STADA Arzneimittel Aktiengesellschaft

Annual Financial Statements of December 31, 2012 and Management Report for financial year 2012

STADA
Arzneimittel

STADA ARZNEIMITTEL AG

ANNUAL FINANCIAL STATEMENTS OF DECEMBER 31, 2012 AND MANAGEMENT REPORT FOR FINANCIAL YEAR 2012

ANNUAL FINANCIAL STATEMENTS OF DECEMBER 31, 2012

MANAGEMENT REPORT FOR FINANCIAL YEAR 2012

Balance Sheet

Balance Sheet as of December 31 in € Assets	Dec. 31, 2012	Dec. 31, 2011
A. Non-current assets		
I. Intangible assets		
1. Concessions acquired against payment, commercial property rights and similar rights and values as well as licenses for such rights and values	318,776,834.88	129,962,503.81
3. Goodwill	103,160,766.95	0.00
2. Advance payments	61,388,275.40	53,015,353.66
	483,325,877.23	**182,977,857.47**
II. Property, plant and equipment		
1. Land, leasehold rights and buildings including buildings on third-party land	46,200,179.66	47,964,196.02
2. Plant and tools and machinery equipment	12,844,508.84	13,660,343.62
3. Other fixtures and fittings, tools and equipment	15,021,551.00	15,499,652.54
4. Advance payment and construction in progress	918,986.37	244,216.31
	74,985,225.87	**77,368,408.49**
III. Financial assets		
1. Shares in associates	1,225,983,285.10	1,130,856,109.27
2. Loans to associates	34,000,000.00	21,250,663.87
3. Investments	10,668,690.51	13,859,690.51
4. Loans to associates and other participating interests	13,813,000.00	23,863,000.00
	1,284,464,975.61	**1,189,829,463.65**
	1,842,776,078.71	**1,450,175,729.61**
B. Current assets		
I. Inventories		
1. Raw and auxiliary materials and manufacturing supplies	8,416,068.35	7,750,068.76
2. Work in progress	9,167,281.18	5,017,386.27
3. Finished goods and merchandise	53,901,002.60	47,376,776.17
4. Advance payments	621,691.61	353,642.18
	72,106,043.74	**60,497,873.38**
II. Receivables and other assets		
1. Trade accounts receivable	18,265,605.75	3,716,078.78
2. Receivables form associates	435,298,739.61	499,254,140.52
3. Receivables from associates and other participating interests	779,422.03	946,645.45
4. Other assets	37,989,503.35	176,729,144.51
	492,333,270.74	**680,646,009.26**
III. Cash on hand and balances with banks	**11,340,609.21**	**224,052,990.50**
	575,779,923.69	**965,196,873.14**
C. Prepaid expenses/deferred charges	**2,501,747.43**	**2,841,297.17**
	2,421,057,749.83	**2,418,213,899.92**

Balance Sheet as of December 31 in € Equity and Liabilities			Dec. 31, 2012	Dec. 31, 2011
A.	Equity			
	I. Share capital		154,263,876.00	153,312,536.00
		Treasury shares	-243,557.60	-250,616.60
		Issued capital Conditional capital € 76,346,010 (previous year: € 76,346,010)	154,020,318.40	153,061,919.40
	II. Capital reserve		477,759,283.93	472,680,550.56
	III. Retained earnings			
	1.	Statutory reserve	376,883.98	376,883.98
	2.	Other retained earnings	40,419,897.75	40,378,494.00
	IV. Distributable profit		31,547,699.66	23,316,623.53
			704,124,083.72	689,814,471.47
B.	Provisions			
	1.	Provisions for pensions and similar obligations	23,684,634.03	22,304,288.03
	2.	Tax provisions	1,398,151.04	1,398,151.04
	3.	Other provisions	104,105,328.63	82,868,568.91
			129,188,113.70	106,571,007.98
C.	Liabilities			
	1.	Bonds, of which convertible 0.00 €	350,000,000.00	350,000,000.00
	2.	Amounts due to banks	844,709,862.47	758,078,315.03
	3.	Trade accounts payable	31,898,989.38	21,170,283.77
	4.	Liabilities to associates	314,702,136.98	384,855,654.38
	5.	Other liabilities thereof from taxes € 5,401,618.61 (previous year: € 2,611,172.07) thereof in the context of social security € 0.00 (previous year: € 0.00)	46,434,563.58	107,724,167.29
			1,587,745,552.41	1,621,828,420.47
			2,421,057,749.83	2,418,213,899.92

Income Statement

Income Statement for the period of Jan. 1 to Dec. 31 in €		2012	2011
1.	Sales	370,537,062.90	333,535,895.85
2.	Increase in inventories of finished goods and work in progress	11,967,383.34	6,206,308.27
3.	Other operating income thereof from currency translation: € 7,729,000.15 (previous year: 5,387,446.84)	61,315,413.79	64,557,012.39
		443,819,860.03	**404,299,216.51**
4.	Cost of materials		
	Cost of raw and auxiliary materials and manufacturing supplies and goods purchased	162,157,554.88	154,532,806.40
5.	Personnel expenses		
	a) Salaries	68,000,997.75	63,760,619.94
	b) Social security contributions and expenses for retirement benefits and support thereof for retirement benefits € 1,617,884.33 (previous year: € 2,200,443.51)	11,005,936.02	11,127,700.84
		79,006,933.77	**74,888,320.78**
6.	Amortization/depreciation on non-current intangible assets and property, plant and equipment	38,338,832.72	39,350,293.60
7.	Other operating expenses thereof from currency translation: € 10,640,850.39 (previous year: € 5,606,016.95)	233,080,806.13	178,937,218.89
8.	Investment income thereof from associates € 69,327,551.27 (previous year: € 65,630,500.00)	69,327,551.27	65,630,500.00
9.	Income from profit transfer agreements	68,504,283.87	49,384,216.36
10.	Other interest and similar income thereof from associates € 13,986,844.71 (previous year: € 9,324,164.12)	27,209,869.23	16,937,914.49
11.	Depreciation on financial assets and current securities	4,494,000.00	5,490,000.00
12.	Expenses from loss assumption	0.00	106,402.10
13.	Interest and similar expenses thereof from associates € 1,282,243.13 (previous year: € 3,211,428.31)	61,284,735.06	46,778,035.01
14.	**Net profit or loss from ordinary business activities**	**30,498,701.84**	**36,168,770.58**
15.	Extraordinary income	0.00	1,292,477.92
16.	Extraordinary expenses	243,480.00	243,481.56
17.	**Extraordinary profit or loss**	**243,480.00**	**1,048,996.36**
18.	Taxes on income and earnings	158,475.30	2,386,511.60
19.	Other taxes	83,434.82	50,927.10
20.	**Net profit**	**30,013,311.72**	**34,780,328.24**
21.	Profit brought forward from the previous year	1,534,387.94	2,536,295.29
22.	Allocation to retained earnings	0.00	14,000,000.00
23.	**Distributable profit**	**31,547,699.66**	**23,316,623.53**

Notes to the 2012 Annual Financial Statements 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 (section 238 ff. of the German Commercial Code), the supplementing requirements for incorporated bodies with regard to annual financial statements and management report (section 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 against payment 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. 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 cost 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

Balance sheet

1. Non-current assets

For the development of non-current assets in 2012 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, 2012 in €	As of Jan. 1, 2012	Historic costs of acquisition: Additions 2012	A	Disposals / Reclassifications 2012	D / R	As of Dec. 31, 2012
Non-current assets						
I. Intangible assets						
1. Concessions acquired against payment, commercial property rights and similar rights and values as well as licenses for such rights and values	328,824,473.69	182,267,155.73	A	287,971.61 31,427,917.46	D R	542,231,575.27
2. Goodwill	0.00	103,882,170.91	A	0.00 0.00	D R	103,882,170.91
3. Advance payments	83,043,517.95	42,268,082.47	A	512,072.24 -31,519,122.36	D R	93,280,405.82
	411,867,991.64	**328,417,409.11**		**-891,248.75**		**739,394,152.00**
II. Property, plant and equipment						
1. Land, leasehold rights and buildings including buildings on third-party land	67,226,653.12	643,475.21	A	0.00 164,232.57	D R	68,034,360.90
2. Plant and tools and machinery equipment	29,106,295.20	1,399,960.44	A	472,524.35 0.00	D R	30,033,731.29
3. Other fixtures and fittings, tools and equipment	40,700,697.69	2,577,654.14	A	246,179.49 94,937.54	D R	43,127,109.88
4. Advance payment and construction in progress	244,216.31	842,735.27	A	0.00 -167,965.21	D R	918,986.37
	137,277,862.32	**5,463,825.06**		**-627,498.94**		**142,114,188.44**
III. Financial assets						
1. Shares in associates	1,136,284,953.67	96,430,175.83	A	0.00	D	1,232,715,129.50
2. Loans to associates	28,424,164.72	0.00	A	14,424,164.72 20,000,000.00	D R	34,000,000.00
3. Investments	19,349,690.51	0.00	A	0.00	D	19,349,690.51
4. Loans to associates and other participating interests	23,863,000.00	0.00	A	10,050,000.00	D	13,813,000.00
	1,207,921,808.90	**96,430,175.83**		**24,474,164.72**	**D**	**1,279,877,820.01**
	1,757,067,662.86	**430,311,410.00**		**-5,992,912.41**		**2,181,386,160.45**

Accumulated depreciation							
As of Jan. 1, 2012	Additions Write-ups 2012	A WR	Disposals Reclassifications 2012	D R	As of Dec. 31, 2012	Residual carrying amount Dec. 31, 2012	Residual carrying amount Dec. 31, 2011
198,861,969.88	27,072,101.67 -2,786,885.84	A WR	269,376.73 576,931.41	D R	223,454,740.39	318,776,834.88	129,962,503.81
0.00	721,403.96 0.00	A WR	0.00 0.00	D R	721,403.96	103,160,766.95	0.00
30,028,164.29	2,774,004.88 -302,687.05	A WR	30,420.29 -576,931.41	D R	31,892,130.42	61,388,275.40	53,015,353.66
228,890,134.17	**27,477,937.62**		**299,797.02**		**256,068,274.77**	**483,325,877.23**	**182,977,857.47**
19,262,457.10	2,571,724.14	A	0.00 0,00	D R	21,834,181.24	46,200,179.66	47,964,196.02
15,445,951.58	2,073,733.22	A	330,462.35 0.00	D R	17,189,222.45	12,844,508.84	13,660,343.62
25,201,045.15	3,125,864.85	A	221,351.12 0.00	D R	28,105,558.88	15,021,551.00	15,499,652.54
0.00	0.00	A	0.00 0.00	D R	0.00	918,986.37	244,216.31
59,909,453.83	**7,771,322.21**		**551,813.47**		**67,128,962.57**	**74,985,225.87**	**77,368,408.49**
5,428,844.40	1,303,000.00	A	0.00	D	6,731,844.40	1,225,983,285.10	1,130,856,109.27
7,217,421.24	7,217,421.24	WR	0.00	D	0.00	34,000,000.00	21,250,663.87
5,490,000.00	3,191,000.00	A	0.00	D	8,681,000.00	10,668,690.51	13,859,690.51
0.00					0.00	13,813,000.00	23,863,000,00
18,136,265.64	**-2,723,421.24**		**0.00**	**D**	**15,412,844.40**	**1,264,464,975.61**	**1,189,829,463.65**
306,935,853.64	**42,832,832.72** **10,306,994.13**	**A** **WR**	**851,610.49**	**D**	**338,610,081.74**	**1,842,776,078.71**	**1,450,175,729.61**

The Company's carrying amount of EG Labo SAS - Laboratoires EUROGENERICS (France) is impaired as of December 31, 2012 (carrying amount: € 38.6 million, fair value: € 35.9 million). A write-down to fair value was not carried out in financial year 2012 as it is not a long-term impairment. This was indicated by higher market penetration in the area of Branded Products in the future as well as the strong growth of the French generics market.

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 € 588,004.22 with a remaining term of more than one year.

3. Receivables from associated companies and participating interests

This item includes loan receivables in the amount of € 114,544,755.30 with a remaining term of more than one year.

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

4. Other assets

The item in the amount of € 37,989,503.35 includes tax receivables in the amount of € 21,752,313.87.

5. Accrued items

As of the balance sheet date, there were accrued receivables from accruals of interest-bearing transactions in the amount of € 0.5 million and deferred liabilities in the amount of € 16.8 million.

6. Prepaid expenses/deferred charges

Prepaid expenses/deferred charges include a discount in the amount of € 58,626.46 as well as proportionate expenses for the next year in the amount of € 2,443,120.97.

7. Deferred taxes

From 2012, 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 € 4,178,000. Unnetted, deferred tax assets amount to € 4,878,000 and deferred tax liabilities to € 700,000.

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

8. Equity

Subscribed share capital

Share capital amounted to € 154,263,876.00 and was divided into 59,332,260 registered shares with restricted transferability, each with an arithmetical share of share capital of € 2.60 per share. As of December 31, 2011, share capital still consisted of 58,966,360 registered shares with restricted transferability. The increase in share capital resulted from the exercising of warrants. Offsetting against treasury shares in the amount of € 243,557.60 results in a recognized share capital of € 154,020,318.40 as of December 31, 2012.

As of December 31, 2012, 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 Gryphon International Investment Corporation[1)], Toronto, Canada with 3.20%, holds a stake that exceeds the legal reporting threshold of 3%. Of the shareholding of Gryphon International Investment Corporation, 3.15% is attributable to Gryphon International Investment Corporation, Toronto/Ontario, Canada, and 0.05% to Gryphon Investment Counsel Inc., Toronto/Ontario, Canada. SOCIETE GENERALE SA[2)], Paris, France, according to reports made to the Company up until December 31, 2012 pursuant to Section 41 (4d) of the German Securities Trading Act (WpHG), holds a share in voting rights requiring notification of 5.75% in relation to the entire amount of shares with voting rights of STADA Arzneimittel AG of 58,966,480. Thereby, SOCIETE GENERALE SA directly holds 0.1% of shares and has the option to purchase, via financial or other instruments according to section 25a of the German Securities Trading Act, a 5.65% shareholding in STADA Arzneimittel AG (thereby indirectly 2.82% via SOCIETE GENERALE EFFEKTEN GMBH). 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 10, 2008, there is an authorized capital in the amount of € 76,346,010.00. According to this resolution, the Executive Board, with approval of the Supervisory Board, is authorized until June 10, 2013 to increase the authorized capital once or repeatedly by up to € 76,346,010.00 by issuing up to 29,363,850 registered shares with transfer restrictions against cash or non-cash contributions.

Conditional capital

The share capital is conditionally increased by up to € 66,823,458.00 by issuing up to 25,701,330 registered shares with restricted transferability and carrying a dividend right as of the beginning of the financial year in which they are issued. The 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 10, 2008 (Conditional Capital 2008/I). In addition, the share capital of the company is conditionally increased by up to € 7,950,696.00 by issuing up to 3,057,960 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.

1) See the Company's disclosure of January 14, 2011.
2) See the Company's disclosure of March 14, 2012.

The Executive Board was authorized, with approval of the Extraordinary General Meeting of March 8, 2000, on or before March 7, 2005, on one ore 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, 2012, the exercise of 152,898 warrants for the subscription of 3,057,960 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 € 477,759,283.93. The change as compared to the previous year results from the exercising of warrants (€ 5,067,715.00) as well as earnings from the disposal of treasury shares in the context of an employee stock ownership program (€ 11,018.37).

Retained earnings

Retained earnings primarily include allocations from the net profit of previous years. The change compared to the previous year (€ 41,403.75) results from disposal of treasury shares in the context of an employee stock ownership program.

Treasury shares

As of the reporting date, the Company held 93,676 treasury shares, each with an arithmetical par value of € 2.60. This is equivalent to a share capital of € 243,557.60 or 0.16% of share capital. As of December 31, 2011, the Company held 96,391 treasury shares.

In 2012, 2,733 shares were sold and 18 shares purchased. The resulting gain in the amount of € 11,018.37 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 May 30, 2012, in accordance with Section 71 (1) no. 8 AktG, the Company was authorized from June 17, 2011 until June 16, 2013 to acquire own shares of up to 10% of the share capital. The Executive Board has not made use of this authorization to date.

Disposal of treasury shares

Disposal date	Number	% of share capital	Arithmetical par value (in €)	Disposal price (in €)	Disposal result (in €)
January	565	0.0%	1,469.00	11,160.92	1,075.67
February	254	0.0%	660.40	5,646.59	1,112.69
March	119	0.0%	309.40	2,718.15	594.00
June	79	0.0%	205.40	1,744.35	334.20
July	63	0.0%	163.80	1,509.05	384.50
August	294	0.0%	764.40	6,363.95	1,116.05
September	59	0.0%	153.40	1,270.00	216.85
October	314	0.0%	816.40	7,184.12	1,579.22
November	528	0.0%	1,372.80	11,875.42	2,450.62
December	458	0.0%	1,190.80	10,420.59	2,245.29
Total	**2,733**	**0.0%**	**7,105.80**	**59,893.14**	**11,109.09**

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 € 243,000, which was recognized as an extraordinary result in the reporting year. 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 (total amount € 3.7 million).

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 € 1,718,000 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 5.06% p.a., a pension trend of 1.80% 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 € 33,012,000. The fair value of the pledged reinsurance policy amounts to € 9,328,000. In the reporting year, expenses in the amount of € 1,718,000 were offset against income in the amount of € 469,000 in the financial result.

Other provisions in particular include expenses in the area of personnel (€ 11,083,000), for warranties (€ 3,454,000) and for outstanding settlements from health insurance organizations resulting from the discount agreements with health insurance organizations (€ 70,954,000).

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.

11. Amounts due to banks

Remaining maturities of financial liabilities due to banks in € million	up to 1 year	1 to five years	over 5 years
Amounts due to banks	291.6	553.1	0.0

12. Trade and other payables

Remaining maturities of trade payables in € million	up to 1 year	1 to five years	over 5 years
Liabilities to associates	314.7	0.0	0.0
Liabilities to other suppliers	31.9	0.0	0.0
Other liabilities	43.0	3.5	0.0

13. Income statement

In 2012, sales of STADA Arzneimittel AG in the amount of € 370,537,000 include an international share of € 127,567,000. Thereof € 114,551,000 was attributable to Europe, € 6,877,000 to MENA and € 6,138,000 to Asia. Sales can be broken down into the following activities:

in € 000s	2012	2011	2010
Sales from the delivery of goods	326,741	315,989	323,505
License revenue	44,381	15,499	6,321
Sale of approvals	15	2,048	0
	370,537	**333,536**	**329,826**

Unscheduled depreciation on non-current assets was at € 4,622,000 (previous year: € 9,619,000) in financial year 2012.

Other operating income includes income outside of the reporting period from credits in the amount of € 1,102,000 (previous year: € 552,000) as well as € 3,837,000 (previous year: € 3,577,000) from the reversal of provisions.

In addition, other operating income from additions on unscheduled depreciation in the amount of € 3,090,000 (previous year: € 5,354,000) are recognized.

Other operating expenses include expenses from outside of the reporting period for insurance payments of € 267,000 (previous year: € 103,000).

Extraordinary profit or loss in the amount of € 243,000 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 2012, the average number of employees was 948, thereof, among other things,
- 112 employees in warehousing and shipping,
- 304 employees in production and packaging,
- 532 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:

- Hartmut Retzlaff, Chairman

- Helmut Kraft, Chief Financial Officer

- Dr. Axel Müller, Chief Production & Development Officer

The Executive Board members held the following mandates during the financial year 2012:

Hartmut Retzlaff is also member of the Administrative Board of HSBC Trinkaus & Burkhardt AG, member of the Supervisory Board of BIOCEUTICALS Arzneimittel AG, member of the Supervisory Board or Board of Directors of SA Neocare N.V., SA Eurogenerics N.V., STADA Pharmaceuticals (Asia) Ltd., STADApharm AB, Clonmel Healthcare Limited, SFS International Limited, STADA Financial Investments Limited and he was Chairman of the Supervisory Board of Hemofarm A.D. until January 31, 2012.

Helmut Kraft is also member of the Regional Advisory Board Central of Commerzbank AG (since July 1, 2012) and he was a member of the Supervisory Board of Hemofarm A.D. until January 31, 2012.

Dr. Axel Müller was also member of the Supervisory Board or Board of Directors of Hemofarm A.D. (until January 31, 2012) and Clonmel Healthcare Limited (until March 31, 2012).

15. Remuneration of the Executive Board and the Supervisory Board

In financial year 2012, total compensation paid to the Executive Board amounted to € 5,978,884.46[1)] for STADA Arzneimittel AG (previous year: € 5,631,335.05).

In financial year 2012, total compensation paid to the Supervisory Board amounted to € 867,500.00 for STADA Arzneimittel AG (previous year: € 630,315.20).

The compensation paid to former members of the Executive Board amounted to € 284,001.72 in financial year 2012.

1) Thereof progress payment of variable long-term special remuneration in the total amount of € 1,306,250.00 as a result of achieving the annual interim goals in the respective individual contracts for financial year 2012.

Current pension provisions for former Executive Board members in financial year 2012 amounted to € 9,539,353.00 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.

16. Information on the Company's Supervisory Board

Composition of the Supervisory Board and its committees

The members of the Supervisory Board on the balance sheet date were:

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

Manfred Krüger, Heike Ebert and Karin Schöpper 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 or Board of Directors of EWABO Chemikalien GmbH & Co. KG (Chairman of the Advisory Board), wink Stanzwerkzeuge GmbH & Co. KG (Chairman of the Advisory Board), Hela Gewürzwerk Hermann Laue GmbH, Lampe Asset Management GmbH (member of the Advisory Board), Lampe Privatinvest Management GmbH (since December 2012), Dale Investment Advisors GmbH (member of the Advisory Board and Chairman), FOCAM AG (member of the Economic Advisory Board), Stiftung Hamburger Admiralität (member of the Board of Trustees), Cloverfield Inc. (member of the Board of Directors), 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), of the Deutsche Welthungerhilfe e.V. (member of the Board of Trustees) and was a member of the Advisory Board of Lampe Vermögenstreuhand GmbH (until March 31, 2012).

Heike Ebert is at the same time member representative of the Frankfurter Volksbank eG.

17. 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 € 91,174,675.12. Of this, € 59,862,601.41 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.

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

Remaining other financial liabilities from lease and rental agreements amounted to € 29,013,869.20.

Maturities of remaining other financial liabilities:

in € million	
2013	7.5
2014	6.4
2015	5.0
2016	3.1
2017	1.7
After 2017	5.4

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 collectibility 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 € 80.6 million.

19. 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 2012	Equity	Equity interest in %
Germany[1]			
BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel	0 EUR	253 kEUR	100%
BIOCEUTICALS Arzneimittel AG, Bad Vilbel	2,942 kEUR	3,351 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%
International[2]			
Ciclum Farma, Unipessoal, LDA, Paco de Arcos/Portugal	433 kEUR	4,088 kEUR	100%
Clonmel Healthcare Limited, Clonmel/Ireland	1,614 kEUR	57,186 kEUR	100%
Crinos S.p.A., Milan/Italy	-3,876 kEUR	30,386 kEUR	100%
EG Labo SAS – Laboratoires Eurogenerics SAS, Paris/France	1,291 kEUR	38,050 kEUR	100%
EG S.p.A., Milan/Italy	13,729 kEUR	51,387 kEUR	100%
Grünenthal OOO, Moscow/Russia[3]	-	-	100%
Grünenthal Ukraine LLC, Kiev/Ukraine[3]	-	-	100%
Laboratorio STADA, S.L., Barcelona/Spain	5,866 kEUR	71,976 kEUR	100%
OAO Nizhpharm, Nizhny Novgorod/Russia	2,033,679 kRUB	11,187,761 kRUB	100%
OOO STADA Marketing, Nizhny Novgorod/Russia	146,207 kRUB	146,107 kRUB	100%
Oy STADA Pharma Ab, Helsinki/Finland	1,475 kEUR	-2,533 kEUR	100%
Pegach AG, Egerkingen/Switzerland	447 kCHF	29,010 kCHF	100%
STADA Arzneimittel Gesellschaft m.b.H., Vienna/Austria	100 kEUR	4,393 kEUR	100%
STADA d.o.o., Mostar/Bosnia-Herzegovina[3]	-	-	100%
STADA d.o.o., Zagreb/Croatia	65 kHRK	2,152 kHRK	100%
STADA d.o.o., Ljubljana/Slovenia	57 kEUR	284 kEUR	100%
STADA Egypt Ltd., Cairo/Eypt	846 kEGP	4,008 kEGP	100%
STADA GmbH, Vienna/Austria	3 kEUR	353 kEUR	100%
STADA LUX, Luxembourg/Luxembourg	1 kEUR	3 kEUR	100%
STADA PHARMA Slovakia, s.r.o., Bratislava/Slovakia[4]	1,114 kEUR	6,916 kEUR	100%
STADA PHARMA CZ, Prague/Czech Republic	91,583 kCZK	272,030 kCZK	100%
STADA Pharmaceuticals (Asia) Ltd., Hong Kong/People's Republic of China	28,750 kHKD	115,490 kHKD	100%
STADA Pharmaceuticals Australia Pty. Ltd, Sydney/Australia	-1,876 kAUD	-1,377 kAUD	100%
STADA Poland Sp. z o.o. Piaseczno/Poland	864 kPLN	9,257 kPLN	100%
STADA Service Holding B.V, Etten-Leur/The Netherlands	3,602 kEUR	597,002 kEUR	100%
STADA s.r.o., Roztoky/Czech Republic	-2,384 kCZK	-2,953 kCZK	100%
STADApharm AS, Oslo/Norway[4]	0 kNOK	105 kNOK	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 2011.

2) Indirect investments of STADA Arzneimittel AG:

	Earnings 2012	Equity	Equity interest in %
Germany[1]			
ALIUD PHARMA GmbH, Laichingen	0 EUR	52 kEUR	100%
cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Hanover	0 EUR	229 kEUR	100%
Grippostad GmbH	0 EUR	25 kEUR	100%
Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg	-2,210 kEUR	-256 kEUR	100%
HF PharmaSwyzz Germany GmbH, Bad Homburg	-2 kEUR	17 kEUR	100%
IIP Institut für Industrielle Pharmazie Forschungs- und Entwicklungsgesellschaft mbH, Aschaffenburg[2]	212 kEUR	3,723 kEUR	25%
Mainsee 738. V V GmbH, Bad Vilbel	0 EUR	24 kEUR	100%
STADA CEE GmbH	0 EUR	223 kEUR	100%
STADA Medical GmbH, Bad Vilbel	0 EUR	33 kEUR	100%
Data AL GmbH, Neu-Ulm[2]	15,1 kEUR	97,7 kEUR	30%
International[3]			
AELIA SAS, Saint Brieuc/France[4]	-	-	20%
Britannia Pharmaceuticals Ltd., Newbury/United Kingdom	0 kGBP	39,667 kGBP	100%
Centrafarm B.V., Etten-Leur/The Netherlands	1,687 kEUR	518 kEUR	100%
Centrafarm Nederland B.V., Etten-Leur/The Netherlands	-2,368 kEUR	33,521 kEUR	100%
Centrafarm Services B.V., Etten-Leur/The Netherlands	-2,320 kEUR	-5,691 kEUR	100%
CIG (Hong Kong) Limited, Hong Kong/People's Republic of China	-15 kHKD	80 kHKD	70%
CNRD 2009 Ireland Ltd. J.V., Dublin/Ireland	-44 kEUR	167 kEUR	50%
Croma Medic, Inc., Manila/The Philippines	-17,295 kPHP	288,782 kPHP	100%
Crosspharma Ltd., Belfast/United Kingdom	137 kEUR	1,395 kEUR	100%
DIALOGPHARMA LLC, Moscow/Russia[4]	-	-	100%
Genus Pharmaceuticals Holdings Ltd., Newbury/United Kingdom	0 kGBP	12,222 kGBP	100%
Genus Pharmaceuticals Ltd., Newbury/United Kingdom	18,593 kGBP	37,007 kGBP	100%
Healthypharm B.V., Etten-Leur/The Netherlands	2,443 kEUR	5,089 kEUR	100%
Hemofarm A.D., Vrsac/Serbia	-5,534,769 kRSD	14,434,789 kRSD	100%
Hemofarm Arabia Ltd., Damascus/Syria[4]	-	-	50%
Hemofarm Banja Luka d.o.o., Banja Luka/Bosnia-Herzegovina	2,336 kBAM	63,729 kBAM	91.5%
Hemofarm Komerc d.o.o., Skopje/Macedonia	-691 kMKD	-7,850 kMKD	99.18%
Hemofarm S.a.r.l., Constantine/Algeria[4]	-	-	40%

1) There is a profit and loss transfer contract for German companies with a result of 0.
2) Figures from financial year 2011.
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 2012	Equity	Equity interest in %
International[1)]			
Hemofarm Sabac d,o,o,, Sabac/Serbia	46,215 kRSD	5,491,122 kRSD	100%
Hemofarm Slovakia a.s., Bratislava/Slovakia[2)]	-	-	54%
Hemomont d.o.o., Podgorica/Montenegro	92 kRSD	14,480 kRSD	71.02%
Hetmark FZCO, Dubai/United Arab Emirates[3)]	781 kUSD	1,212 kUSD	100%
HF Pharmasuisse AG, Chur/Switzerland[3)]	-498 kCHF	-2,451 kCHF	100%
HTP Huisapotheek B.V., Etten-Leur/The Netherlands	-18 kEUR	-6 kEUR	100%
Jinan Hemofarm Pharmaceuticals, Jinan/People's Republic of China[2)]	-	-	35,5%
Lero SA, Boulogne-Billancourt/ France	195 kEUR	31 kEUR	100%
Neocare B.V., Etten-Leur/The Netherlands	132 kEUR	522 kEUR	100%
Nizhpharm-Kasachstan TOO DO, Almaty/Kazakhstan	312,797 kKZT	463,042 kKZT	100%
Nizhpharm-Ukraine DO, Kiev/Ukraine	21,064 kUAH	32,928 kUAH	100%
OOO Hemofarm, Obninsk/Russia	531,740 kRUB	910,880 kRUB	100%
OOO STADA CIS, Nizhny Novgorod/Russia	71,720 kRUB	96,273 kRUB	100%
OOO STADA PharmDevelopment, Nizhny Novgorod/Russia	63,498 kRUB	6,425 kRUB	100%
Pharm Ortho Pedic SAS, Pellouailles les Vignes/France[2)]	-	-	25%
PharmaCoDane ApS, Copenhagen/Denmark	1,595 kDKK	94,111 kDKK	100%
PYMEPHARCO JOINT STOCK COMPANY, Tuy Hoa City/Vietnam	123,881,041 kVND	468,973,475 kVND	49%
Quatropharma Holding B.V., Etten-Leur/The Netherlands	0 kEUR	329 kEUR	100%
SFS International Limited, Clonmel/Ireland	0 kEUR	0 kEUR	100%
Spirig HealthCare AG, Egerkingen/Switzerland	3,797 kCHF	13,766 kCHF	100%
STADA Asiatic Company, Ltd., Bangkok/Thailand	20,068 kTHB	74,385 kTHB	60%
STADA Financial Investments Limited, Clonmel/Ireland	217 kEUR	92,498 kEUR	100%
STADA Genericos, S.L., Barcelona/Spain	-1 kEUR	2 kEUR	100%
STADA Hemofarm d.o.o., Ljubljana/Slovenia	-19 kEUR	7 kEUR	100%
STADA Hemofarm d.o.o., Zagreb/Croatia[3)]	996 kHRK	1,209 kHRK	100%
STADA HEMOFARM Poland Sp. z o.o.[3)]	-1,209 kPLN	-30 kPLN	100%
STADA HEMOFARM S.R.L., Temisvar/Romania	1,866 kRON	15,219 kRON	100%
STADA Import/Export Ltd., Tortola/British Virgin Islands	47 kUSD	594 kUSD	51%
STADA PHARMA Bulgaria EOOD, Sofia/Bulgaria	131 kEUR	429 kEUR	100%
STADA Pharmaceuticals (Beijing) Ltd., Beijing, People's Republic of China	3,062 kCNY	44,898 kCNY	75%
STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City/Vietnam	149,575,937 kVND	508,769,107 kVND	50%
STADA, LDA, Paco de Arcos/Portugal	0 kEUR	5 kEUR	100%
STADApharm AB, Malmö/Sweden	0 kSEK	17,512 kSEK	100%
STADAPHARMA HEALTHCARE INC., Makati City/The Philippines	-297 kPHP	950 kPHP	40%
S.A. Eurogenerics N.V., Brussels/Belgium	8,889 kEUR	25,871 kEUR	100%
S.A. Neocare N.V., Brussels/Belgium	7,057 kEUR	86,289 kEUR	100%
UAB STADA-Nizhpharm-Baltiya, Vilnius/Lithuania	517 kLTL	2,213 kLTL	100%
Velefarm A.D., Belgrade/Serbia[3)]	-8,234,575 kRSD	6,138,225 kRSD	19.65%
Vetfarm A.D., Belgrade/Serbia[3)]	-265,506 kRSD	38,044 kRSD	15%
ZAO Makiz-Pharma, Moscow/Russia	205,311 kRUB	1,215,189 kRUB	100%
ZAO Skopinpharm, Skopin/Russia	6,619 kRUB	283,442 kRUB	100%

1) For foreign companies, equity is shown both in local currency and in accordance with local law.
2) Waiver of disclosures pursuant to Section 286 (3) Sentence 1 no. 1 of the German Commercial Code.
3) Figures from financial year 2011.

20. 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:

	Average rate		Closing rate	
in €	2012	2011	Dec. 31, 2012	Dec. 31, 2011
1 Swiss franc (CHF)	0.83065	0.81201	0.82836	0.82223
1 Pound sterling (GBP)	1.23262	1.14982	1.22639	1.19446
1 Hong Kong dollar (HKD)	0.09982	0.09179	0.09786	0.09949
1 Serbian dinar (RSD)	0.00880	0.00980	0.00892	0.00943
1 Russian ruble (RUB)	0.02497	0.02439	0.02488	0.02396
1 US dollar (USD)	0.77413	0.71449	0.75855	0.77292

21. 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. .

22. Corporate Governance Code

In accordance with § 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 (German website) and www.stada.com (English website). The Company also publishes the declaration in its Annual Report.

23. 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 2012 was primarily undertaken for the Russian ruble, the Swiss franc 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. The valuation at market value is based on generally accepted valuation models (Black-Scholes or Heath-Jarrow-Morton). 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. 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. As of the reporting date, all interest rate/currency swaps were individually hedged with loans to associated companies.

Hedged items:

	Market values	
Hedged item	Hedged risk	Secured amount of the hedged item (carrying amount) in € million
Assets	Interest rate change/currency risk	97.74
	Currency risk	28.48
Liabilities	Interest rate risk	-205.86
	Currency risk	-28.15
		-107.79

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

in € million	2012	2011
Currency forwards	-0.1	0.0
Interest rate swaps	-9.8	-9.0
Interest rate/currency swaps	0.4	0.0
	-9.4	**-9.0**

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	435
Currency risk	85
Total hedged balance sheet risk	**520**

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 to not exhibit any other risks than the hedged items. Settlement shall be complete to the greatest extent by December 31, 2017.

Bad Vilbel, March 8, 2013

STADA Arzneimittel Aktiengesellschaft
The Executive Board

H. Retzlaff	H. Kraft	Dr. A. Müller
Chairman of the Executive Board	Chief Financial Officer	Chief Production & Development Officer

Business and General Conditions

a) Corporate 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. Despite the central organizational structure in the Group, the sales functions in the STADA AG are regionally organized according to market region in order to guarantee the necessary flexibility and market proximity and thereby to enable quick adaptation to changed market conditions. 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 profit or loss from ordinary business activities of STADA AG, however, is primarily characterized by investment income. The most important financial performance indicators of STADA AG include sales, EBITDA adjusted for special effects and net profit.

The four market regions Germany, Central Europe, CIS/Eastern Europe[1)] and Asia & Pacific hold operating responsibility in the STADA Group. The Annual Report of the STADA Group provides a complete overview.

b) Basis of accounting

The Annual Financial Statements of STADA Arzneimittel AG are prepared in accordance with the German Commercial Code (HGB – Handelsgesetzbuch).

c) Economic development

Economic development in 2012[2)] was affected by the sovereign debt crisis in the Euro zone. Gross world product (GWP) increased in 2012 by +3.2% and was thus down by 0.7% on the growth of the prior-year period. This affected both the developed countries as well as the emerging markets. Individual countries of the Euro zone such as Italy and Spain, where the STADA Group has a leading position in the generics sector, experienced an especially strong drop in gross domestic product (GDP). GDP in Germany, on the other hand, was relatively stable with a plus of 0.9%. GDP growth in emerging markets of 5.1% and in particular in the CIS region of 3.6% also remained robust despite the downturn. This development supports the purchasing power of patients that behave as so-called "self-pay patients" in the health care sector of these markets that are becoming increasingly important for the STADA Group.

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. 3.0% to approx. € 745.1 million in 2012 as compared to the previous year. The generics sector generates growth with additional, specific growth drivers. These include 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

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) Source: International Monetary Fund: World Economic Outlook update of January 23, 2013.

European sovereign debt crisis. In certain countries, 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 potential is being more than eaten away by intensive price competition particularly with tenders for discount agreements with the public health insurance organizations. The branded product area is, in opposition to the generics area, 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 the relatively free pricing conditions and the robust economic development of emerging markets.

Sales developed within the scope of the Executive Board’s expectations and increased by 11% as compared to the previous year. The operating business of STADA AG was burdened by price pressure from the discount agreements of public health insurance organizations in Germany. The necessity to consolidate budgets resulting from the European sovereign debt crisis and the dampened prospects for economic development particularly from the second quarter also led to government-ordained savings in the health care system. As a result, the mandatory prescription of low-cost medicines pushed by corresponding regulatory measures, which was noticeable in increased sales by volume, was counteracted by government-ordained price reductions in individual countries of the Euro zone such as Spain and Belgium. This dampening effect was more than compensated for, however, by substantial growth in emerging markets like Russia and the initial consolidation of the Grünenthal portfolio. The reduction of 14% in net profit in 2012 as compared to the previous year was primarily a result of a rise in other operating expenses. These primarily relate to increased compensation payments to associated companies for successful product marketing. Distributable profit developed positively and increased by 36%.

In order to strengthen the mid and long-term earnings potential, the STADA Group continued to implement the Group-wide cost efficiency program “STADA – build the future” scheduled for the period of 2010 to 2013. In addition to improvements in efficiency in the areas of production, procurement and supply chain, development, quality management as well as marketing and sales, the planned personnel reductions of approx. 10% (corresponding to approx. 800 full-time positions) were achieved one year earlier than planned in 2012.

STADA focuses its investments in particular on the expansion and internationalization of the high-margin branded products business.

Non-financial Performance Indicators

a) 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 and attracting 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.

Employees are awarded with a variable remuneration system according to performance goals set with them personally and measured by the Company's success. In many Group companies, STADA employees 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 14.5% to 949 employees (previous year: 829 employees).

b) Research and development

The STADA Group deliberately does not conduct any research based on the business model. The focus is generally on the development of active pharmaceutical ingredients 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 the branded products area, our employees seek out solutions for internationalizing and supplementing our product portfolio and creating a positioning that is different to our competitors.

In addition to classic generics, the STADA Group expands its product portfolio continuously with special projects. These include, among others, the licensing and cooperative agreement concluded with Gedeon Richter, Budapest, Hungary, for the development and marketing of two monoclonal antibodies.

The STADA Group's development costs amounted to € 52.2 million in 2012 (previous year: € 50.4 million). The Group's innovative power resulted in 717 product launches worldwide in 2012 (previous year: 600). Over 1,000 ongoing approval procedures for more than 130 active pharmaceutical ingredients for more than 50 countries were in the approval process as of December 31, 2012.

c) Environmental protection and safety

STADA AG is promotes environmental protection as a rule. Procedures 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 focus on the development of Generics as the largest business segment.

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.

Analysis of the Business, Financial and Earnings Situation

a) Earnings situation

in € million	2012	2011
Sales	370.5	333.5
Net profit or loss from ordinary business activities	30.5	36.2
Net profit	**30.0**	**34.8**

Net profit or loss from ordinary business activities

STADA AG's sales in 2012 increased by 11%. This primarily volume-induced growth primarily resulted from an increase in the delivery of goods within the Group. This more than compensated for the opposing development in the German generics segment caused by an increased number of discount agreements with statutory health insurance organizations.

Materials and personnel expenses, each recording growth of 5%, developed less markedly than sales growth which was reflected in volume-induced economy of scale effects in production. This positive effect was primarily consumed by significantly increased other operating expenses (+30%). These primarily relate to increased compensation payments to associated companies for successful product marketing. Increased interest expenses due to recently securing promissory notes for financing the assets acquired in 2012 could also not be completely compensated by the rise in other interest and similar income. Higher income from profit transfer agreements, which are primarily attributable to the contribution to earnings of an expanded subsidiary, could not completely compensate for these burdens. As a result, the result of ordinary business activities in 2012 decreased by 16% to € 30.5 million as compared to the previous year.

Net profit

Net profit in 2012 was € 30.0 million, which corresponds to a decrease of € 4.8 million or 14% as compared to the previous year. This effect is predominantly attributable the disproportionate decrease of the result of ordinary business activities – primarily caused by an increase in compensation payments as part of other operating expenses – and a decrease in extraordinary profit or loss while tax expense decreased slightly.

General statements on the business development in 2012

The Executive Board continues to assess the development of the business as positive as of the time of preparation of the management report. The Executive Board still expects that the challenging framework conditions and the increasing price pressure – both in Germany as a result of the discount agreements in statutory health insurance as well as throughout Europe as a result of the increasing governmental regulations in health care – can be more than compensated for by the opportunities of strong development in the branded products segment and in the market region CIS / Eastern Europe.

b) Financial situation

in € million	2012	2011
Non-current assets	1,842.8	1,450.2
Current assets	575.8	965.2
Equity	704.1	689.8
Provisions	129.2	106.6
Liabilities	1,587.7	1,621.8

The balance sheet total was nearly unchanged as compared to the previous year at € 2.4 billion in 2012. The increase in non-current assets of € 392.6 million is primarily attributable to higher intangible assets as a result of additions from drug approvals from the takeover of the Grünenthal portfolio and the corresponding sales structures in Central and Eastern Europe as well as the Middle East / North Africa (total purchase price: € 320.2 million) as well as higher financial assets for the purchase of Spirig HealthCare AG (purchase price: € 81.4 million). The context of the purchase price allocation for the Grünenthal portfolio also resulted in goodwill in the amount of € 103.2 million.

Current assets decreased by € 389.4 million primarily due to a decrease in receivables from associated companies from the settlement of the corresponding liabilities and a decrease of other assets as a result of the reclassification of assets to non-current assets. In addition, the increase in inventories was substantially influenced by the large amount of discount agreements with statutory health insurance organizations in Germany and the corresponding supply obligations as well as an increase in inventories of products from the acquired Grünenthal portfolio. Cash on hand primarily declined due to increased investments for the purchase of the Grünenthal portfolio and Spirig HealthCare AG.

Equity increased slightly by € 14.3 million, among other things as a result of the exercise of share options in 2012 and the resulting change in share capital and the capital reserve. The equity-to-assets ratio remained nearly unchanged at 29%. Provisions increased by € 22.6 million primarily due to the existing discount agreements with the public health insurance organizations.

Total liabilities decreased by € 34.1 million whereas financial liabilities to banks increased significantly, predominately as a result of securing new promissory notes for financing the acquisition of the Grünenthal portfolio and Spirig HealthCare AG. Liabilities to associates were disproportionately reduced as a result of settlement with corresponding receivables and so were other liabilities from the change of an accrual item.

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 support programs as off balance sheet financing instruments.

c) Financial position

Cash flow from operating activities amounted to € -5.5 million in 2012 (previous year: € -36.3 million). This relative improvement was primarily a result of reduced growth of net working capital including other assets and liabilities that are not directly attributable to investing and financing activities. Cash flow from investment activities increased substantially to € 351.2 million and was primarily a result of the takeover of the Grünenthal portfolio and Spirig HealthCare AG. Cash flow from financing activities (€ 144.0 million as compared to € 203.3 million in 2011) was primarily influenced by securing new promissory notes for financing the acquisitions.

As a result of the cash flows described, cash and cash equivalents decreased from € 224.0 million to € 11.3 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 a corporate bond in Euro that matures in 2015 and promissory notes with maturities until 2017. The goal is to maintain a balanced maturity dates profile with a diversified investor basis and optimized financing conditions. The average interest rate of the interest-bearing financial liabilities of STADA AG is approx. 3.9% as of December 31, 2012.

Supplementary Report

There were no events after the balance sheet date that would have a significant effect on the business, financial and earnings situation.

Opportunities and Risk Report

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

Opportunities management

The continuous management of opportunities ensures the short, middle and long-term success of the Company. The objective of opportunities management is the create things that are new and to secure and improve what already exists. The decentralized regional organizational and management structure in the sales related areas of the STADA Group – supported by the execution of intensive observations of both the market and the competition as well as the close contact with institutions – leads to a situation in which trends and requirements in the often fragmented markets can be recognized and analyzed at an early stage. As a result, opportunities can be used in a targeted manner. The Group also has centrally organized processes for the identification of risks, such as a Group-wide portfolio management system for identifying potential new products that are relevant to the Group.

Risk management

Both the management of opportunities and the management of risks are permanent tasks of entrepreneurial activity. For this reason, STADA's Executive Board implemented an ongoing risk management system that is integrated into the value-based management and existing organizational structure of the Group. The system aims to systematically and regularly identify risks to assess their effects on the Group and determine possible measures that can be initiated in due time if necessary.

Instruments of STADA's risk management system

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

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

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

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

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

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

Significant risks identified by the risk management system are discussed by the Executive Board and the Supervisory Board and, if required, measures to minimize risks are addressed immediately.

Risk categories

From the STADA Executive Board's current perspective, anticipated risks to the Group's business activities particularly include the risks stated below, summarized according to risk categories in this context.

Environmental and industry risks

The market conditions are increasingly changing in individual national markets on the basis of intense competition, in particular with respect to pricing, the range of products and services and also the delivery and discount conditions of existing and new competitors. There is also the risk of a potential increase in purchasing power of individual customer groups such as doctors, pharmacists, patients, health insurance organizations, buying groups, pharmacy chains, wholesalers or mail-order companies. Such developments could lead to a worsening of STADA's competitive position as well as to the loss of sales or earnings. However, STADA principally takes advantage of opportunities arising in individual markets or individual products or product groups and is also willing to accept, if necessary, losses, for example, in national markets with major potential for growth or to maintain or expand its market position.

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

Corporate strategy risks

STADA's corporate strategy is mainly focused on growth and internationalization in the health care and pharmaceutical market. This involves the risk that connected organizational and financial demands on material and human resource capacities, internal structures, management tools and financial resources cannot be operationally fulfilled or cannot be fulfilled to a sufficient extent.

Acquisitions made in the past or to be made in the future of companies, products or other economic assets pose a potential risk regarding the planned development, introduction, integration and the level of expected economy of scale effects. This results in risks such as the impairment of intangible assets.

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

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.

Regulatory risks

Regulations and pharmaceutical legislation can have significant economic and strategic effects on STADA and the economic success of individual products or investments. Regulations are highly significant if, for example, they affect the market structure, pricing, reimbursement or approvals of pharmaceutical products.

It is not possible to precisely forecast the potential introduction or amendment to national or supranational regulations nor any potential results thereof for STADA as these depend on the political process or court decisions of the country in question and are also influenced to a large degree by the market participants affected. STADA assumes, however, that the risk of price regulation and pricing pressure will continue or even increase. Changes in the regulatory environment in STADA's main markets by sales volume are continuously analyzed. Depending on the extent of state regulation, it may be necessary to adjust the business model.

Product portfolio risks

As a result of the continuous expansion of the product portfolio, there is the opportunity of an improved margin mix and economy of scale effects in addition to increased sales. On the other hand, the introduction of products involves risks which in particular involve costs or the timing of the launch. For example, a significant factor in the development and approval of each product is the meticulous observance of relevant legislation such as commercial property rights. This involves the risk that a regulation is violated despite meticulous investigation of the legal situation and the introduction of a new product is delayed or hindered. This also applies retrospectively for products already introduced to the market.

There is also the risk that, despite intensive investigation, potential side effects or quality defects in existing products may not be uncovered until after approval or that new scientific findings and evaluations lead to a market recall and corresponding legal proceedings.

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 € 1.0 million for the Group as of December 31, 2012 (December 31, 2011: € 2.0 million). In principle, STADA cannot guarantee that such provisions will be sufficient for individual instances or in total.

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

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

Performance-related risks

STADA undertakes every effort to exclusively carry out secure business processes – particularly in the areas of product development, production and logistics. Since STADA regularly works with hazardous substances in the development, production and examination of products, 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 or causing environmental damage. External suppliers, contract manufacturers, sales licensees and other contractors have been integrated into STADA's business processes to a substantial degree, particularly in the areas of production. In addition, as of the reporting date December 31, 2012, STADA had specifically licensed 14,201 German pharmacies (previous year: 14,477) 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 in this way, 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.

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

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 (for instance via scenario calculations and a specific operational positioning of the respective supply chain) to avoid delivery bottlenecks and/or an unintentional increase in inventories, such events cannot generally be ruled out in consideration of the comprehensive portfolio.

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

Human resources risks

STADA Arzneimittel AG depends to a large extent on the commitment, motivation and abilities of its employees. Success also depends on its ability, in competition with other companies, to attract and keep qualified employees in the future.

In order to counteract the affiliated risk and in view of the great importance of STADA’s employees, their training and development take on great importance. STADA offers various career training programs at a pharmaceutical level and in the areas of administration and warehouse logistics. Further training for managers, foreign language training as well as specialized workshops and seminars provide general support to Group employees and ensure up-to-date knowledge in the respective specialist areas.

Information technology risks

In order to achieve strategic goals, STADA makes continuous investments in IT systems to appropriately adapt these systems to changing business processes. Currently, the gradual conversion of various information technology systems (IT systems) to an integrated SAP system is being carried out in the Group. Generally, when introducing new or converting existing IT systems, there is an elevated risk that unanticipated events occur which, during the initial phase and also during the integration and expansion phase, can have materially adverse effects on the course of business processes.

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

Economic risks

Economic downturns increase cost pressure in national health care systems both in the domestic market of STADA Arzneimittel AG, as well as in the markets of the subsidiaries. On the one hand, the resulting pressure to reduce costs creates opportunities for growth in branded products as these are subject to less regulatory intervention. On the other hand, regulatory measures to reduce costs can increase substantially such as a limited reimbursability of medicine prices or the introduction of discount agreement systems. STADA could, therefore, experience materially adverse effects if the European sovereign debt crisis worsens resulting in additional cost cutting measures in the health care system. In addition, economic developments influence the sales volume of drugs not reimbursed under the local health insurance system and consumers must pay for independently.

Various financial areas of the Company are also subject to economic fluctuations such as financing possibilities, interest rates, inflation rates, currency relationships and customer liquidity. A downturn would have adverse effects on the business success of STADA. As STADA generally conducts business transactions not against cash payment, but on an invoicing basis to numerous individual debtors, the commercial risk of debtor default which is sensitive to changes in the economic environment is associated with this. In order to minimize this risk, STADA's goal is to maintain business relations only with business partners of impeccable financial standing and, in addition, to have suitable measures to safeguard itself, such as guarantees, loan insurances or the transfer of property, plant and equipment.

STADA is also dependent on the global development of prices for required active ingredients or auxiliary materials as well as on the supply prices of contract manufacturers which may fluctuate significantly depending on the economic situation.

Risk report on the use of financial instruments

To the extent that it is possible, STADA counters financial risks with finance policy methods and a specific risk management. Current financial risks relate in particular to the risk of changes in exchange rates, interest rates and stock exchange prices. Currency risks result by far mainly from operating activities such as raw materials procurement as well as investments and financing measures.

Foreign currency risks which do not significantly influence cash flows remain unhedged while risks due to foreign currencies are generally hedged if they can significantly influence cash flows. STADA, on principle, employs different derivative financial instruments, such as foreign-exchange futures contracts, which are generally not concluded for longer than one year, to hedge assets, liabilities and anticipated future cash flows denominated in foreign currency.

In order to minimize the effects of interest rate fluctuations, STADA manages the interest rate risk for the financial liabilities denominated in Euro with hedging transactions. In financial year 2012, to hedge the interest rate risk, there were cash flow hedges in the form of interest-rate swaps. Interest rate and currency risks from foreign currency loans to associates are hedged with cross currency swaps with a term until 2017.

Default risks from hedging activities or the operational business are limited with appropriate credit management processes and by selecting business connections exclusively with business partners with impeccable financial standing. The default risk is also partially safeguarded against with suitable measures such as guarantees, loan insurances or the transfer of property, plant and equipment. However, it cannot be ruled out that these measures are insufficient and non-payments of individual debtors, 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.

To guarantee liquidity and secure financial flexibility, a liquidity reserve in the form of cash reserves are maintained and supplemented by free credit lines.

Value of STADA's assets

The value of individually significant assets (approvals, goodwill and equity interests) is reviewed in detail on an annual basis. Generally, however, it can not be ruled out here that in the annual impairment tests or in the case-related impairment tests carried out over the course of the year that, for example, as a result of new findings in approvals or changes to the market conditions in individual national markets, a relevant impairment may occur.

Other risks

Like any company, STADA as a Group and the STADA subsidiaries in their national markets are subject to additional general business risks such as unexpected disruptions in infrastructure, strikes, accidents, natural disasters, sabotage, illegal 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.

Summary evaluation of risks

In the reporting year, the overall risk environment of STADA did not change significantly as compared to the previous year. The assessment of the overall risk situation is the result of the consolidated consideration of all significant individual risks on the basis of the applied risk management. From today's perspective no risks are discernible which alone or in combination could jeopardize the continuance of the Company.

Main Features of the Internal Control and Risk Management System with Regard to the Financial Reporting Process (Section 289 (5) of the German Commercial Code [HGB])

STADA Arzneimittel AG has an internal control and risk management system with regard the financial reporting process. The objective thereof is to ensure the accuracy and reliability of financial reporting (bookkeeping, separate 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 internal control system rests with the Executive Board of STADA Arzneimittel AG. The appropriateness and effectiveness of the control system is assessed by the Executive Board at the end of each financial year at a minimum. The 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 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.

Outside the software systems, manual plausibility tests and verification of the completeness and accuracy of data and calculations are carried out at all levels of the company.

As part of the activities of internal auditing as an additional component of the control system, the appropriateness and effectiveness of the control and risk management system are subjected to regular audits, thus ensuring the functionality of the control mechanisms as well as compliance with internal guidelines. The Supervisory Board, as a controlling body, is also regularly involved with the most important issues relating to financial reporting, risk management, audit contracts and their main focus as well as with the effectiveness of the established control system of STADA.

In the view of the Executive Board, STADA has a monitoring system appropriate to the specific needs of the company, which includes the necessary components of an internal control and risk management system necessary with regard to the financial reporting process. In the context of a cost benefit analysis of each control and risk management system however, limitations in relation to its effectiveness must be tolerated. In addition – even in the case of existing control mechanisms considered as effective – the possibility of errors or an incorrect assessment of risks cannot be completely excluded.

Remuneration Report

This remuneration report explains, in accordance with the legal requirements and the recommendations of the German Corporate Governance Code in the version of May 15, 2012, the principles of the remuneration system for the Executive Board, Supervisory Board and Advisory Board of STADA Arzneimittel AG and includes disclosures on the remuneration of individual Executive Board and Supervisory Board members.

a) Remuneration of the Executive Board

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

Executive Board remuneration system

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

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

The objective of the remuneration system is to allow the members of the Executive Board to participate appropriately in the sustainable development of the company according to their personal tasks and performance, the overall performance of the Executive Board as well as successes in the alignment of the economic and financial situation of the Company under consideration of the competitive environment. Overall, remuneration of the Executive Board in the framework of this 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 members 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 long-term incentive effect do not exist.

The **non-performance related remuneration** consists of an agreed basic salary paid out in twelve equal monthly installments. This annual fixed salary is determined in accordance with the requirements of stock company law under consideration of usual market remuneration. The members of the Executive Board receive other remuneration only in the form of fringe benefits, which consist for the most part 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 fundamentally possible for individual Executive Board members, in accordance with VorstAG regulations, regarding additional non-performance related remuneration components, e.g. pension commitments or commitments in case of termination of activity.

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

Executive Board remuneration for financial year 2012

The **remuneration** of the individual members of the Executive Board who were active for the Company in financial year 2012 are as follows:

- Hartmut Retzlaff: € 2,382,155.10 (thereof € 2,034,200.77 non-performance related including € 34,200.77 other remuneration and € 347,954.33 performance related[1)]) (previous year: € 2,317,161.51, thereof € 1,654,450.87 non-performance related including € 31,880.78 other remuneration and € 662.710.64 performance related[1)])
- Helmut Kraft: € 1,161,954.33 (thereof € 811,295.15 non-performance related including € 61,295.15 other remuneration and € 350,659.18 performance related[1)]) (previous year: € 1,126,028.16, thereof € 831,848.16 non-performance related including € 41,492.66 other remuneration and € 294,180.00 performance related[1)])
- Dr. Axel Müller: € 1,128,525.03 (thereof € 777,865.85 non-performance related including € 27,865.85 other remuneration and € 350,659.18 performance related[1)]) (previous year: € 1,081,895.38, thereof € 787,715.38 non-performance related including € 20,450.04 other remuneration and € 294,180.00 performance related[1)])

In addition to the above-listed remuneration, the Executive Board received performance related **advances**[2)] in the total amount of € 1,306,250.00 (previous year: € 1,106,250.00) in financial year 2012; thereof € 806,250.00 was attributable to Hartmut Retzlaff (previous year: € 806,250.00), € 250,000.00 to Helmut Kraft (previous year: € 150,000.00), and € 250,000.00 to Dr. Axel Müller (previous year: € 150,000.00).

The percentage ratio between non-performance related and performance related[3)] remuneration of members of the Executive Board ranges in the area of approx. 56% to approx. 64% non-performance related and approx. 36% to approx. 44% performance related[3)] remuneration.

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

Commitments to members of the Executive Board

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

The Executive Board contract of the Chairman of the Executive Board includes an annual pension set at a fixed annual amount, whereby after the provision commences, the monthly pension payment is adjusted on July 1 of every year by the percentage of the increase in the current level of pension in the German statutory pension scheme in comparison to the previous year. Payments from the pension commitments generally begin on request as pension payments after completion of the Executive Board contract, valid from September 1, 2011 to August 31, 2016, to the extent that it is not renewed or as disability pension if employment ends before this due to an occupational disability. The service cost in accordance with HGB for the creation of provisions for benefit claims earned in financial year 2012 was € 887,288.00. The present value of the pension commitments, in accordance with HGB, is € 25,383,578.00. The Executive Board contract of the Chairman of the Executive Board also contains a severance pay regulation for a closely defined change of control, which, in accordance to the German Corporate Governance Code, is not higher than the remaining term of the Executive Board contract, and is limited in amount to a maximum of three years' remuneration.

Other commitments

The 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 Production and Development Officer, there exists accident insurance, which, in the case of inability to work due to illness, provides for monthly income for up to one year, up to a maximum period however until completion of the contract and taking third-party payments into account. In the case of inability to work for more than three months, the variable remuneration will be reduced on a pro-rata basis. In the context of a group insurance for all three Executive Board members, there exists a so-called D&O insurance with a deductible for the Executive Board members within the legal framework.

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

To the Company's knowledge, third parties outside the Group have neither promised nor granted benefits to Executive Board members in financial year 2012 with regard to their position in the Executive Board in the reporting year.

b) Remuneration of the Supervisory Board

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

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

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

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

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

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

Remuneration of the Supervisory Board in financial year 2012:

The remuneration of the individual members of the Supervisory Board who were active for the Company in financial year 2012 are as follows:

- Dr. Martin Abend € 227,000.00 (thereof € 105,000.00 non-performance related and € 122,000.00 performance related) (previous year: € 167,578.80, thereof € 105,000.00 non-performance related and € 62,578.80 performance related)

- Manfred Krüger € 141,300.00 (thereof € 60,000.00 non-performance related and € 81,300.00 performance related) (previous year: € 101,719.20, thereof € 60,000.00 non-performance related and € 41,719.20 performance related)

- Dr. Eckhard Brüggemann € 65,600.00 (thereof € 25,000.00 non-performance related and € 40,600.00 performance related) (previous year: € 45,859.60, thereof € 25,000.00 non-performance related and € 20,859.60 performance related)

- Heike Ebert € 65,600.00 (thereof € 25,000.00 non-performance related and € 40,600.00 performance related) (previous year: € 45,859.60, thereof € 25,000.00 non-performance related and € 20,859.60 performance related)

- Dr. K. F. Arnold Hertzsch € 65,600.00 (thereof € 25,000.00 non-performance related and € 40,600.00 performance related) (previous year: € 45,859.60, thereof € 25,000.00 non-performance related and € 20,859.60 performance related)

- Dieter Koch € 75,600.00 (thereof € 35,000.00 non-performance related and € 40,600.00 performance related) (previous year: € 55,859.60, thereof € 35,000.00 non-performance related and € 20,859.60 performance related)

- Constantin Meyer € 65,600.00 (thereof € 25,000.00 non-performance related and € 40,600.00 performance related) (previous year: € 45,859.60, thereof € 25,000.00 non-performance related and € 20,859.60 performance related)

- Carl Ferdinand Oetker € 85,600.00 (thereof € 45,000.00 non-performance related and € 40,600.00 performance related) (previous year: € 65,859.60, thereof € 45,000.00 non-performance related and € 20,859.60 performance related)

- Karin Schöpper € 75,600.00 (thereof € 35,000.00 non-performance related and € 40,600.00 performance related) (previous year: € 55,859.60, thereof € 35,000.00 non-performance related and € 20,859.60 performance related)

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

Remuneration of the Advisory Board

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

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.de/english/investorrelations/corp_gov/.

Takeover-Relevant Information in Accordance with Section 289 (4) HGB

Composition of share capital, rights and obligations/restrictions associated with shares, which affect the transfer of shares.

As of December 31, 2012, share capital consisted of 59,332,260 ordinary shares, each with an arithmetical share of share capital of € 2.60 per share. These ordinary shares of STADA Arzneimittel AG are exclusively registered shares with restricted transferability, which, under the Articles of Incorporation, can only be entered into the share registry with the approval of the Company and which, in accordance with the Articles of Incorporation, grant one vote each in the Annual General Meeting. Shareholders are only those who are registered as such in the share registry and only such persons are authorized to participate in the Annual General Meeting and to exercise voting rights.

Shares acquired by employees within the scope of the employee stock option program are subjected to a three-year lockup period.

Appointment and dismissal of Executive Board members/Amendments to the Articles of Incorporation

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

The Articles of Incorporation may generally be amended through a resolution of the Annual General Meeting. The amendment takes effect with the entry of the amendment to the Articles of Incorporation into the commercial register. Amendments to Articles of Incorporation require, according to Section 179 (1) of the German Stock Corporation Act (AktG), a resolution of the Annual General Meeting, provided no other majority is foreseen, a majority of three-fourths of the share capital represented in the vote pursuant to Section 179 (2) AktG. Insofar as a change to the purpose of the company is affected, the Articles of Incorporation may call for a large majority. The Articles of Incorporation exercises in Section 23 (1) AktG the possibility of a deviation pursuant to Section 179 (2) AktG shall be passed by a simple majority of the votes cast and, insofar as a majority of the share capital is represented at the time the resolution is passed, with a simple majority of the capital present insofar as this is legally permissible. In case of a tie, a motion shall be deemed denied.

Furthermore, the Supervisory Board is authorized in accordance with Section 32 of the Articles of Incorporation to resolve on amendments and additions to the Articles of Incorporation which relate only to their wording.

Authorizations of the Executive Board to issue or buy back shares

The Executive Board was authorized by the Annual Shareholders' Meeting on June 10, 2008 to raise new authorized capital. The resolution authorizes the Executive Board, with the approval of the Supervisory Board, to increase the share capital of the Company on one or more occasions by June 10, 2013, by up to € 76,346,010.00 through the issue of up to 29,363,850 registered shares with restricted transferability against contributions in cash and/or in kind. The Executive Board is authorized, with the approval of the Supervisory Board, to fix further details for implementing capital increases from the authorized capital. The Executive Board has not made use of this authorization to date.

In addition, the Annual General Meeting on June 10, 2008 authorized the Executive Board, on or before June 9, 2013, on one or more occasions a) to issue bonds with warrants and/or convertible bonds in an aggregate nominal amount of up to € 1,000,000,000.00 and with a maturity of up to 20 years through the Company or through companies in which the Company directly or indirectly has a majority holding ("subordinated Group companies"), and b) to assume the guarantee for such bonds with warrants and/or convertible bonds issued by subordinated Group companies of the Company and to grant the holders or creditors of bonds with warrants and/or convertible bonds, option and/or conversion rights up to a total of 25,701,330 registered shares with restricted transferability of the Company, representing a proportionate amount of the share capital of up to € 66,823,458.00 in accordance with the more detailed provisions of the respective terms of the bonds with warrants and/or convertible bonds.

For the purposes of servicing these bonds with warrants and/or convertible bonds, the Annual General Meeting on June 10, 2008 conditionally increased the share capital by up to € 66,823,458.00 by issuing up to 25,701,330 registered shares with restricted transferability and carrying a dividend right as of the beginning of the financial year in which they are issued. The Executive Board is authorized to determine the further details of implementation of the conditional capital increase (Conditional Capital 2008/I). The Executive Board has not made use of this authorization to date. The share capital of the Company was conditionally increased as of December 31, 2012 by up to € 7,950,696.00 by issuing up to 3,057,960 registered shares with restricted transferability (Conditional Capital 2004/I). The conditional capital increase will be effected only insofar as the holders of warrants exercise their option rights.

Following the resolution adopted at the Annual General Meeting on June 16, 2011, in accordance with Section 71 (1) no. 8 AktG, the Company was authorized from June 17, 2011 until June 16, 2013 to acquire own shares of up to 10% of the share capital. The Executive Board has not made use of this authorization to date.

The Company's agreement with members of the Executive Board for the case of a change of control

For the agreement of the company with members of the Executive Board in the case of a change of control, please refer to the Remuneration Report in this report.

Prognosis Report

a) Global issues

A slight recovery in world economic growth is generally expected for 2013. The necessity to balance budgets, however, will dampen growth prospects particularly in the Euro zone, even if a slight recovery is expected over the course of the year. Positive support will predominately come from the emerging markets where the share of self-pay patients is comparatively high.

External estimates[1)] anticipate the following conditions for the years 2013/2014:

- worldwide economic growth in 2013 to be slightly above the previous year with more dynamic growth in 2014
- renewed slight contraction of the Euro zone economy with delayed recovery in 2013 and upswing in 2014; earlier recovery in Central and Eastern Europe (CEE)
- stronger growth in the emerging markets, e.g., CIS and ASEAN

b) Industry 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. 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 development of sales. Overall, market research institutes such as IMS anticipate annual growth in sales for the global generics market of up to 10% till 2016.

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

c) Sales and earnings forecast, financial situation

The Executive Board anticipates sales growth for the years 2013 and 2014. This especially applies to intercompany sales and license income. As a result of the significant share that the German generics business has in the overall business, there is a factor of uncertainty in the outlook as this business is significantly dependent upon the results of ongoing new tenders for discount agreements with health insurance organizations, which can result in high volatility. On the other hand, much more stable sales development is generally expected for the branded products segment.

These differing conditions for the individual segments are reflected in different margin expectations. Whereas the Executive Board expects constant margin pressure for generics, which must be counteracted with new cost efficiency measures in particular, the branded products business is expected to show more stable margins.

1) International Monetary Fund (World Economic Outlook – Update of January 23, 2013).

The cost efficiency measures particularly include the continuation of the Group-wide cost efficiency program "STADA – build the future" scheduled for the period of 2010 to the end of 2013. The Executive Board still expects that this project will allow additional earnings contributions to be achieved, which with the gradual implementation of the individual measures will add up to annual savings in the double-digit million area. The remaining, expected project-related costs[1)] – from today's perspective only in the single-digit million-euro area – will be reported as one-time special effects according to the progress of the project as planned.

Considering that the operational implementation of "STADA – build the future" is nearly already complete, the Executive Board introduced a preliminary evaluation of a potential follow-up program "STADA – build the future II".

The earnings situation of STADA AG is, and will remain in the future, very highly characterized by the financial result of the company and here particularly by income from investments. The expected income from investments in years 2013 and 2014 will have a substantial effect on the net profit of the company. The confirmed corporate goals striven for by the Group for the year 2013 and 2014 will thereby also influence the development of STADA AG's net profit.

In 2012 STADA AG successfully secured promissory notes of over € 100 million with a maturity in five years with domestic and international investors. The coupon for the promissory note with a maturity in five years and a fixed interest rate was aprox. 4.2% on average. For 2013 and 2014, we generally expect open capital markets for financing measures. In order to ensure financial flexibility, STADA AG has sufficient open and unused credit lines available as a liquidity reserve.

1) See the Company's ad-hoc release of June 7, 2010.

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, 2012. 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 8, 2013

PKF Deutschland GmbH
Wirtschaftsprüfungsgesellschaft

S. Varughese

Roman Brinskelle	Santosh Varughese
German Public Accountant	German Public Accountant

Report of the Supervisory Board

Dear Shareholders,

In financial year 2012, 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. The Executive Board informed the Supervisory Board promptly and comprehensively through monthly oral and written reports on business development, the strategy and corporate planning as related to the Company and the STADA Group. At all times, the members of the Supervisory Board had sufficient 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 – on the progress of business including the sales development and profitability, important business events and issues of particular importance. In addition, the Supervisory Board reviewed and monitored the risk situation and the measures taken by the Executive Board for risk management, the internal control system and that of 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 Executive Board procedures requiring consent in accordance with the Articles of Incorporation and rules of procedure were submitted to the Supervisory Board. The Supervisory Board treated and reviewed these procedures in detail and discussed them with the Executive Board, whereby the focus was regularly placed on the benefits, the risks and effects of the respective procedure.

Meetings of the Supervisory Board and focus of activities

The Supervisory Board convened for a total of nine meetings in financial year 2012 (on January 23, February 28, March 22, May 9, May 29, August 7, September 25, November 7 and December 11).

These meetings focused on the following themes, among others:

- 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 strategy 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 in the Group,
- the effects of regulatory state interventions on the Group and/or on the individual subsidiaries and the necessary reactions to these, especially in the German home market with regard to discount agreements with health insurance organizations,
- all significant aspects in the context of the implementation of the “STADA – build the future” Group project carried out in financial year 2012, in particular measures taken to improve internal efficiency in the areas of production, procurement and supply chain, development, quality management as well as marketing and sales,

- the situation of the Group in Serbia and in other regions,
- the product development and product portfolio of the Group,
- STADA's capital market position,
- issues on the composition and the efficiency of the Supervisory Board,
- issues of corporate governance and compliance as well as
- 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 and the Supervisory Board remained unchanged in financial year 2012.

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 five meetings in financial year 2012 (on January 23, March 21, May 8, August 6 and November 6). Within the framework of these meetings, it dealt primarily with the results, key figures, accounting, Group financing principles, internal risk management, internal auditing and compliance, as well as the situation of the Group in Serbia and other regions. Furthermore, the auditor reported to the Supervisory Board in a meeting on the audit of the condensed interim consolidated financial statements of June 30, 2012 and the interim group management report.

The Human Resources Committee held three meetings in financial year 2012 (March 20, November 6 and December 3). The Committee dealt with Executive Board personnel issues and questions of remuneration, among other things.

Due to the size of STADA's Supervisory Board with six shareholder representatives, the Supervisory Board believes that a Nomination Committee as recommended by the German Corporate Governance Code in the version of May 15, 2012 is structurally superfluous. The Supervisory Board created a Nomination Panel in financial year 2011, consisting of the Chairmen of the Human Resources Committee and the Audit Committee. The Nomination Panel had the task of developing objectives and profiles for the composition of the future Supervisory Board. The full Supervisory Board, in its meeting on January 23, 2012, decided upon the goals presented by the Nomination Panel as well as an appointment plan for the composition of the members of the Supervisory Board to be elected in financial year 2013 as representatives of the shareholders. Further details on the goals decided upon by the full Supervisory Board, as well as the appointment plan, can be found in the Corporate Governance Report.

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

Corporate governance

In financial year 2012, too, the Supervisory Board and Executive Board dealt with the further development of corporate governance in the Company while taking the current version of the German Corporate Governance Code into account. The new joint Declaration of Compliance pursuant to Article 161 of the German Stock Corporation Act issued by the Executive Board and the Supervisory Board on September 25, 2012 on the basis of the German Corporate Governance Code as amended on May 15, 2012 is printed in this Annual Report in the chapter "Corporate Governance Report" and is publicly available on the Company's website at www.stada.de or www.stada.com.

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

Annual and consolidated financial statements, audit

The Supervisory Board satisfied itself that the Company is being properly managed. The financial statements of STADA Arzneimittel AG and the consolidated financial statements as well as the Company's Management Report for financial year 2012 were audited by PKF Deutschland GmbH, Wirtschaftsprüfungsgesellschaft, Hamburg, and issued with an unqualified audit opinion. The main areas of the audit were established by the Supervisory Board within the scope of the commissioning of the auditor. The Audit Committee reviewed the financial statements and consolidated financial statements as well as the Management Report and the Group Management Report as well as the proposal for the appropriation of profits and also included the reports of the auditor on the audit of the financial statements in its review. The auditor reported on significant results of the audit in a meeting of the Audit Committee and was available for questions to the members of the Committee. The members of the Audit Committee dealt 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 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 2012 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. Following the final results of the Supervisory Board's own examination, the Supervisory Board had no objections to the financial statements, the Management Report, the consolidated financial statements and the Group Management Report on the financial year 2012 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 financial statements and the consolidated financial statements prepared by the Executive Board. The financial statements are thus adopted. The Supervisory Board concurred with the individual assessments of the business situation and the outlook as given in the Management Report of the Executive Board and with the proposal of the Executive Board for the appropriation of profits that provides for a dividend of € 0.50 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 commitment to their work and the good result in financial year 2012.

Bad Vilbel, March 19, 2013

Abend.

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 8, 2013

H. Retzlaff	H. Kraft	Dr. A. Müller
Chairman of the Executive Board	Chief Financial Officer	Chief Production & Development Officer

Resolution on the Distribution of Profits

Appropriation of profits of financial year 2012

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 5, 2013 the following appropriation of profits for financial year 2012:

in €	
Dividend distribution of € 0.50 per share entitled to a dividend (at 59,239,080 shares entitled to a dividend)	29,619,540.00
Balance carried forward to new account	1,928,159.66
Balance sheet profit	**31,547,699.66**

Bad Vilbel, March 8, 2013

H. Retzlaff	H. Kraft	Dr. A. Müller
Chairman of the Executive Board	Chief Financial Officer	Chief Production & Development Officer

Publishing Information

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Text

STADA Arzneimittel AG, Bad Vilbel, Germany
This Annual Report is published in German (original version) and English (non-binding translation) and is subject to German law alone.

Publication

The complete annual report as well as current information on the STADA Group can be found on the Internet at www.stada.de and www.stada.com.

Design and Realization

Hab&Gut Kreativagentur und Unternehmerberatung GmbH, Frankfurt am Main, Germany
in cooperation with
wagneralliance Kommunikation GmbH, Offenbach am Main, Germany

Forward-looking-statements

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

Rounding

In the general portion of this Annual Report, STADA key figures are, as a rule, rounded to millions of euro, while the Notes present these figures, as a rule, with greater accuracy in thousands of euro. Due to rounding of these figures, differences may arise in individual figures between the general portion and the Notes, as well as from figures actually achieved in euro; these differences cannot be considered material.

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