless from the share in capital.

### 1) Direct investments of STADA Arzneimittel AG

	Earnings 2014	Equity	Equity interest in %
<b>Germany<sup>1)</sup></b>			
BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel	0 EUR	253 KEUR	100%
BIOEUTICALS Arzneimittel AG, Bad Vilbel	13,353 KEUR	24,997 KEUR	15.86%
Mobilat Produktions GmbH, Pfaffenhofen	0 EUR	256 KEUR	100%
STADA GmbH, Bad Vilbel	0 EUR	359 KEUR	100%
STADA Pharma International GmbH, Bad Vilbel	0 EUR	31 KEUR	100%
STADApHarm GmbH, Bad Vilbel	0 EUR	154 KEUR	100%
<b>International<sup>2)</sup></b>			
Ciclum Farma, Unipessoal, LDA, Paco de Arcos/Portugal	286 KEUR	4,754 KEUR	100%
Crinos S.p.A., Milan/Italy	-3,704 KEUR	26,193 KEUR	96.77%
EG Labo - Laboratoires Eurogenerics SAS, Boulogne-Billancourt/France	-1,976 KEUR	39,871 KEUR	100%
EG S.p.A., Milan/Italy	5,362 KEUR	75,202 KEUR	98.87%
Grunenthal Ukraine LLC, Kiev/Ukraine <sup>3)</sup>	-	-	100%
Laboratorio STADA, S.L., Barcelona/Spain	6,493 KEUR	66,613 KEUR	100%
OAO Nizhpharm, Nizhny Novgorod/Russia <sup>4)</sup>	2,425,477 kRUB	13,613,489 kRUB	100%
OOO Hemofarm, Obninsk/Russia	-870,089 kRUB	-2,261,444 kRUB	10%
OOO STADA Marketing, Nizhny Novgorod/Russia <sup>4)</sup>	95,539 kRUB	267,629 kRUB	10%
Oy STADA Pharma Ab, Helsinki/Finland	1,869 KEUR	717 KEUR	100%
STADA Arzneimittel Gesellschaft m.b.H., Vienna/Austria <sup>4)</sup>	872 KEUR	5,745 KEUR	100%
STADA d.o.o., Ljubljana/Slovenia	48 KEUR	386 KEUR	100%
STADA d.o.o., Mostar/Bosnia-Herzegovina <sup>3)</sup>	-	-	100%
STADA d.o.o., Zagreb/Croatia	677 kHRK	3,145 kHRK	100%
STADA Egypt Ltd., Cairo/Egypt	1,307 kEGP	-216 kEGP	75%
STADA LUX S.à R.L., Luxembourg/Luxembourg	2 KEUR	5 KEUR	100%
STADA PHARMA Bulgaria EOOD, Sofia/Bulgaria <sup>4)</sup>	380 kBGN	1,506 kBGN	100%
STADA PHARMA CZ s.r.o., Prague/Czech Republic	9,682 kCZK	220,550 kCZK	100%
STADA Pharma Services India Private Limited, Mumbai/India	613 kINR	10,613 kINR	85%
STADA PHARMA Slovakia, s.r.o., Bratislava/Slovakia	349 KEUR	2,498 KEUR	100%
STADA Pharmaceuticals (Asia) Ltd., Hong Kong/People's Republic of China	24,732 kHKD	180,002 kHKD	100%
STADA Pharmaceuticals Australia Pty Ltd, Sydney/Australia	-66 kAUD	-4,539 kAUD	100%
STADA Poland Sp. z o.o. Piaseczno/Poland	1,017 kPLN	7,034 kPLN	100%
STADA Service Holding B.V., Etten-Leur/The Netherlands	25,190 KEUR	659,743 KEUR	100%
STADA (Shanghai) Enterprise Management Consulting Co. Ltd., Shanghai/People's Republic of China	57 kCNY	787 kCNY	100%
STADA UK Holdings Ltd., Newbury/United Kingdom	-4,480 KEUR	417,975 KEUR	100%

1) There is a profit and loss transfer contract for German companies with a result of 0.

2) For foreign companies, equity is shown both in local currency and in accordance with local law.

3) Waiver of disclosures pursuant to Section 286 (3) Sentence 1 No. 1 of the German Commercial Code.

4) Figures from financial year 2013.

## 2) Indirect investments of STADA Arzneimittel AG:

	Earnings 2014	Equity	Equity interest in %
<b>Germany<sup>1)</sup></b>			
ALIUD PHARMA GmbH, Laichingen	0 EUR	52 KEUR	100%
cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Bad Vilbel	0 EUR	229 KEUR	100%
Grippostad GmbH, Bad Vilbel	0 EUR	25 KEUR	100%
Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg	916 KEUR	272 KEUR	100%
IIP Institut für Industrielle Pharmazie Forschungs- und Entwicklungsgesellschaft mbH, Aschaffenburg <sup>2)</sup>	350 KEUR	2,060 KEUR	25%
PharmaSwyzz Deutschland GmbH, Bad Homburg	-1 KEUR	16 KEUR	100%
STADAvita GmbH, Bad Homburg	0 EUR	25 KEUR	100%
STADA CEE GmbH, Bad Homburg	0 EUR	223 KEUR	100%
STADA Medical GmbH, Bad Vilbel	0 EUR	103 KEUR	100%
<b>International<sup>3)</sup></b>			
AELIA SAS, Saint Brieuç/France <sup>2)</sup>	707 KEUR	1,225 KEUR	20%
Britannia Pharmaceuticals Ltd., Newbury/United Kingdom	15,612 kGBP	47,981 kGBP	100%
Centrafarm B.V., Etten-Leur/The Netherlands	3,827 KEUR	14,960 KEUR	100%
Centrafarm Nederland B.V., Etten-Leur/The Netherlands	739 KEUR	36,074 KEUR	100%
Centrafarm Services B.V., Etten-Leur/The Netherlands	-1,756 KEUR	16,113 KEUR	100%
CIG (Hong Kong) Limited, Hong Kong/People's Republic of China	-5 HKKD	65 HKKD	70%
Clonmel Healthcare Limited, Clonmel/Ireland	7,783 KEUR	34,662 KEUR	100%
CNRD 2009 Ireland Ltd. J.V., Dublin/Ireland	-24 KEUR	127 KEUR	50%
Crinos S.p.A., Milan/Italy	-3,704 KEUR	26,193 KEUR	3.23%
Croma Medic, Inc., Manila/The Philippines	9,920 kPHP	311,098 kPHP	100%
Crosspharma Ltd., Belfast/United Kingdom	143 KEUR	1,677 KEUR	100%
Dak Nong Pharmaceutical Joint Stock, Dak Nong/Vietnam	334,267 kVND	2,195,060 kVND	43%
DIALOGFARMA LLC, Moscow/Russia <sup>2)</sup>	1,217 kRUB	12,691 kRUB	50%
EG S.p.A., Milan/Italy	5,362 KEUR	75,202 KEUR	1.13%
Genus Pharmaceuticals Holdings Ltd., Newbury/United Kingdom	0 kGBP	12,222 kGBP	100%
Genus Pharmaceuticals Ltd., Newbury/United Kingdom	0 kGBP	34,311 kGBP	100%
Healthypharm B.V., Etten-Leur/The Netherlands	721 KEUR	10,713 KEUR	100%
Hemofarm A.D., Vrsac/Serbia <sup>2)</sup>	3,458,950 kRSD	18,921,652 kRSD	100%
Hemofarm Arabia Ltd., Damascus/Syria <sup>4)</sup>	-	-	50%
Hemofarm Banja Luka d.o.o., Banja Luka/Bosnia-Herzegovina <sup>2)</sup>	2,858 kBAM	62,606 kBAM	91.5%
Hemofarm Komerc d.o.o., Skopje/Macedonia <sup>4)</sup>	-	-	99.18%
Hemofarm S.a.r.l., Constantine/Algeria <sup>4)</sup>	-	-	40%
Hemofarm Sabac d.o.o., Sabac/Serbia <sup>2)</sup>	294,574 kRSD	4,319,007 kRSD	100%
Hemomont d.o.o., Podgorica/Montenegro <sup>2)</sup>	65 kRSD	12,158 kRSD	71.02%
Hetmark FZCO, Dubai/United Arab Emirates <sup>2)</sup>	-309 kUSD	-473 kUSD	50%
HTP Huisapotheek B.V., Etten-Leur/The Netherlands	0 KEUR	-11 KEUR	100%
Internis Pharmaceuticals Limited, London/United Kingdom	104 kGBP	3,402 kGBP	100%
Jinan Hemofarm Pharmaceuticals, Jinan/People's Republic of China <sup>4)</sup>	-	-	35.5%
LCM Limited, Huddersfield/United Kingdom <sup>2)</sup>	0 kGBP	0 kGBP	100%
Lero SA, Boulogne-Billancourt/France	418 KEUR	892 KEUR	100%

1) There is a profit and loss transfer contract for German companies with a result of 0.

2) Figures from financial year 2013.

3) For foreign companies, equity is shown both in local currency and in accordance with local law.

4) Waiver of disclosures pursuant to Section 286 (3) Sentence 1 No. 1 of the German Commercial Code.

	Earnings 2014	Equity	Equity interest in %
<b>International<sup>1)</sup></b>			
Neocare B.V., Etten-Leur/The Netherlands	-196 kEUR	321 kEUR	100%
Nizhpharm-Kazakhstan TOO DO, Almaty/Kazakhstan	-315,950 kKZT	-1,602,990 kKZT	100%
Nizhpharm-Ukraine DO, Kiev/Ukraine	-11,590 kUAH	-26,978 kUAH	100%
OOO Aqualor, Moscow/Russia <sup>2)</sup>	-21 kRUB	79 kRUB	100%
OOO Hemofarm, Obninsk/Russia	-870,089 kRUB	-2,261,444 kRUB	90%
OOO STADA CIS, Nizhny Novgorod/Russia <sup>2)</sup>	-98,931 kRUB	-129,208 kRUB	100%
OOO STADA Marketing, Nizhny Novgorod/Russia <sup>2)</sup>	95,539 kRUB	267,629 kRUB	90%
OOO STADA PharmDevelopment, Nizhny Novgorod/Russia <sup>2)</sup>	-49,423 kRUB	-43,627 kRUB	100%
Pegach AG, Egerkingen/Switzerland	1 kCHF	362 kCHF	100%
Pharm Ortho Pedic SAS, Pellouailles Les Vignes/France <sup>2)</sup>	266 kEUR	2,404 kEUR	25%
Phu Yen Export Import Pharmaceuticals Joint Stock, Phu Yen/Vietnam	636,885 kVND	25,188,353 kVND	20%
PYMEPHARCO JOINT STOCK COMPANY, Tuy Hoa/Vietnam	103,273,284 kVND	1,830,606,367 kVND	59%
Quang Tri Pharmaceutical Joint Stock, Quang Tri Province/Vietnam	312,500 kVND	3,956,695 kVND	22.8%
Quatropharma Holding B.V., Etten-Leur/The Netherlands <sup>3)</sup>	-	-	100%
S.A. Eurogenerics N.V., Brussels/Belgium	14,421 kEUR	138,413 kEUR	100%
Spirig HealthCare AG, Egerkingen/Switzerland	-4,238 kCHF	6,517 kCHF	100%
STADA (Thailand) Co. Ltd., Bangkok/Thailand	16,160 kTHB	57,497 kTHB	60%
STADA Egypt Ltd., Cairo/Egypt	1,307 kEGP	-216 kEGP	25%
STADA Financial Investments Limited, Clonmel/Ireland	130 kEUR	97,867 kEUR	100%
STADA Genericos, S.L., Barcelona/Spain	-1 kEUR	2 kEUR	100%
STADA Hemofarm d.o.o., Zagreb/Croatia	-461 kHRK	3 kHRK	100%
STADA HEMOFARM S.R.L., Temesvar/Romania <sup>2)</sup>	-2,429 kRON	12,930 kRON	100%
STADA IMPORT/EXPORT INTERNATIONAL LIMITED, Hong Kong/People's Republic of China	1,208 kUSD	1,524 kUSD	51%
STADA Import/Export Ltd., Tortola/British Virgin Islands <sup>3)</sup>	-	-	51%
STADA IT Solutions d.o.o., Belgrade/Serbia <sup>2)</sup>	11,995 kRSD	11,995 kRSD	100%
STADA M&D S.R.L., Bucarest/Romania <sup>2)</sup>	-128 kRON	206 kRON	100%
STADA MENA DWC LLC, Dubai/United Arab Emirates	-450 kAED	-150 kAED	100%
STADA Nordic ApS, Herlev/Denmark	10,436 kDKK	109,566 kDKK	100%
STADA Pharma Services India Private Limited, Mumbai/India	613 kINR	10,613 kINR	15%
STADA Pharmaceuticals (Beijing) Ltd., Beijing/People's Republic of China	5,378 kCNY	45,264 kCNY	83.35%
STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City/Vietnam	258,304,443 kVND	868,612,567 kVND	50%
STADA, LDA, Paco de Arcos/Portugal	-9 kEUR	-9 kEUR	100%
STADAPHARMA HEALTHCARE INC., Makati City/The Philippines	-322 kPHP	470 kPHP	40%
Sundrops Limited, Huddersfield/United Kingdom	1,464 kGBP	5,601 kGBP	100%
Thornton & Ross Ireland Limited, Dublin/Ireland <sup>2)</sup>	0 kEUR	0 kEUR	100%
Thornton & Ross Limited, Huddersfield/United Kingdom	19,856 kGBP	56,452 kGBP	100%
UAB STADA-Nizhpharm-Baltiia, Vilnius/Lithuania	595 kLTL	3,330 kLTL	100%
Velefarm A.D., Belgrade/Serbia <sup>3)</sup>	-	-	19.65%
Vetfarm A.D., Belgrade/Serbia <sup>3)</sup>	-	-	15%
Well Light Investment Services JSC, Ho Chi Minh City/Vietnam	2,645,239 kVND	134,443,988 kVND	49%
ZAO Makiz-Pharma, Moscow/Russia <sup>2)</sup>	-30,126 kRUB	1,079,472 kRUB	100%
ZAO Skopinpharm, Ryazanskaya obl./Russia <sup>2)</sup>	-8,755 kRUB	341,936 kRUB	100%
Zeroderma Limited, Huddersfield/United Kingdom	1,441 kGBP	1,799 kGBP	100%

1) For foreign companies, equity is shown both in local currency and in accordance with local law.

2) Figures from financial year 2013.

3) Waiver of disclosures pursuant to Section 286 (3) Sentence 1 No. 1 of the German Commercial Code.



## 21. Conversion rates

The exchange rates underlying the currency translation of currencies outside of the Euro zone that are important for STADA Arzneimittel AG developed as follows:

in €	Average rate		Closing rate	
	2014	2013	Dec. 31, 2014	Dec. 31, 2013
1 Swiss franc (CHF)	0.82318	0.81381	0.83167	0.81520
1 Pound sterling (GBP)	1.24008	1.17683	1.28386	1.20034
1 Hong Kong dollar (HKD)	0.09696	0.09692	0.10619	0.09367
1 Serbian dinar (RSD)	0.00853	0.00884	0.00827	0.00871
1 Russian ruble (RUB)	0.01963	0.02348	0.01382	0.02210
1 US dollar (USD)	0.75194	0.75181	0.82366	0.72637

## 22. External auditor fees

Total fees charged by the external auditors for the financial year pursuant to Section 285 No. 17 of the German Commercial Code is disclosed in the relevant Note to the Consolidated Financial Statements.

## 23. Corporate Governance Code

In accordance with Section 161 of the German Stock Corporation Act, the Executive and Supervisory Boards have issued their annual joint declaration of compliance with the German Corporate Governance Code. Shareholders are provided with permanent access to this declaration on the Company's website [www.stada.de](http://www.stada.de) (German website) and [www.stada.com](http://www.stada.com) (English website). The Company also publishes the declaration in its Annual Report.

## 24. Financial instruments

### Derivative financial instruments

Risks from interest rate and currency related fluctuations in cash flow with derivative financial instruments are countered, 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.

Derivatives are used to offset changes in fair values and/or interest payment cash flows from the underlying hedge items (receivables from associated companies and interest liabilities).

STADA concludes currency forwards and currency options in order to limit currency risks. Exchange-rate hedging in 2014 was primarily undertaken for the Russian ruble, the Swiss franc, the pound sterling and the Australian dollar. As of the reporting date, all currency forwards were individually hedged with loans or liabilities to associated companies.

STADA concludes interest-rate swaps in order to hedge the interest rate risk of promissory notes. As of the reporting date, all interest-rate swaps were hedged with promissory notes.

In order to hedge cash flows from loans to associated companies (interest and currency risk), STADA concluded interest rate/currency swaps. As of the reporting date, all interest rate/currency swaps were individually hedged with loans to associated companies.

The valuation of interest rate hedge transactions results from the present value of the discounted cash flows, i.e. fixed interest rates against variable interest rates.

Hedged items:

Hedged item	Market values	
	Hedged risk	Secured amount of the hedged item (carrying amount) in € million
Assets	Interest rate change /currency risk	86.34
	Currency risk	17.33
Liabilities	Interest rate risk	117.00
	Currency risk	0.00
		<b>220.67</b>

The market values of the derivative financial instruments in a hedging relationship are as follows:

in € million	2014	2013
Currency forwards	0.7	-0.4
Interest rate swaps	-2.7	-4.7
Interest rate /currency swaps	32.1	10.0
	<b>30.1</b>	<b>4.9</b>

All hedges are micro-hedges.

All hedges are expected to be highly effective as the important features are nearly identical (critical terms match).

Hedged risks – pending loss provisions not created, write-ups on liabilities in foreign currencies and write-downs of receivables in foreign currencies:

in € 000s	
Interest rate / currency risk	28,611
Currency risk	744
<b>Total hedged balance sheet risk</b>	<b>29,355</b>

The effectiveness of hedges is evaluated on the reporting date according to the critical terms match method.

In the future, the risks being hedged will likely be offset, because the hedged items and hedging transactions are subject to the same risk, which is influenced by identical factors in the same way and because the hedging transactions do not exhibit any other risks than the hedged items. Settlement shall be complete to the greatest extent by December 31, 2017.

Bad Vilbel, March 23, 2015

STADA Arzneimittel Aktiengesellschaft  
The Executive Board



H. Retzlaff  
Chairman



H. Kraft  
Chief Financial Officer



Dr. M. Wiedenfels  
Chief Business Development &  
Central Services Officer

## BASIS OF THE COMPANY

### Business Model and Company Structure

As a publicly-listed parent company, STADA Arzneimittel AG (hereinafter abbreviated as STADA AG or STADA), directly and indirectly holds shares in the companies that belong to the STADA Group.

The operating business of STADA AG represents only a portion of the global business of the STADA Group. In the evaluation of the results of STADA AG, the operating profit of the activities of the AG in the core segments of Generics and Branded Products should be taken into account. The international sales structure of the STADA Group is made up of numerous nationally aligned sales companies, and thus close market proximity, which are regionally managed within the four market regions and supported by central Group functions. This market region-oriented sales concept enables STADA to respond promptly to changes in the individual markets of the respective market region and to immediately adapt local sales to the corresponding requirements. Profit or loss is significantly affected by the services, such as the delivery of goods to other Group companies, which result from the function of the AG as a parent company or holding company of the STADA Group. The costs for these strategic services are covered by the Group companies taking advantage of them and are accounted for under sales at STADA AG. The profit or loss from ordinary business activities of STADA AG is also influenced by investment income. The four market regions Germany, Central Europe, CIS/Eastern Europe<sup>1)</sup> and Asia/Pacific & MENA<sup>2)</sup> hold operating responsibility in the STADA Group. The Annual Report of the STADA Group provides a complete overview.

### Controlling

The most important financial performance indicators of STADA AG include, in addition to strategic and operational requirements, also financial key figures. These financial performance indicators, that STADA AG uses as key figures of operational management, include sales and net profit.

Sales is an important key figure for ensuring the success of STADA AG. Among other things, top-line programs to increase sales, which particularly focus on branded products, play a significant role for future success. Reported sales is an indicator of financial performance as STADA AG aims at the generation of further sales growth, also by way of its active acquisitions policy.

Net profit has been defined as an indicator of financial performance and a key parameter as it also represents a key figure of the success of STADA AG and, among other things, ensures STADA AG's ability to provide a dividend.

1) CIS/Eastern Europe includes the markets of Bosnia-Herzegovina, Bulgaria, Kazakhstan, Lithuania, Macedonia, Montenegro, Romania, Russia, Serbia and Ukraine (CIS: Commonwealth of Independent States).

2) Since January 1, 2015, the former market region Asia & Pacific has been grouped together with the activities of the MENA region and reported in the market region Asia/Pacific & MENA.

## Research and Development

STADA AG deliberately does not conduct any research based on the business model. The focus is generally on the development of finished pharmaceutical products that are not subject to commercial property rights. The basis for profitable growth and long-term company success is the continuous market introduction of generics products at the earliest point in time following the expiration of patents and at the best possible cost of sales in the individual countries. The Group's own development centers play a significant role in the process, and they are supplemented by subcontracted development and cooperations with external development partners. One decisive strategic success factor in the Group's timely product development includes the coordination of an international network of internal and external development partners.

In addition to classic generics, the STADA Group expands its product portfolio continuously with special projects. These include, among others, biosimilar products that are developed in cooperation with highly specialized partners. STADA focuses on marketing for reasons of risk and cost consideration. In the Generics market, biosimilars will play an increasingly important role in the future, since biological therapeutics already have a high share in costs of the individual national health care markets – with an accelerating upwards trend. In comparison to the original product, biosimilars are high-quality but inexpensive alternatives with proven therapeutic equivalency. Included since the launch of the Epoetin product SILAPO® by the STADA subsidiary cellpharm in 2008, are the licensing and cooperative agreements concluded with Gedeon Richter for the development and marketing of two monoclonal antibodies. STADA was able to continually expand its activities in the area of biosimilars by in-licensing a filgrastim product of the Canadian pharmaceutical company Apotex as well as a teriparatid product of the German Richter-Helm Bio Tec GmbH & Co. AG for the European market in October 2013 and November 2014. The filgrastim product Grastofil® was introduced into the market in the third quarter of 2014. In November 2014, STADA finally signed a letter of intent for the in-licensing of Adalimumab with the biotech specialists mAbscience.

The Branded Products area has strategic priority, since it is generally subject to less regulatory intervention and is thus characterized by more attractive profit margins than the Generics segment. Our employees seek out solutions for internationalizing and supplementing our product portfolio and creating a positioning that is different to our competitors. In this context, STADA Arzneimittel AG's "Center of OTC Excellence" plays a significant role. The objective is the long-term pipeline and portfolio development in the areas of OTC and dermatology. This innovation center of STADA Arzneimittel AG, which was conceived as a think tank, is supported by the expertise of the British STADA subsidiary Thornton & Ross.

The STADA Group's development costs amounted to € 56.9 million in 2014 (previous year<sup>1)</sup>: € 55.5 million). The Group's innovative power resulted in 626 product launches worldwide in 2014 (previous year: 706<sup>1)</sup>). Over 1,300 ongoing approval procedures for more than 150 active pharmaceutical ingredients for more than 55 countries were in the approval process as of December 31, 2014.

1) In line with the disclosures in the Annual Report of the STADA Arzneimittel AG Group, the previous year's figures have been adjusted in accordance with the new IFRS 11 in connection with IAS 8 as well as in connection with IAS 1.

## Employees

The long-term success of STADA AG is largely attributable to its employees with their specialist knowledge, their experience and their commitment as well as diversity. Personnel management at STADA generally follows a long-term personnel policy with the goal of optimally supporting employees as well as attracting and keeping the best talents. STADA offers internships to young people as well as various career training programs in the pharmaceuticals area. Training, language skills support and specialist workshops and seminars also contribute to staff development and to the up-to-date knowledge of employees in various specialist departments.

The STADA Group's personnel management is organized in a decentralized way, allowing to better meet the various needs at individual locations. They are largely independent in many areas of personnel policy in accordance with company guidelines. Further details are published annually in the personnel and social report on the Group's website at [www.stada.de](http://www.stada.de).

Employees are awarded with a variable remuneration system according to performance goals set with them personally and measured by the Company's success. STADA employees in Germany can purchase a maximum number of shares in the context of an employee stock ownership program that is supported with a contribution.

The average number of employees in STADA AG increased as compared to the previous year by 4.6% to 1,021 employees (previous year: 976 employees).

## Environmental Protection and Safety

STADA AG promotes environmental protection as a rule. Procedures and processes are being continuously improved in order to minimize their environmental impact and health risks. 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.

STADA makes a significant contribution to efficient health care due to the STADA Group's development of Generics as the largest business segment according to sales. The Branded Product segment also represents a relief for the health care systems of the individual countries due to the high proportion of self-pay patients.

As a health company, STADA AG places the highest priority on product quality and product safety. This applies likewise to finished products, raw materials, services and working conditions. For this purpose, STADA AG introduced international quality management systems such as good manufacturing practice standards (GMP) and ISO standards.

## ECONOMIC REPORT

### General Economic and Industry-Specific Situation

#### General economic situation

2014 was another transitional year on the way to overcome the consequences of the sovereign debt crisis, particularly in Europe. The financial markets were characterized by uncertainty – particularly due to geopolitical developments in Eastern Europe and in the Middle East. Additionally, the monetary policy decisions of the US American Federal Reserve, the European Central Bank (ECB) and Russia's central bank Rossii were noticeable. The oil price decreased significantly in the course of the year.

According to information from the International Monetary Fund (IMF), global economic output in 2014 increased by 3.3%<sup>1)</sup> and was therefore at the same level of the corresponding period from the previous year. In the course of this, the growth rates of the advanced countries at 1.8% and those of the emerging markets at 4.4% thus slightly approached each other.<sup>1)</sup> This development supports the purchasing power of patients that behave as so-called “self-pay patients” in the health care sectors of these markets. GDP in the Euro zone, where STADA has a leading role in certain countries, returned to a path of growth, but was continuously curbed by the sovereign debt crisis with an increase of only 0.8% (previous year: -0.4% million). In its home market of Germany as well as in Spain and France, GDP recorded positive development with +1.5%, +1.4% and +0.4%, while Italy recorded a decrease of -0.4%. Growth in GDP in the so-called Emerging and Developing Europe was 2.7%, while Serbia's economic performance decreased by 0.5%. In the so-called CIS countries (Commonwealth of Independent States), GDP increased by 0.9%, while Russia recorded a rise of only 0.6%. This relatively weak development is attributable to the sanctions imposed by the EU against Russia as well as significantly decreasing energy prices. The associated shortage in liquidity and the strong devaluation of the Russian currency led both to a weaker order behavior of the distribution channels and to a subdued consumer mood and subdued behavior from the end consumer. The remaining emerging market regions that are important for STADA, ASEAN-5 4.5%, and the Middle East and North Africa 2.8%, in 2014 showed promising though less dynamic growth, especially in the region of ASEAN-5, than in the previous year.

1) IMS Market Prognosis, September 2014; IMS Market Prognosis Global, September 2014; IMS Syndicated Analytics Service (September) 2014; prepared for STADA March 2015.

## Industry-specific situation

The health care and pharmaceuticals market generally benefits from global growth in the population, the demographic development of an aging society and from medical progress. Sales in the international pharmaceutical market increased by approx. 8.1% to approx. € 856.2 billion in 2014 as compared to the previous year.<sup>1)</sup> Sales in the global generics market increased by approx. 9.9% to approx. € 116.6 billion<sup>2)</sup> in 2014 as compared to the previous year. The market share of generics in the global pharmaceutical market amounted to 13.6%<sup>2)</sup>. Growth drivers of the industry include the continuous expiration of patent rights. In addition, the penetration of generics is still relatively low in several European countries where STADA has a leading role, and penetration is expected to grow against the backdrop of the pressure to reduce costs in the context of the European sovereign debt crisis. In certain markets, however, this growth in volume will be counteracted by governmental intervention in pricing. The volume of the generics market is also growing in Germany. However, this growth is being more than eaten away by intensive price competition particularly with tenders for discount agreements with the public health insurance organizations. The discontinuation of the last portfolio and product range contracts with the public health insurance organizations as of April 2013 again exacerbated the German generics market situation for STADA. The German generics market recorded a slight increase of 5.3%<sup>3)</sup> in euro – considering the list prices – in 2014.

Sales of the global OTC market increased on the previous year by approx. 4.4% to € 57.7 billion<sup>4)</sup>. The market share amounted to 7.9%<sup>3)</sup>. The branded product area is hardly affected by government price regulations and is largely dependent on the demand and purchasing power of so-called “self-pay patients” and the marketing materials used. The segment can generally benefit from relatively free pricing conditions. The branded product segment of STADA Arzneimittel AG in Germany recorded positive development in 2014, in line with the development of the market in Germany (+2.8%)<sup>5)</sup>.

## Effects of overall economic and industry-specific framework conditions

In consideration of the demand in the health care market, which is relatively independent of the economy, the international economic environment generally has less direct effects on the business development of STADA AG than the regulatory environment does. Nevertheless, the economic development does have an effect on the Group's activities in the form of currency and interest rate fluctuation, which primarily has an indirect influence on the success of STADA AG within investment income. STADA regularly takes precautionary measures in order to appropriately react to strong volatility.

1) IMS Market Prognosis, September 2014; IMS Market Prognosis Global, September 2014; IMS Syndicated Analytics Service (September) 2014; prepared for STADA February 2015.

2) IMS Market Prognosis, September 2014; IMS Market Prognosis Global, September 2014; IMS Syndicated Analytics Service (September) 2014; prepared for STADA February 2015.

3) IMS Market Report, Development of the German Pharmaceuticals Market in December and in 2014.

4) IMS Market Prognosis, September 2014; IMS Market Prognosis Global, September 2014; IMS Syndicated Analytics Service (September) 2014; prepared for STADA February 2015.

5) IMS Market Report, Development of the German Pharmaceuticals Market in December and in 2014.



## Business Development

Sales in 2014 developed better than expected as compared to the 2013 prognosis report. The operating business of STADA AG was once again burdened by price pressure as a result of the discount agreements of public health insurance organizations in Germany, and the regulatory conditions became stricter once again as compared to the previous year. This negative effect could be compensated by robust development in the German branded product business, in particular by compensation for strategic services that was first recognized for the full year in 2014.

The substantial decrease in net profit in 2013 of € 224.7 million to an annual net loss of € 27.4 million in 2014 was predominantly a result of a significant decrease in other operating income attributable to intra-Group sales of associated companies in the context of the implementation of the tax optimization program in the previous year.

Investment income and income from profit transfer agreements recorded a negative balance. On the one hand, there was promising development at the German subsidiaries ALIUD PHARMA and STADAvita. On the other hand, in the scope of the payment of strategic services, income that had previously been reported in the financial results was transferred to operating profit.

In order to strengthen the mid and long-term earnings potential, the STADA Group continuously identifies and implements efficiency-boosting projects. Accordingly, a new IT service center was opened in Serbia in the third quarter of 2013, which is expected to generate annual cost savings for STADA AG totaling € 5 million as from 2015. Furthermore, the Executive Board has decided that now only one of the previous two German subsidiaries will take part in tenders for discount agreements. This measure serves the purpose of preserving an appropriate operating profitability in the difficult German tender business. In addition, STADA signed a letter of intent for handing German logistic activities over to the global leading logistics company DHL, in order to focus on its core business. In the current first quarter of 2015, a letter of intent for the divestment of German logistic activities was signed.

The STADA Group and STADA AG focus investments in particular on the expansion and internationalization of the high-margin branded products business.

## Situation | Earnings Situation

in € million	2014	2013
Sales	420.3	412.9
Net profit or loss from ordinary business activities	-25.5	225.0
<b>Net profit</b>	<b>-27.4</b>	<b>224.7</b>

### Net profit or loss from ordinary business activities

Sales for STADA AG increased slightly in 2014 by 1.8% to € 420.3 million. Overall, revenues from the delivery of goods to third parties went down substantially. The Generics segment in Germany was thus burdened by regulatory framework conditions that were once again made stricter and legally prohibit portfolio contracts between public health insurance organizations and manufacturers as of April 2013. As result, the portfolio contracts were gradually replaced by tenders on an individual basis, which led to corresponding revenue reductions. In contrast, the German branded products business recorded significant overall growth in sales. The branded products business of STADA Arzneimittel AG decreased slightly due to the realignment, as a consequence of which STADAvita contributed to the financial results – based on a profit and loss transfer contract. Intragroup sales were € 110.2 million above the figures of the previous year, particularly supported by payments in the amount of € 102.4 million for strategic services (previous year: € 20.0 million).

Other operating income increased by € 278.0 million to € 87.2 million. The intragroup sale of associated companies, in particular Clonmel in Ireland, led to additional revenue in the previous year of € 276.9 million.

Materials and personnel expenses developed similarly to sales growth with an increase of 3.6% and 4.4% respectively. A clearly negative effect came from the increase in amortization/depreciation on non-current intangible assets and property, plant and equipment from € 59.6 million to € 81.4 million. This increase was mainly attributable to impairment losses on approvals and brands as well as on goodwill in the total amount of € 32.6 million. The predominant reason for this is the worsened economic situation in the CIS region, which is noticeable in currency relations, interest rates and country risks. Amortization of financial assets decreased by € 32.7 million to € 14.4 million. Here, against the backdrop of a difficult market environment, amortization on a French subsidiary played an important role.

Investment income and income from profit transfer agreements decreased on balance by € 41.1 million to € 47.1 million. While income from profit transfer agreements increased by € 13.7 million as a result of good performance, in particular from a German subsidiary in a difficult market environment, investment income decreased by € 54.8 million due to lower dividends from associates. This is mainly attributable to the billing of strategic services used by Group companies and first recognized for the full year under sales at STADA AG. Interest income and expenses had a slightly negative effect on a balance of € 3.5 million. Interest and similar expenses in the amount of € 54.6 million could not be completely compensated by significantly higher income from loans (€ +25.2 million), although they decreased by € 6.9 million as compared to the previous year due to higher settlements of promissory notes and refinancing at more favorable terms. The total result of ordinary business activities decreased substantially by € 250.5 million to € -25.5 million in 2014.

### Net profit

Due to outsourcing, the pension obligation of the Chairman of the Executive Board and other associated effects, extraordinary expenses in the amount of € 2.0 million were incurred. The annual net loss amounts to € 27.4 million (previous year: € +224.7 million).

## Situation | Assets Situation

in € million	2014	2013
Non-current assets	2,302.9	2,321.0
Current assets	365.7	559.8
Equity	853.3	917.5
Provisions	154.6	187.8
Liabilities	1,664.8	1,780.4

The balance sheet total of € 2,672.7 million in 2014 was 7.4% higher than the previous year.

Non-current assets declined by a total of € 18.1 million. The decrease in intangible assets (€ -50.4 million) and property, plant and equipment (€ -4.0 million) could not be compensated by the increase in financial assets (€ +36.3 million). Within intangible assets, the amount of concessions acquired against payment and commercial property rights decreased by € 35.5 million, particularly due to an increased need for amortization. Goodwill decreased due to amortization and impairment by € 14.7 million. While financial assets, loans to associates and other participating interests decreased (€ -12.3 million) in addition to the impairments from a subsidiary (€ -14.4 million), in contrast, loans to associates increased (€ +55.2 million).

Current assets decreased substantially by € 194.1 million. This effect was mainly attributable to a decrease in receivables and other assets. While changes in tax claims led to an increase in other assets, trade accounts receivable decreased by € 38.4 million (mainly because of a settlement of receivables from the sale of intangible assets with subsequent back-licensing for further utilization in sales) and receivables from associates showed a notable decrease of € 207.3 million. These resulted from the balancing of receivables by subsidiaries. Reduced inventories (€ -3.5 million) were contrasted with an increased cash balance (€ +43.1 million).

Equity decreased by € 64.2 million, mainly due to the annual net loss of € 27.4 million and the payment of the dividend for 2013 in the amount of € 39.8 million. The exercise of share options in 2014 and the resulting change in share capital and capital reserve had a slightly positive effect on equity. The equity-to-assets ratio remained stable at 32% in comparison with the previous year.

Provisions decreased by € 33.2 million to € 154.6 million, mainly as a consequence of outsourcing the pension obligation for the Chairman of the Executive Board to a pension fund as well as a quicker settlement of existing discount agreements with individual health insurances.

The amount of liabilities was reduced to € 115.6 million, mainly as a result of notably decreasing liabilities due to associates (€ -62.0 million). Against the backdrop of issuing a corporate bond in 2013 (nominal value: € 350 million), liabilities due to banks also decreased by € 44.1 million. There were hardly any changes in trade accounts payable. Other liabilities decreased by € 6.4 million, in particular as a result of a sales tax liability settlement and the establishment of a sales tax receivable. In addition to assets recognized in the balance sheet, STADA AG takes advantage of off balance sheet assets. These primarily include leased or rented items within the usual framework such as company cars and rented building space. STADA AG primarily has factoring as off balance sheet financing instruments.

## Situation | Financial Situation

Cash flow from operating activities amounted to € 237.0 million in 2014 (2013: € 120.8 million). This improvement is mainly attributable to a strong decrease in receivables from associates by € 207.3 million. Provisions decreased by € 33.2 million (2013: € +58.6 million), particularly as a result of outsourcing the pension obligation for the Chairman of the Executive Board and a quicker settlement of discount agreements by individual health insurances.

Cash flow from investing activities was € -48.1 million in 2014 (2013: € -290.0 million) and resulted, above all, from investments in intangible assets and an increased loan to STADA UK Holdings. In the previous year, cash flow from investing activities was characterized by the foundation of STADA UK Holding, as well as by the issuing of a loan to it – proceeds from intragroup sales were deducted.

Cash flow from financing activities amounted to € -145.8 million (2013: € 165.1 million). In the previous year, results were influenced substantially by the issuing of a corporate bond with a nominal value in the amount of € 350.0 million for financing the acquisition of the British OTC supplier Thornton & Ross. The net change in financial liabilities was € -46.4 million and decreased notably as compared to the previous year (2013: € -104.0 million).

As a result of the cash flows described, cash and cash equivalents increased from € 7.2 million to € 50.3 million. The primary goal of financial management is to ensure liquidity at all times and to limit the risks associated with financing. The mid to long-term borrowed capital financing is capital market-oriented and primarily relates to two corporate bonds in euro which mature in 2015 and 2018 and promissory notes with maturities until 2019. The goal is to maintain a balanced maturity dates profile with a diversified investor basis and optimized financing conditions. The average capital weighted interest rate of the interest-bearing financial liabilities of STADA AG was approx. 3.02% as of December 31, 2014.

## General Statements on the Business Development

In the financial year, STADA AG recorded an overall business development in line with the outlook published in the Prognosis Report 2013 in terms sales and net profit.

However, sales exceeded the prognosis with an increase of 1.8% to € 420.3 million. Burdens from stricter framework conditions for generics in Germany and several markets that are important for STADA, which affected the operating results as well as the financial results, were more than made up by earnings from strategic services. A difficult economic situation in the CIS region had a negative effect due to an increased need for amortization of intangible assets. The substantial decrease in other operating income, which had benefited from additional revenue in the amount of € 276.9 million from intragroup sales from associates in the previous year, substantially influenced the results of ordinary business activities.

As a consequence of this development, the results of ordinary business activities decreased from € 225.0 million in 2013 to € -25.5 million in 2014. With a minimal tax expense and extraordinary expenses due to the outsourcing of the pension obligation of the Chairman of the Executive Board in the amount of € 2.0 million, the annual net loss of € -27.4 million was in line with the prognosis.

The results achieved by STADA AG in financial year 2014 is, on the whole, adjusted for substantial additional revenues in other income from the previous year, and based on an increased focus on the business model of branded products with long-term growth potential and limited governmental regulation as well as continuous structural improvements. STADA AG indirectly benefits from investment income from associates who focus on market regions that also have long-term growth potential. This development is currently overshadowed by the difficult situation in the CIS region, which may have a direct or indirect effect on the business, financial and earnings situation of STADA Arzneimittel AG.

## 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 June 24, 2014, the principles of the remuneration system for the Executive Board, Supervisory Board and Advisory Board of STADA Arzneimittel AG as of the balance sheet date and includes individual information on the remuneration of each Executive Board and Supervisory Board member.

### 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

The goal of the Executive Board remuneration system approved by the STADA Annual General Meeting on June 16, 2011 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, the remuneration of the Executive Board in the framework of this remuneration system 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 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 longterm 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 remuneration structure, individual contractual commitments are still fundamentally possible for individual Executive Board members, in accordance with the German Act on the Appropriateness of Executive Board Remuneration (VorstAG), regarding additional nonperformance related remuneration components, e.g. pension commitments or commitments in case of termination of activity.

In the 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 applicable 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 Group'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 Group'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.

The current Executive Board contracts of acting Executive Board members reflect this remuneration system.

Within the concrete arrangement of the Executive Board contracts of current Executive Board members, 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 2014**

In addition to the applicable financial reporting principles, the following details on the remuneration granted to the Executive Board members in the reporting year also take into account the recommendations of the German Corporate Governance Code and the exemplary charts reporting the amount of benefits granted including fringe benefits for financial year 2014, which are contained in the Code's version of June 24, 2014. The possible minimum and maximum amounts are also indicated.

The **remuneration** of the individual members of the Executive Board who were active for the Company in financial year 2014 is as follows:

in € 000s	Hartmut Retzlaff, Chairman of the Executive Board (on the Executive Board since 04/1993)					
	Benefits granted				Allocation	
	2014	2013	2014 (min)	2014 (max)	2014	2013
Fixed compensation	2,000	2,000	2,000	2,000	2,000	2,000
Fringe benefits	142	30	142	142	142	30
<b>Total</b>	<b>2,142</b>	<b>2,030</b>	<b>2,142</b>	<b>2,142</b>	<b>2,142</b>	<b>2,030</b>
One-year variable compensation	848	408	0	850	408	347
Multi-year variable compensation						
Long-term targets 2014 <sup>1)</sup>	4,146	-	0	4,200	806 <sup>2)</sup>	806 <sup>2)</sup>
Other	-	-	-	-	-	-
<b>Total</b>	<b>4,994</b>	<b>408</b>	<b>0</b>	<b>5,050</b>	<b>1,214</b>	<b>1,153</b>
Pension expenses	-17,603 <sup>3)</sup>	940	-17,603	-17,603	-17,603 <sup>3)</sup>	940
<b>Total compensation</b>	<b>-10,467</b>	<b>3,378</b>	<b>-15,461</b>	<b>-10,411</b>	<b>-14,247</b>	<b>4,123</b>

in € 000s	Helmut Kraft, Chief Financial Officer (on the Executive Board since 01/2010)					
	Benefits granted				Allocation	
	2014	2013	2014 (min)	2014 (max)	2014	2013
Fixed compensation	750	750	750	750	750	750
Fringe benefits	26	34	26	26	26	34
<b>Total</b>	<b>776</b>	<b>784</b>	<b>776</b>	<b>776</b>	<b>776</b>	<b>784</b>
One-year variable compensation	399	386	0	500	386	351
Multi-year variable compensation						
Long-term targets 2014 <sup>1)</sup>	1,575	-	0	1,800	300 <sup>2)</sup>	250 <sup>2)</sup>
Other	-	-	-	-	-	-
<b>Total</b>	<b>1,974</b>	<b>386</b>	<b>0</b>	<b>2,300</b>	<b>686</b>	<b>601</b>
Pension expenses	-	-	-	-	-	-
<b>Total compensation</b>	<b>2,750</b>	<b>1,170</b>	<b>776</b>	<b>3,076</b>	<b>1,462</b>	<b>1,385</b>

1) The reporting year corresponds to the target year defined in the context of long-term goals, so the benefits granted from the contractually agreed long-term special remuneration for 2014 are fully attributable to the current reporting year. Accordingly, this also includes the contractually agreed progress payments of the long-term special remuneration upon achieving the respective interim goals from the previous years 2010 to 2013.

2) Contractually agreed performance related progress payments of the long-term special remuneration upon achieving the respective interim goals.

3) In the context of the changed plan and the resulting changes with regard to the benefits awarded according to the former benefit plan there were earnings from past service cost in the amount of € 17.6 million. In addition, an expense from administrative costs for the benefit plan in the amount of € 0.7 million and an expense from the adjustment of plan assets in the amount of € 1.0 million were incurred. The balance of the two items were earnings of € 15.9 million, which were recorded in general and administrative expenses.



Dr. Matthias Wiedenfels, Chief Business Development & Central Services Officer (on the Executive Board since 05/2013)						
in € 000s	Benefits granted				Allocation	
	2014	2013	2014 (min)	2014 (max)	2014	2013
Fixed compensation	750	495	750	750	750	495
Fringe benefits	27	21	27	27	27	21
<b>Total</b>	<b>777</b>	<b>516</b>	<b>777</b>	<b>777</b>	<b>777</b>	<b>516</b>
One-year variable compensation	300	250	0	300	250	-
Multi-year variable compensation	-	-	-	-	-	-
Long-term targets 2016	-	-	-	-	100 <sup>1)</sup>	-
Other	-	-	-	-	-	-
<b>Total</b>	<b>300</b>	<b>250</b>	<b>0</b>	<b>300</b>	<b>350</b>	<b>-</b>
Pension expenses	-	-	-	-	-	-
<b>Total compensation</b>	<b>1,077</b>	<b>766</b>	<b>777</b>	<b>1,077</b>	<b>1,127</b>	<b>516</b>

Dr. Axel Müller, Chief Production and Development Officer (on the Executive Board until 08/2013)						
in € 000s	Benefits granted				Allocation	
	2014	2013	2014 (min)	2014 (max)	2014	2013
Fixed compensation	-	448	-	-	-	448
Fringe benefits	-	14	-	-	-	14
<b>Total</b>	<b>-</b>	<b>462</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>462</b>
One-year variable compensation	-	224	-	-	-	224
Multi-year variable compensation	-	-	-	-	-	-
Long-term targets 2014	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>224</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>224</b>
Pension expenses	-	-	-	-	-	-
<b>Total compensation</b>	<b>-</b>	<b>686</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>686</b>

The percentage ratio between non-performance related and performance related<sup>2)</sup> remuneration of members of the Executive Board ranges in the area of approx. 28%<sup>3)</sup> to approx. 72%<sup>3)</sup> non-performance related and approx. 28%<sup>3)</sup> to approx. 72%<sup>3)</sup> performance related<sup>2)</sup> remuneration.

1) Contractually agreed performance related progress payments of long-term special remuneration upon achieving the respective interim goals.

2) Including the contractually agreed long-term special remuneration which is reported as benefits.

3) Excluding pension expenses.

## 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

Previously, the Executive Board contract of the Chairman of the Executive Board included an annual pension set at a fixed annual amount, whereby after the provision commences, the monthly pension payment would have been 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 would have begun on request as pension payments after completion of the Executive Board contract, generally valid until August 31, 2016, to the extent that it would not have been renewed or as disability pension if employment had ended before this due to an occupational disability. Furthermore, a lifelong survivor's pension was granted in case of death.

In the third quarter of 2014, the implementation method for the pension obligation for the Chairman of the Executive Board was changed. In future it will be implemented through an independent pension fund – against a one-time contribution payment on the part of STADA. The pension commitment has been fundamentally changed in the context of outsourcing it to the pension fund. Accordingly, there is now a commitment to the Chairman of the Executive Board, upon reaching the contractually agreed start of pension payments, for a lifelong pension in the form of a lower monthly guaranteed pension as compared to the previous commitment as well as a variable non-guaranteed participation feature from which a corresponding benefit increase may result. The start of pension payments can in principle, with the corresponding change in the amount of monthly pension payments, take place variably within a defined time period which exceeds the formerly assumed retirement age. In addition, a lifelong survivor's pension and a temporary orphan's pension will be paid in case of death.

In the context of the changed plan and the resulting changes with regard to the benefits awarded according to the former benefit plan there were earnings from past service cost in the amount of € 17.6 million. In addition, an expense from administrative costs for the benefit plan in the amount of € 0.7 million and an expense from the adjustment of plan assets in the amount of € 1.0 million were incurred. The balance of the two items were earnings of € 15.9 million, which were recorded in general and administrative expenses. Despite the transfer of the defined benefit plan of the Chairman of the Executive Board to an pension fund, the necessity remains, due to the secondary liability of STADA, to treat the benefit plan as defined benefit plan in accordance with IAS 19 and measure and recognize it accordingly. The present value of the pension commitments, in accordance with IFRS, was € 33.7 million as of December 31, 2014. The plan assets created in the context of the transfer lead to a provision of zero due to offsetting that must be carried out at the time of the plan amendment for this benefit plan. Because the pension commitment is fully funded, no further provisions are expected in the future.

The Executive Board contracts of the Chairman of the Executive Board and the Chief Financial Officer also contain 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 value for the remaining term of the Executive Board contract, and is limited in amount to a maximum of three years' remuneration.

## Other commitments

The Executive Board contract of the Chairman of the Executive Board includes the proviso that, 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.

For both the Chief Financial Officer and the Chief Business Development and Central Services 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 2014 with regard to their position in the Executive Board in the reporting year.

## Remuneration of the Supervisory Board

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

The remuneration system of the Supervisory Board is governed by Section 18 of STADA Arzneimittel AG's Articles of Incorporation. Section 18 of the Articles of Incorporation of February 26, 2014 applies for the reporting year, according to which, in addition to reimbursement of expenses in the past financial year; Supervisory Board members shall receive the following remuneration:

- an annual fixed sum of € 48,000 and
- a remuneration based on the long-term success of the Company (long-term variable remuneration) in the amount of 0.02% of the average Group earnings before taxes as reported in the consolidated financial statements of the past three financial years. The annual cap for long-term variable remunerations is € 48,000.00.

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

Supervisory Board members receive an annual fixed remuneration of € 15,000 for their committee activities for the past financial year. The Chairman of a committee receives twice this amount in remuneration.

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

## Remuneration of the Supervisory Board in financial year 2014

The remuneration of the individual members of the Supervisory Board who were active for the Company in financial year 2014 are as follows:

- Dr. Martin Abend € 278,900.00 (thereof € 189,000.00 non-performance related and € 89,900.00 performance related)  
(previous year: € 275,400.00, thereof € 105,000.00 non-performance related and € 170,400.00 performance related)
- Carl Ferdinand Oetker € 145,500.00 (thereof € 101,100.00 non-performance related and € 44,400.00 performance related)  
(previous year: € 101,800.00, thereof € 45,000.00 non-performance related and € 56,800.00 performance related)
- Dr. Eckhard Brüggemann € 77,900.00 (thereof € 47,900.00 non-performance related and € 30,000.00 performance related)  
(previous year: € 81,800.00, thereof € 25,000.00 non-performance related and € 56,800.00 performance related)
- Halil Duru € 44,800.00 (thereof 27,500.00 non-performance related and € 17,300.00 performance related)  
(member of the Supervisory Board since June 4, 2014)
- Heike Ebert € 33,100.00 (thereof € 20,400.00 non-performance related and € 12,700.00 performance related)  
(previous year: € 81,800.00, thereof € 25,000.00 non-performance related and € 56,800.00 performance related)  
(member of the Supervisory Board until June 4, 2014)
- Dr. K. F. Arnold Hertzsch € 85,200.00 (thereof € 55,200.00 non-performance related and € 30,000.00 performance related)  
(previous year: € 81,800.00 thereof € 25,000.00 non-performance related and € 56,800.00 performance related)
- Dieter Koch € 92,900.00 (thereof € 62,900.00 non-performance related and € 30,000.00 performance related)  
(previous year: € 91,800.00, thereof € 35,000.00 non-performance related and € 56,800.00 performance related)
- Manfred Krüger € 72,500.00 (thereof € 47,100.00 non-performance related and € 25,400.00 performance related)  
(previous year: € 173,600.00, thereof € 60,000.00 non-performance related and € 113,600.00 performance related)  
(member of the Supervisory Board until June 4, 2014)
- Constantin Meyer € 85,200.00 (thereof € 55,200.00 non-performance related and € 30,000.00 performance related)  
(previous year: € 81,800.00, thereof € 25,000.00 non-performance related and € 56,800.00 performance related)
- Dr. Ute Pantke € 44,800.00 (thereof 27,500.00 non-performance related and € 17,300.00 performance related)  
(member of the Supervisory Board since June 4, 2014)
- Karin Schöpfer € 39,400.00 (thereof € 26,700.00 non-performance related and € 12,700.00 performance related)  
(previous year: € 91,800.00, thereof € 35,000.00 non-performance related and € 56,800.00 performance related)  
(member of the Supervisory Board until June 4, 2014)
- Jens Steegers € 44,800.00 (thereof 27,500.00 non-performance related and € 17,300.00 performance related)  
(member of the Supervisory Board since June 4, 2014)

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.

## SUPPLEMENTARY REPORT

Between the end of financial year 2014 and the date of the signing of the Management Report and the Financial Statements for 2014, no event occurred which has an effect on the business, financial or earnings position of STADA Arzneimittel AG.

## OPPORTUNITIES REPORT

As a publicly-listed parent company, STADA Arzneimittel AG, directly and indirectly holds shares in the companies that belong to the STADA Group.

The operating business of STADA AG represents a part of the global business of the STADA Group. Profit or loss and STADA's risk profile are significantly affected by the services, such as the delivery of goods to other Group companies, which result from the function of the AG as a parent company or holding company of the STADA Group. The profit or loss and respective opportunities and risks are also characterized by those included in investment income. The Annual Report of the STADA Group provides a complete overview.

### Opportunities management

To secure the short, medium and long-term success of the company the company carries out continuous opportunity management. In this context STADA aims to determine and seize new growth opportunities and to secure and expand upon existing potential for growth. STADA's strategic success factors create the basis for utilizing growth opportunities that arise and thereby for securing sustainable success. These include in particular strong product development, an international sales structure, an active acquisition policy, a functionally organized group, efficient cost management and qualified employees.

#### Important strategic success factors of the STADA Group



The decentral, regional organizational and management structure in the sales related areas of STADA ensures that trends and requirements in the four market regions and the associated markets can be recognized and analyzed at an early stage so that arising opportunities can be used. They are supported in this by detailed observations of both the market and the competition as well as close contact with institutions. STADA also has centrally organized processes for the identification of opportunities, such as a portfolio management system for identifying potential new products.

Also in the future, STADA will continue to constantly expand the existing portfolio – both in the core segment Generics and in the core segment Branded Products. In this context, in addition to sales and earnings achieved in the context of new product launches, the opportunity exists to attain an improved margin mix as well as for economy of scale effects insofar as the products can be launched with margins that are better than the Group average or that they can be launched within the scope of existing sales structures in the individual market regions. In particular the Branded Products segment is characterized by better margins and subject to less regulatory intervention than the generics area. With the Group strategy “time and cheap to market” STADA pursues the goal of launching new products on the market not only at the earliest possible time, but also at the best possible cost of sales.

To use the respective growth opportunities in the four market regions defined by the Group, STADA will continue to expand the global sales network in the future as well. The Group thus intends to be able to sell products from the Group portfolio in a way which is adapted to the different regulatory and competitive framework conditions in the individual markets of the market regions.

Furthermore, STADA continues to pursue an active acquisition policy to accelerate organic growth through targeted acquisitions. On the one hand, the emphasis is on the regional expansion with a focus on high-growth emerging markets. On the other hand, the company focuses on the expansion and internationalization in particular of the core segment Branded Products. In view of the increasing pressure to reduce costs, to which the individual national health care systems in the respective markets of the four STADA market regions are exposed, the Executive Board sees further growth opportunities particularly for branded products because they are subject to less regulatory interventions and also characterized by better margins than generics.

With a view to future growth, a high priority will continue in future to be taken by the functional reporting structures with short decision-making channels and, at the same time, strong regional market presence. This predominately applies to our sales activities, because the ability to react in the short-term to structural, regulatory or competition-related changes plays an essential role not only for reducing risks, but also for exploiting opportunities. In individual cases, STADA is willing to continue to pursue an aggressive pricing policy in order to achieve a better market position and a higher market share – the goal for this approach, however, is always that the business activities in the relevant market of a market region are profitable or become so within a foreseeable time.

In consideration of earnings, efficient cost management will also play an important role in the future. Continuous cost optimization will continue to focus on cost of sales and all the associated costs, as this represents by far the Group’s largest cost item. In order to take advantage of opportunities to reduce these costs, STADA will continue to involve suppliers in the market risks and hire suppliers from low-cost countries.

In addition, STADA sees significant opportunity in qualified employees, as they will continue in future to have a significant share in the ongoing success of the Group with their extensive expertise, their long-standing experience and their strong commitment.



## RISK REPORT

As an international pharmaceutical company STADA is part of a global business community and is thus exposed to a variety of risks in a dynamic market environment. STADA understands risks as potential future developments or events that could lead to a negative deviation from STADA's projected business objectives.

STADA defines the management of risks as a permanent task of entrepreneurial activities. 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 and that is based upon a globally recognized framework concept, the "Enterprise Risk Management – Integrated Framework" (2004) developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The risk management system is therefore an integral component of business processes and company decisions.

The risk strategy is based on STADA's company strategy. It aims to put the Executive Board in the position to recognize risks at an early stage so they can take control of them in due time. The risk strategy is practiced within all business segments of the STADA Group.

### Risk management

As a stock corporation based in Germany, STADA is subject to German risk management legislation such as Section 91 (2) of the German Stock Corporation Act. The Executive Board has established a company- and Group-wide risk management system to ensure compliance to the relevant legislation as well as to guarantee the effective management of risks. 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 STADA Arzneimittel AG and on the Group and determine possible measures that can be initiated in due time if necessary. At the same time, the risk management system is intended to guarantee sufficient security to ensure that STADA's goals, particularly financial, operational and strategic goals, can be reached according to plan. STADA's risk management system represents an essential element in the entrepreneurial decision-making process and has therefore been implemented as an integral component of business processes throughout the STADA Group. The company-wide standard and integrated approach to the management of risks is intended to ensure the effectiveness of Group-wide risk management and make it possible to aggregate risks and provide transparent reporting.

The fundamental components of the Group-wide risk management system, thus also including STADA Arzneimittel AG as a parent company, are:

1. The Risk Management department, which is vertically and horizontally integrated in the Company and is responsible for planning and further development of the risk management system (including the Group-wide establishment of the risk management software "R2C – Risk to Chance"), as well as the methods and procedures used to identify and assess risks and supporting the local risk confidants;
2. the local risk confidants who identify and assess risks (including measures) and document and update them in the risk management system (bottom-up communication); they are integrated in all corporate units and subsidiaries throughout the Group;
3. written and oral queries (top-down communication) sent to the responsible risk confidants by the Risk Management department on current topics and the risk situation in the individual areas of the Group;

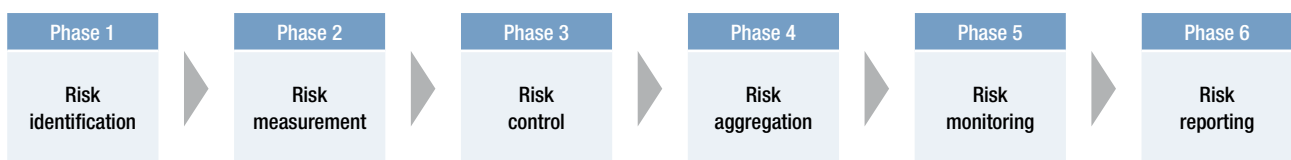
4. the company specific risk management guide, which defines the risk management process, the responsibilities within the risk management process and the risk management system;
5. Risk reporting at Group and individual-company level.

STADA's Group-wide risk management covers STADA Arzneimittel AG and companies in which STADA holds a stake of at least 50% even if they are not consolidated. 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.

Only risks are recorded in the risk management system. Opportunities are not recorded in the risk management system along the lines of risks. The identification and evaluation of opportunities takes place in the respective business environments. Opportunities are indicated in the Opportunities Report within the Management Report of this Annual Report.

### Risk management process

At STADA, the risk management process comprises the phases of risk identification, risk measurement, risk control, risk aggregation, risk monitoring and risk reporting.



#### Phase 1: Risk identification

Within the “risk identification” phase, all of STADA's corporate units and subsidiaries systematically record all possible future developments or events that could have substantial impact on STADA's business model or change STADA's risk profile. These possible future developments or events are allocated to a category in the company-specific risk atlas. These individual risks are identified, on the one hand, via self-assessment of the risk confidants (bottom-up) and, on the other hand, via written and verbal inquiry of the Risk Management department (top-down). Close cooperation between the Risk Management department and the risk confidants in the individual business areas and worldwide locations is meant to ensure the individual risks are defined uniformly and that the conditions are present that make thorough risk management possible throughout all departments and countries.

#### Phase 2: Risk measurement

In the “risk measurement” phase, the respective risk confidant analyzes the cause and effect structure and then, individually or in cooperation with the Risk Management department, an evaluation is prepared for every individual identified risk. The quantitative evaluation of individual risks is based on probability and impact; the evaluation should take consideration of potential direct damage as well as indirect results caused by individual risks when they arise. In an additional step, each evaluated individual risk is subjected to a plausibility test by the Risk Management department. Any inconsistencies uncovered by the plausibility test are discussed and resolved by the Risk Management department and the responsible risk confidant in cooperation.

**Phase 3: Risk control**

In the “risk control” phase, the risk confidants, individually or in cooperation with the Risk Management department, identify potential measures of risk avoidance, reduction, transfer and/or compensation. The measures identified can relate to the cause (preventative) as well as to the effect (reactive). In some cases, the acceptance of an individual risk can be approved as a measure. In an additional step, each identified measure is subjected to a plausibility test by the Risk Management department. Any inconsistencies uncovered by the plausibility test are discussed and resolved by the Risk Management department and the responsible risk confidant in cooperation.

**Phase 4: Risk aggregation**

In the “risk aggregation” phase, the causes of the individual risks are analyzed by the Risk Management department in an initial step. Following on from the analysis, individual risks with identical or similar causes are aggregated for the sake of increased transparency. The risk descriptions and probability of risks grouped into one risk aggregate item are closely analyzed and mutual compatibility ensured.

**Phase 5: Risk monitoring**

In the “risk monitoring” phase, the development of risks, as well as the implementation and effectiveness of the identified measures, is continuously monitored by the risk confidants, who are supported by the Risk Management department. For individual, potentially high-risk business processes, the Risk Management department accompanies the operational implementation, also in an observational role.

**Phase 6: Risk reporting**

In the “risk reporting” phase, the Risk Management department prepares quarterly risk reports based on the individual risks identified, and the risk aggregates where separate, recipient-oriented reports are prepared for the Executive Board, the Vice Presidents and the Managing Directors and made available in a timely manner. The risk report for the Executive Board is also passed on to the Supervisory Board. Significant individual risks and risk aggregates indicated in the recipient-oriented report are jointly discussed by the Executive Board and the Supervisory Board and if required, measures to counter risks are addressed. Any new significant risks or risk aggregates that appear between reports within the scope of the risk management system are immediately provided via ad-hoc reporting to the Executive Board and, if necessary, the Supervisory Board.

The risk management system run by STADA is regularly reviewed and evaluated by Internal Auditing for compliance with the statutory framework conditions and Group-internal guidelines. In the scope of auditing the annual financial statements, STADA's auditor also reviews and evaluates whether the early risk detection system, which is integrated in the risk management system, is generally suitable to recognize risks that may jeopardize the company's continued existence at early stage. The auditor has confirmed that STADA's early risk detection system conforms to the legal requirements.

### Main features of the internal control and risk management system as relates to the accounting process (Section 289 (5) of the German Commercial Code)

The internal control risk management system with regard to the financial reporting process (ICRMS) is a component of STADA's comprehensive risk management system. It follows the objective of ensuring the accuracy and reliability of financial reporting (bookkeeping, separate and consolidated financial statements and management reports) by implementing appropriate and effective procedures and controls, in accordance with relevant accounting standards and in compliance with 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 ICRMS rests with the Executive Board of STADA Arzneimittel AG. The appropriateness and effectiveness of the ICRMS are assessed by the Executive Board at the end of each financial year at a minimum.

The Annual Financial Statements are prepared on the basis of uniform accounting guidelines laid down by the accounting department and a 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 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.

In addition to the software-supported systems, manual plausibility tests and verification of the completeness and accuracy of data and calculations are carried out at all company levels. In the context of internal auditing activities as an additional component of the internal control system, the appropriateness and effectiveness of the ICRMS is subjected to regular audits, thus ensuring the reliability and functionality of the control mechanisms as well as the appropriateness and effectiveness of the risk management system and compliance with internal guidelines.

As a controlling body by way of its Audit Committee, the Supervisory Board also regularly monitors the reporting process and the effectiveness of the control system, the risk management system, the internal auditing system and the audit of the financial statements.

The extent and focus of the established ICRMS is 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 necessary components of ICRMS for the Group. In the context of a cost benefit analysis of each ICRMS 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.

### Period of assessment

The period of assessment for this Risk Report is generally 24 months in the future to the extent that no other period is stated in individual cases. The assessment of the individual risks relates to December 31, 2014. There were no relevant changes after the balance sheet date, which would have required a change in the presentation of STADA's risk situation. It can, however, on principle not be ruled out that further, also essential individual risks will arise in the development of business during the risk assessment period, which can add to the individual risks stated in the following.

## Evaluation of risk categories

From the STADA Executive Board's current perspective, relevant anticipated risks to the Group's business activities include the individual risks summarized according to risk categories below. By grouping together similar individual risks, the individual risks are aggregated to a greater extent than they are for the purpose of internal controlling with the help of risk-management software. Unless otherwise indicated, all individual risks described affect all company segments (Generics, Branded Products and Commercial Business) to varying extents.

In order to determine which risk categories are most likely to endanger the continued existence of STADA, individual risks are classified according to their estimated or derived probability and impact in relation to STADA's business, financial and earnings situation. The scales used for the measurement of these two indicators are presented in the charts below:

Probability			Description
0% <	Probability	≤ 2%	very low
2% <	Probability	≤ 10%	low
10% <	Probability	≤ 30%	noticeable
30% <	Probability	≤ 50%	reasonable
50% <	Probability	≤ 70%	probable
70% <	Probability		high

Impact			Description
0 € ≤	Impact	≤ € 800,000	marginal
€ 800,000 <	Impact	≤ € 2,500,000	noticeable
€ 2,500,000 <	Impact	≤ € 5,000,000	moderate
€ 5,000,000 <	Impact	≤ € 10,000,000	significant
€ 10,000,000 <	Impact		serious

STADA only quantitatively evaluates and reports individual risks on the basis of probability and the risk's potential impact, regardless of the risk categorization. For this reason, internal controlling only takes place at the individual risk level and not the level of aggregated risk categories. For presentation purposes within this Risk Report, the evaluated individual risks are converted into annual figures. The converted individual risks are summarized by aggregated risk category and weighted by classification "high", "moderate" and "low".

The following risks are generally presented as net risks, that is, risks including the steps taken to counteract them.

## Environmental and industry risks

STADA is active in the health care and pharmaceuticals market in market regions and market segments which are characterized, among other things, by high price sensitivity, continued margin pressure, intense competition and continuously changing regulatory framework conditions. Of primary importance to STADA are risks related to changes in market conditions on the basis of intense competition or related to changes to structures and mechanisms outside of STADA's influence in the individual national markets of the respective market regions or market segments. 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 and/or organizational resources and/or production capabilities and/or 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 for 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 of the respective market regions or foregoing substantial sales and accepting value adjustment and destruction of inventories that are no longer required. The loss of these sales may lead to a 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 individual markets of respective market regions and/or for selected products or product groups, for example in market regions 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, 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.

STADA places this in the "moderate" risk category.

## 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. With regard to costs and risks, STADA generally 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.

STADA's growth strategy is linked to the risk that STADA might encounter difficulties in connection with certain operational and/or financial requirements, which cannot, or not to a sufficient extent, operatively be met. In the event that STADA's facilities, human resources, internal structures, management tools, or financial resources cannot keep pace with the Group's growth strategy, 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. Furthermore, acquired companies and/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. Any of the above-mentioned issues can particularly lead to the 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 STADA 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 region to region or 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. They are particularly indirectly faced with this risk due to their investment in the international subsidiaries.

It may be difficult for STADA to enforce its own claims under the law of a country where STADA undertakes business at 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.

As STADA transfers and provides goods and services within the Group, there is a risk that tax authorities in individual countries assess the relevant transfer prices differently and address retroactive tax claims against a company in the STADA Group.

Moreover, there is the risk that conditions which are relevant for STADA's international business 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 and procurement, may be related to the USA and may, in the Company's view, be subject to elevated legal risks there 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, market regions 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 micro economic trends cannot be ruled out, which may be associated with substantial, primarily adverse effects for the Group or individual Group companies.

STADA places this in the “low” risk category.

### 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 (in particular, regulations on a national or supranational level relating to market structure, pricing and/or approvals of public health care system products 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 of the respective market regions, the prices of pharmaceutical products are subject to state supervision and regulation. In some markets, governments also 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 and 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 health 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 could become necessary to adjust the business model.

STADA places this in the “moderate” risk category.

### 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 to be added to STADA's product portfolio are, contrary to plans, not or belatedly or only at higher development and/or production costs than originally assumed launched on the market. Reasons for this can include additional requirements of approval authorities, direct government price controls or additional approvals for reimbursement via the relevant national health system. The risks of development and approval processes for new products are continuously identified and evaluated.

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, adjust the value of and destroy inventories which had existed already and those taken back as well as meet significant damage claim payments if, for example, commercial property rights were infringed.

Despite intensive testing, it is possible that potential side effects or initially hidden defects of existing products are only uncovered after approval or during marketing or that new scientific findings or evaluations could lead to an unfavorable risk/benefit analysis which would result in the necessity to remove the product from the market either completely or in part. Such a sales stop can be voluntary act of responsibility or also due to legal or government steps. Additionally, legal proceedings and associated damage claims as a result of possible side effects or initially hidden defects could significantly burden earnings.

STADA places this in the “low” risk category.

### 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/or 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 € 0.3 million for the Group as of December 31, 2014 (December 31, 2013: € 0.6 million). In principle, STADA cannot guarantee that the provisions made 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 and anti-trust law, tax law, patent law and to the implementation of individual regulatory requirements in the provision of health care at a national and/or supranational level.

STADA places this in the "moderate" risk category.

### Performance-related risks

STADA's production facilities are subject to the risk of defective or inefficient planning and production processes as well as to 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 the health of employees from STADA or third parties and/or resulting in 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.

In the core segment Generics, individual national markets are increasingly characterized by very large volume fluctuation that regularly arises in the context of tenders by governmental institutions or public health insurance organizations. Even though STADA undertakes every effort to avoid delivery bottlenecks and/or an unintentional increase in inventories (e.g. via scenario calculations and a specific operational positioning of the respective supply chain), such events cannot generally be ruled out in consideration of the comprehensive portfolio.

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 product development, procurement, production, and packaging, logistics as well as sales, though also to an increasing extent in other areas. Furthermore, STADA is taking increasing advantage of the opportunity of having services performed by third parties, with whom cooperations are entered into. In addition, STADA had specifically licensed German pharmacies to undertake the final packaging of partially packed products delivered by STADA in their own pharmacies. This license currently applies to two

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 sales and/or profit margins.

Numerous contracts at STADA 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 at STADA, 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.

STADA places this in the “moderate” risk category.

#### 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 Company. The Company's continued success also depends on its ability, in competition with other companies, to attract and keep qualified employees in the future for the long term regardless of demographic challenges. Country and industry-specific fluctuation risks must be proactively identified and addressed specifically to maintain success and critical skills and competencies within the company. STADA counters these risks on the one hand through global staff development and succession processes through which the potential of the employees is systematically identified and promoted. In addition, STADA uses targeted development activities to support both young and experienced highly qualified employees in their career development and to develop and retain performance-critical skills in the company.

It is STADA's expressed goal that all business processes and activities be carried out exclusively within the framework of respective laws in force. To this end, within the scope of the compliance 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 Company 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.

STADA places this in the “low” risk category.

## Risks in relation to information technology

STADA's strategic goals can only be achieved by optimal alignment and appropriate support using a variety of IT systems and processes. Therefore, STADA has to make continuous investments to appropriately adapt these complex and high-performing systems to changing business processes.

IT applications in process control thereby form the basis for the delivery of products to the customers of STADA AG as agreed upon. In the event that information technology processes of the Company are, despite all precautions, insufficient and/or inefficient, this could have materially adverse effects on business processes at STADA. Variations in the quality of internal IT services can also lead to failure of business-critical IT applications that would have a direct impact on STADA's ability to deliver. Similarly, the failure of a data center could affect the quality of service or lead to a complete failure of critical applications.

The abuse of digital technology and the Internet as a means to perpetrate new types of crime, i.e. cybercrime as a whole (e-crime), is developing at great speed and represents a further challenge. This can result in threats such as the failure of central IT systems, the disclosure of confidential data from development and business activities, manipulation of IT systems in process control or increased strain on and/or impairment of IT systems through virus attacks. This scenario also includes the temporary takeover of exposed systems by hackers and consequently the possible revocation of pharmaceutical approval due to the deficient validation of relevant IT systems. Such unauthorized data access, misuse or loss of data 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 at STADA. 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 STADA in a materially adverse manner.

STADA places this in the "low" risk category.

## Economic risks

The business success of STADA and its investments is also generally dependent on economic influences because an economic downturn can regularly intensify the already prevalent cost pressure in national health care systems and thereby potentially significantly increase the speed and extent of regional regulatory measures to contain costs. As a result, adverse characteristics for STADA such as state-required price reductions, particularly for prescription drugs, cannot be ruled out.

Moreover, sales volume and sales of such 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 market regions containing countries without a comprehensive state health care system, such as Russia in the market region CIS / Eastern Europe.

Another material risk for STADA lies in the area of corporate finance. Parameters in this area significantly influencing the Company's 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, liquid financial markets for refinancing are an important precondition for STADA's acquisition policy. In case of disruptions of the financial markets – no matter whether globally or regionally in market regions that are important for STADA – materially adverse effects for STADA cannot be ruled out.

In addition, STADA generally conducts business transactions not against cash payment, but on an invoicing basis to numerous 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 assets. However, it cannot be ruled out that these measures are insufficient and non-payments of individual debtors, and therefore burdens from one-time special effects, 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.

Another risk lies in the value of the assets in the consolidated balance sheet, in particular goodwill and other intangible assets. They are subject to thorough and detailed reviews. 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 impairment tests, for example, as a result of new findings in approvals or changes to the market conditions in individual market regions or individual countries of a market region, a relevant impairment may occur.

In the case of a global financial and economic crisis, the economic-related cyclical risks indicated above can increase considerably.

STADA places this in the "low" risk category.

### 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 the context of the budget process. Furthermore, all transactions above a certain limit determined to be relevant by the Executive Board must first be approved by the Executive Board. The Executive Board is also regularly informed of the nature, scope and amount of current risks. With a view to assets, liabilities and planned transactions, these risks relate in particular to changes in exchange rates and interest rates. It is the objective of financial risk management to limit these market risks of ongoing 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 cash flow.

Liquidity risks result if STADA does not hold sufficient liquidity. They may result, for example, from the loss of existing cash items, lack of availability of credit, reduced access to financing markets or fluctuation in the operational development of business. The goal of the liquidity management is to ensure solvency at all times as well as the financial flexibility of the STADA Group by way of maintaining a sufficient

supply of liquidity reserves and having free credit lines. STADA finances itself with short-term and long-term borrowings from banks, promissory notes, bonds and factoring. Furthermore, STADA has solid operating cash flow and further bilateral credit contracts with various banks (credit lines), which can be utilized as needed.

STADA's Group and balance sheet currency is the euro. Due to the international alignment of business activities, STADA is however subject to risks arising from exchange rate fluctuations.

These risks consist of potential changes in value, especially of receivables and liabilities in a currency other than the respective functional currency or as a result of exchange rate fluctuation (transaction risk).

STADA counters risks from currency related cash flow fluctuations with derivative financial instruments, which are exclusively used to hedge currency risks resulting from operating activities, financial transactions and investments.

In addition to natural hedges, STADA generally employs different financial derivatives to counter the risks associated with assets, liabilities and anticipated future cash flows denominated in foreign currency. In the reporting year, STADA made particular use of foreign-exchange futures contracts and interest/currency swaps among other things. The maturity dates of futures contracts are thereby selected to match the Company's anticipated cash flows. The remaining term of the contracts is currently up to four years.

In principle, it cannot be ruled out that hedging strategies against currency risks turn out to be insufficient, wrong or suboptimal.

STADA is subject to interest risks from financial assets and financial debts, primarily in the Euro zone.

In order to minimize the effects of significant interest rate fluctuations, STADA manages the interest rate risk for the financial liabilities denominated in euro 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.

A sensitivity analysis according to the regulations of IFRS 7 has shown that an increase in market interest rates of 100 basis points in financial year 2014 would have led to a burden on earnings in the amount of € 0.5 million (previous year: € 2.1 million) and a decrease in market interest rates of 100 basis points would have led to an improvement of earnings in the amount of € 0.4 million (previous year: € 2.0 million).

In financial year 2014, to hedge the interest rate risk, there were cash flow hedges in the form of interest-rate swaps.

Derivative financial instruments are neither held nor issued for speculation purposes.

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, on the one hand respective credit management processes are in place, and on the other hand such transactions are generally only concluded with counterparties of impeccable financial standing.

Risks of default exist as a result of the supply of goods and services. In addition, there is the risk that in a difficult economic and financial 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.

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, letters of credit, credit insurance or the transfer of assets. However, it cannot be ruled out that these measures are insufficient and non-payments of individual debtors, and therefore burdens from one-time special effects, arise to a significant extent. Past due receivables in the operating area are continuously monitored and potential default risks are anticipated through the creation of valuation adjustments.

STADA takes advantage of an international network and carries out strategic Group functions centrally through STADA Arzneimittel AG. Thus an overarching tax transfer pricing model for the billing of the corresponding intercompany services is of increasing importance. Possible risks of non-recognition of these transfer prices for tax purposes are limited by the introduction of appropriate communication methods and an overarching definition of transfer pricing in the form of a Group guideline. However, non-recognition of transfer prices can not be completely ruled out.

Furthermore, STADA has obligations in connection to pension plans. The present value of benefit obligations may increase substantially as a result of changes in relevant valuation parameters, for example, interest rate changes or future salary increases. Thus, there is a risk of relevant valuation parameters changing in a way that is unfavorable for STADA and of further additions being due.

In general, 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.

STADA places this in the “moderate” risk category.

#### **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, service providers as or 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 both as a Group and as a parent company and the STADA subsidiaries in the market regions or 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.

STADA places this in the “low” risk category.

## Summary evaluation of risks

Risk category	Risk classification by STADA
Environmental and industry risks	moderate
Corporate strategy risks	low
Regulatory risks	moderate
Product portfolio risks	low
Legal risks	moderate
Performance-related risks	moderate
Human resources risks	low
Risks in relation to information technology	low
Economic risks	low
Financial risks	moderate
Other risks	low

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 substantially 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, individually or as a whole, could jeopardize the continuance of the Group.



## PROGNOSIS REPORT

### Overall economic outlook

For 2015, the IMF expects a moderate increase in global economic growth. The necessity to balance budgets, however, will hinder the return to a stable path of growth, particularly in the Euro zone, although overall prospects have slightly improved. While there is support from some emerging markets in Asia and the Middle East, a significant decrease in economic performance is expected for the region CIS (Commonwealth of Independent States). Against the backdrop of economic sanctions and a substantially decreasing oil price, Russia, in particular, is faced with a difficult year in 2015.

For 2015, the IMF makes the following assumptions<sup>1)</sup>:

- global economic growth in 2015 at 3.5% will be slightly above the level of the previous year (3.3%), mainly due to improvements in developing countries (+2.4%, previous year: +1.8%). Growth in the Euro zone remains little dynamic at +1.2%, Germany is forecast to increase to approx. +1.3%, previous year: (+1.5%): positive effects from the low price of oil, an easing of monetary policy and the weakness of the euro are dampened by reduced growth prospects in emerging markets and an associated reluctance to invest.
- growth in emerging markets will be generally stable at 4.3%; with ASEAN-5 forecast at +5.2%, is above the previous year (+4.5%); CIS at -1.4%, will, in general, decrease as compared to the previous year (-0.9%); Russia is predicted to record a clear drop of -3.0% as compared to the previous year (+0.6%); the region of Emerging and Developing Europe will remain almost unchanged at +2.9% (previous year: +2.7%), including Serbia at +1% (previous year: -0.5%).

### Industry specific outlook

Growth of health care markets is generally supported by population growth, the demographic development and medical progress. The expected growth in emerging markets is anticipated to further increase the purchasing power of patients and therefore the demand for branded products as well. However, risks in connection with consumer mood have further increased due to the conflict between Russia and Ukraine, the falling oil price and the associated devaluation of the Russian ruble. In addition, the growth opportunities for the generics sector will continue to be based on specific drivers such as continuously expiring patents and – in the context of the pressure to reduce costs in the health care system – incentives and laws to increase prescriptions of low-cost generics. This has led to significant growth in sales volume in countries with a relatively low penetration. However, STADA assumes that further regulatory measures to reduce costs in the health care system – particularly against the backdrop of efforts to balance budgets in the Euro zone – will burden the sales development in individual national markets as a result of price pressure. The increasing number of tenders in the generics sector will also hinder the potential of sales. Overall, market research institutes such as IMS anticipate annual growth in sales for the global generics market of up to 10% till 2018.

The resulting opportunities and risks are described in the corresponding chapter.

1) Source: International Monetary Fund: World Economic Outlook of January 2015.

## Basis of the prognosis

The following assumptions were primarily made for the prognosis:

- largely unchanged regulatory market conditions
- optimization of procurement prices for primary materials
- the continued possibility to immediately launch products upon patent expiration
- further reduction in the weighted average interest rate with pending long-term refinancing
- largely unchanged tax situation in the countries where STADA AG investments are located or operate
- largely unchanged currency ratios and interest rates for Group activities which primarily have an indirect influence on the success of STADA AG within investment income

## Summarizing outlook

For 2015, overall, the Executive Board expects slightly decreasing sales development as compared to the previous year.

In revenues from the delivery of goods to third parties slightly weaker sales development is anticipated. In contrast, generally stable sales development can be expected for sales revenues in the Group including payments for strategic services.

Constant margin pressure, particularly in the German generics business, must be countered by new cost efficiency measures. These measures include, among other things, foregoing the use of external IT consultants and the establishment of an own IT service center in Serbia, from which total cost savings of € 5 million p.a. are expected from 2015. Furthermore, only one of the previous two German subsidiaries will take part in tenders for discount agreements. In addition, STADA signed a letter of intent for handing the German logistics activities over to the global leading logistics company DHL in order to focus on its core business. In the current first quarter of 2015, the letter of intent for the disposal of the German logistics activities was signed.

In consideration of all these developments, the Executive Board expects a minor improvement in earnings for financial year 2015 as compared to the previous year. However, an escalation of the difficult situation in Ukraine as well as a worsening of the economic situation in Russia may have a direct or indirect effect on the business, financial and earnings position of STADA Arzneimittel AG.

## DECLARATION OF CORPORATE GOVERNANCE PURSUANT TO SECTION 289a HGB

Declaration of Corporate Governance pursuant to section 289a HGB (Corporate Governance Report, Declaration of Compliance) is published on the website of STADA Arzneimittel AG at <http://www.stada.com/investor-relations/corporate-governance.html>.

## TAKEOVER-RELEVANT INFORMATION

In accordance with Section 289 (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**

As of December 31, 2014, share capital consisted of 60,626,700 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 Association, can only be entered into the share registry with the approval of the Company and which, in accordance with the Articles of Association, 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 Association**

The Executive Board is appointed and dismissed exclusively in accordance with legal regulations.

The Articles of Association 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 Association 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 Association into the commercial register. Amendments to Articles of Association 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 Association may call for a large majority. The Articles of Association 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 Association to resolve on amendments and additions to the Articles of Association which relate only to their wording.

### Authorizations of the Executive Board to issue or buy back shares

The Executive Board was authorized by the Annual Shareholders' Meeting on June 5, 2013 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 4, 2018, by up to € 77,134,304.00 through the issue of up to 29,667,040 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 determine the content of the share rights, the individual details of the capital increase as well as the conditions of the share issue in particular the issue price. The Executive Board has not made use of this authorization to date.

On June 5, 2013, furthermore, the Annual General Meeting authorized the Executive Board, on one or more occasions until June 4, 2018, to issue bearer and/or registered bonds with warrants and/or convertible bonds, participation rights and/or participating bonds (or a combination of these instruments) (collectively "bonds") in an aggregate nominal amount of up to € 1,000,000,000.00 with or without limiting the term, and to grant the holders or creditors of the bonds with warrants and/or convertible bonds a proportionate amount of the share capital of up to € 69,188,340.00 for a total of up to 26,610,900 of the Company's registered shares with restricted transferability in accordance with the more detailed provisions of the terms of the bonds. For the purposes of servicing these bonds, the Annual General Meeting on June 5, 2013 conditionally increased the share capital by up to € 69,188,340.00 by issuing up to 26,610,900 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, with approval of the Supervisory Board, is authorized to determine the further details of implementation of the conditional capital increase (Conditional Capital 2013). 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, 2014 by up to € 4,585,152.00 by issuing up to 1,763,520 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 5, 2013, in accordance with Section 71 (1) No. 8 AktG, the Company was authorized from June 6, 2013 until June 5, 2018 to acquire own shares of up to 10% of the share capital. The Executive Board has not made use of this authorization to date.

### Significant agreements on condition of a change of control

In case of a change of control resulting from a takeover offer to the company, there are, in accordance with common business practice, possibilities of termination for certain credit contracts, the lenders of several credit contracts, the issued corporate bonds and of the issued promissory notes (see "Economic Report – Business Development and Situation – Financial Situation").

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.

## AUDITOR'S REPORT

We have audited the financial statements comprising balance sheet, income statement and notes in view of the accounting and the management report prepared by STADA Arzneimittel AG, Bad Vilbel for the financial year from January 1 to December 31, 2014. Accounting and the preparation of the financial statements and the management report in accordance with German commercial law are the responsibility of the legal representatives of the company. Our responsibility is to express an opinion on these financial statements in view of accounting and on the management report based on our audit.

We conducted our audit of the financial statements in accordance with Section 317 of the German Commercial Code (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 financial statements in accordance with generally accepted accounting principles and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company 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 accounting, financial statements and management report are examined primarily on a test basis within the framework of the audit.

The audit comprises assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the financial statements and the 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 financial statements comply with the legal requirements and, in accordance with generally accepted accounting standards, give a true and fair view of the net assets, financial position and results of operations of the company. The management report is in accordance with the financial statements and provides on the whole a suitable understanding of the company's position and suitably presents the opportunities and risks of future development.

Frankfurt, March 23, 2015

PKF Deutschland GmbH  
Wirtschaftsprüfungsgesellschaft



Annika Fröde  
German Public Accountant



Santosh Varughese  
German Public Accountant

## REPORT OF THE SUPERVISORY BOARD

### Dear Shareholders,

In financial year 2014, 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 regularly in the management of the Group. In all decisions of fundamental importance for the Company, the Executive Board involved the Supervisory Board regularly, directly and in a timely manner. Within the scope of its supervisory and consultative duties, the Supervisory Board had the Executive Board inform it comprehensively through monthly oral and written reports on business development, the strategy and corporate planning including financial, investment and personnel planning as related to the Company and the STADA Group. At all times, the members of the Supervisory Board had the opportunity in the committees and in the plenum to critically examine the reports and proposed resolutions submitted by the Executive Board and to present input of their own. In particular, the Supervisory Board intensively discussed all business transactions of importance for the Company and reviewed them for their plausibility on the basis of the Executive Board reports. The Executive Board briefed the Supervisory Board – also between the regular meetings – regarding all questions of strategy, planning, business development, the risk situation, risk management and compliance. The Executive Board also briefed the Chairman of the Supervisory Board on the progress of business including the sales development and profitability, important business events and issues of particular importance. In addition, the Supervisory Board monitored the accounting process and the measures taken by the Executive Board for risk management, the internal control system, the internal auditing system as well as the compliance measures taken. 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 issues which, in accordance with the Articles of Incorporation and rules of procedure, require the approval of the Supervisory Board 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 nine meetings in financial year 2014 (on January 17, March 26, May 6, June 3, July 9, August 6, October 8, November 11 and December 11).

These meetings focused on the following themes:

- the Company strategy and its operative implementation,
- the acquisition policy,
- 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 market structures, development of demand, the competitive situation and the price, conditions and discount development in the individual market regions 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 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, disposals and cooperations of the Group as well as the integration of acquired companies and products in the Group,
- the impact of economic and political developments in the market region CIS/Eastern Europe, in particular considering the CIS crisis,
- 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,
- the evaluation of cost-optimized process allocations, process and control optimizations and improvements including the partial transfer of operations of the German logistics activities.
- the product development and product portfolio of the Group,
- the realignment of the German sales organization,
- STADA's capital market position,
- Executive Board personnel issues, compensation questions and questions relating to company pension plans,
- questions on the composition and the efficiency of the Supervisory Board,
- issues of corporate governance and compliance and
- the Annual Report and the interim reports of the Group prior to their respective publication.

### Composition of the Executive Board and the Supervisory Board

The composition of the Executive Board remained unchanged in financial year 2014.

With the completion of the Annual General Meeting on June 4, 2014, there were – as a result of a regular new election in May – changes in the employee representatives on STADA's Supervisory Board. Since that date, the newly elected Dr. Ute Pantke, Halil Duru and Jens Steegers have been members of the Supervisory Board as employee representatives. In its meeting on July 9, 2014, the Supervisory Board elected Carl Ferdinand Oetker deputy Chairman of the Supervisory Board.

### 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 four meetings in financial year 2014 (on March 25, May 5, August 5 and November 10). Within the framework of these meetings, it dealt primarily with the results, key figures, accounting, Group financing principles, internal risk management, internal audit and compliance in the Group. Furthermore, the auditor reported to the Supervisory Board in a meeting on the audit of the condensed interim consolidated financial statements and the interim Group Management Report of June 30, 2014.

The Human Resources Committee convened for two meetings in financial year 2014 (on March 25 and December 5) and in addition constantly coordinated via telephone. At these meetings the committee dealt with Executive Board personnel issues, compensation questions and issues relating to company pension plans.



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 June 24, 2014 is structurally superfluous. The Supervisory Board, however, created a Nomination Panel consisting of the Chairmen of the Human Resources Committee and the Audit Committee.

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 2014, 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 Section 161 of the German Stock Corporation Act issued by the Executive Board and the Supervisory Board on November 11, 2014 on the basis of the German Corporate Governance Code as amended on June 24, 2014 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](http://www.stada.de) or [www.stada.com](http://www.stada.com).

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 annual financial statements of STADA Arzneimittel AG and the consolidated financial statements as well as the Company's Management Report for financial year 2014 were audited by PKF Deutschland GmbH, Wirtschaftsprüfungsgesellschaft, Hamburg, and issued with an unqualified audit opinion. The Supervisory Board had no doubts with regard to the independence of the auditor. The auditor submitted the Statement of Independence as required by the Code. 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 annual 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 extensively 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 annual 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 2014 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 for questions from 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. Also following the final results of the Supervisory Board's own examination, the Supervisory Board had no objections to the annual financial statements, the Management Report, the consolidated financial statements and the Group Management Report on the financial year 2014 and concurred with the outcome of the audit. The auditor also determined that the Executive Board had implemented an appropriate information and monitoring system which, in its concept and use, is suitable for the early recognition of any developments that could threaten the continuation of the Company.

The Supervisory Board approved the annual financial statements and the consolidated financial statements prepared by the Executive Board. The annual 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 and with the proposal of the Executive Board for the appropriation of profits that provides for a dividend of € 0.66 per STADA common share.

The Supervisory Board wishes to express its gratitude to all of the Group's employees, the Executive Board and management for their tremendous commitment to their work and the good result in financial year 2014, in particular against the backdrop of the difficult framework conditions in the market regions CIS/Eastern Europe and Germany.

Bad Vilbel, March 25, 2015



Dr. Martin Abend  
Chairman of the Supervisory Board

## RESPONSIBILITY STATEMENT

To the best of our knowledge and in accordance with the applicable financial reporting principles, the Annual Financial Statements give a true and fair view of the business, financial position and results of operations and profit or loss of STADA Arzneimittel AG, and the Management Report includes a fair review of the development and performance of the business and the position of STADA Arzneimittel AG, together with a description of the principal opportunities and risks associated with STADA Arzneimittel AG's expected development.

Bad Vilbel, March 23, 2015



H. Retzlaff  
Chairman  
of the Executive Board



H. Kraft  
Chief Financial Officer



Dr. M. Wiedenfels  
Chief Business Development  
& Central Services Officer

## RESOLUTION ON THE DISTRIBUTION OF PROFITS

### Appropriation of profits of financial year 2014

Pending approval of the Supervisory Board, the Executive Board of STADA Arzneimittel AG, Bad Vilbel, Germany, made the following unanimous resolution via written circulation:

The Executive Board and the Supervisory Board will recommend to the Annual General Meeting of June 3, 2015 the following appropriation of profits for financial year 2014:

in €	
Dividend distribution of € 0.66 per share entitled to a dividend (at 60,538,224 shares entitled to a dividend)	39,955,227.84
Balance carried forward to new account	9,362,768.07
<b>Balance sheet profit</b>	<b>49,317,995.91</b>

Bad Vilbel, March 23, 2015



H. Retzlaff  
Chairman  
of the Executive Board



H. Kraft  
Chief Financial Officer



Dr. M. Wiedenfels  
Chief Business Development  
& Central Services Officer

## PUBLISHING INFORMATION

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<b>Contact</b>	STADA Arzneimittel AG STADA Corporate Communications Phone: +49 (0) 61 01/6 03-1 13 Fax: +49 (0) 61 01/6 03-5 06 E-mail: <a href="mailto:communications@stada.de">communications@stada.de</a>
<b>Text</b>	STADA Arzneimittel AG, Bad Vilbel This Annual Report is published in German (original version) and English and is subject to German law alone.
<b>Publication</b>	The complete report as well as current information on the STADA Group can be found on the Internet at <a href="http://www.stada.de">www.stada.de</a> and <a href="http://www.stada.com">www.stada.com</a> .
<b>Design and Realization</b>	wagneralliance Kommunikation GmbH, Offenbach am Main
<b>Photography</b>	Getty Images Deutschland GmbH, Munich, Germany iStockphoto LP, Calgary, Canada
<b>Translation</b>	MBETraining & Translations, Wiesbaden

### Forward-looking statements

This STADA Arzneimittel AG (hereinafter "STADA") annual report contains certain statements regarding future events that are based on the current expectations, estimates and forecasts on the part of the company management of STADA as well as other currently available information. They imply various known and unknown risks and uncertainties, which may result in actual earnings, the business, financial and earnings situation, growth or performance to be materially different from the estimates expressed or implied in the forward-looking statements. Statements with respect to the future are characterized by the use of words such as "expect", "intend", "plan", "anticipate", "believe", "estimate" and similar terms. STADA is of the opinion that the expectations reflected in forward-looking statements are appropriate; however, it cannot guarantee that these expectations will actually materialize. Risk factors include in particular: The influence of regulation of the pharmaceutical industry; the difficulty in making predictions concerning approvals by the regulatory authorities and other supervisory agencies; the regulatory environment and changes in the health-care policy and in the health care system of various countries; acceptance of and demand for new drugs and new therapies; the results of clinical studies; 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.

### 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.

