STADA Arzneimittel Aktiengesellschaft

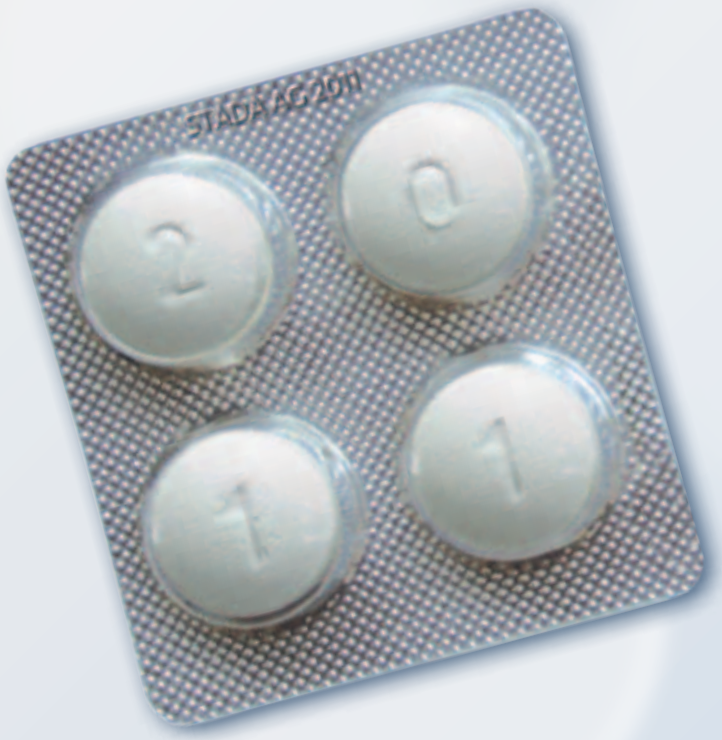
Annual Financial Statements of December 31, 2011 and Management Report for financial year 2011

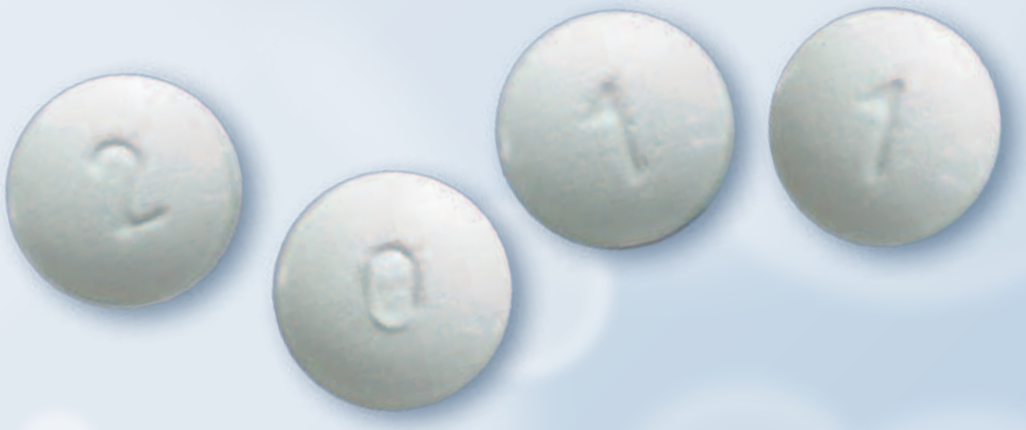
Auditor's Report

STADA Arzneimittel

STADA ARZNEIMITTEL AG

ANNUAL FINANCIAL STATEMENTS AS OF DECEMBER 31, 2011 AND MANAGEMENT REPORT FOR FINANCIAL YEAR 2011





Balance Sheet

Balance Sheet as of December 31 in € Assets	Dec. 31, 2011	Dec. 31, 2010
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	129,962,503.81	68,842,229.14
2. Advance payments	53,015,353.66	3,070,591.49
	182,977,857.47	**71,912,820.63**
II. Property, plant and equipment		
1. Land, leasehold rights and buildings including buildings on third-party land	47,964,196.02	47,396,718.73
2. Plant and tools and machinery equipment	13,660,343.62	14,574,511.92
3. Other fixtures and fittings, tools and equipment	15,499,652.54	12,746,551.84
4. Advance payment and construction in progress	244,216.31	331,290.12
	77,368,408.49	**75,049,072.61**
III. Financial assets		
1. Shares in associates	1,130,856,109.27	1,128,532,522.69
2. Loans to associates	21,250,663.87	19,110,043.95
3. Investments	13,859,690.51	19,349,690.51
4. Loans to associates and other participating interests	23,863,000.00	31,823,115.51
	1,189,829,463.65	**1,198,815,372.66**
	1,450,175,729.61	**1,345,777,265.90**
B. Current assets		
I. Inventories		
1. Raw and auxiliary materials and manufacturing supplies	7,750,068.76	7,987,617.35
2. Work in progress	5,017,386.27	4,539,828.92
3. Finished goods and merchandise	47,376,776.17	41,648,025.25
4. Advance payments	353,642.18	352,094.00
	60,497,873.38	**54,527,565.52**
II. Receivables and other assets		
1. Trade accounts receivable	3,716,078.78	10,917,454.65
2. Receivables form associates	499,254,140.52	482,547,564.56
3. Receivables from associates and other participating interests	946,645.45	1,831,960.28
4. Other assets	176,729,144.51	32,771,302.69
	680,646,009.26	**528,068,282.18**
III. Cash on hand and balances with banks	**224,052,990.50**	**110,364,083.71**
	965,196,873.14	**692,959,931.41**
C. Prepaid expenses/deferred charges	**2,841,297.17**	**1,774,057.98**
	2,418,213,899.92	**2,040,511,255.29**

Balance Sheet as of December 31 in € Equity and Liabilities	Dec. 31, 2011	Dec. 31, 2010
A. Equity		
I. Share capital	**153,312,536.00**	**153,078,536.00**
Treasury shares	-250,616.60	-261,835.60
Issued capital Conditional capital € 76,346,010 (previous year: € 76,346,010)	**153,061,919.40**	**152,816,700.40**
II. Capital reserve	**472,680,550.56**	**471,421,502.82**
III. Retained earnings		
1. Statutory reserve	376,883.98	376,883.98
2. Other retained earnings	40,378,494.00	26,312,690.25
IV. Distributable profit	**23,316,623.53**	**24,283,681.32**
	689,814,471.47	**675,211,458.77**
B. Provisions		
1. Provisions for pensions and similar obligations	22,304,288.03	19,732,197.42
2. Tax provisions	1,398,151.04	13,683,299.64
3. Other provisions	82,868,568.91	45,548,586.79
	106,571,007.98	**78,964,083.85**
C. Liabilities		
1. Bonds, of which convertible 0.00 €	350,000,000.00	350,000,000.00
2. Amounts due to banks	758,078,315.03	546,473,038.25
3. Trade accounts payable	21,170,283.77	14,004,994.92
4. Liabilities to associates	384,855,654.38	341,409,828.14
5. Other liabilities thereof from taxes € 2,611,172.07 (previous year: € 5,631,390.97) thereof in the context of social security € 0.00 (previous year: € 0.00)	107,724,167.29	34,447,851.36
	1,621,828,420.47	**1,286,335,712.67**
	2,418,213,899.92	**2,040,511,255.29**

Income Statement

Income Statement for the period of Jan. 1 to Dec. 31 in €		2011	2010
1.	Sales	333,535,895.85	329,825,947.48
2.	Increase in inventories of finished goods and work in progress (previous year: decrease)	6,206,308.27	13,614,447.41
3.	Other operating income thereof from currency translation: € 5,387,446.84 (previous year: € 4,315,668.53)	64,557,012.39	50,337,219.61
		404,299,216.51	**366,548,719.68**
4.	Cost of materials		
	Cost of raw and auxiliary materials and manufacturing supplies and goods purchased	154,532,806.40	136,997,294.63
5.	Personnel expenses		
	a) Salaries	63,760,619.94	48,072,620.21
	b) Social security contributions and expenses for retirement benefits and support thereof for retirement benefits € 2,200,443.51 (previous year: € 4,593,244.68)	11,127,700.84	11,090,370.77
		74,888,320.78	**59,162,990.98**
6.	Amortization/depreciation on non-current intangible assets and property, plant and equipment	39,350,293.60	24,889,064.33
7.	Other operating expenses thereof from currency translation: € 5,606,016.95 (previous year: € 5,659,774.40)	178,937,218.89	171,406,289.66
8.	Investment income thereof from associates € 65,630,500.00 (previous year: € 72,805,863.19)	65,630,500.00	72,805,863.19
9.	Income from profit transfer agreements	49,384,216.36	65,358,632.11
10.	Other interest and similar income thereof from associates € 9,324,164.12 (previous year: € 5,752,887.55)	16,937,914.49	8,831,746.20
11.	Depreciation on financial assets and current securities	5,490,000.00	14,758,408.07
12.	Expenses from loss assumption	106,402.10	0.00
13.	Interest and similar expenses thereof from associates € 3,211,428.31 (previous year: € 789,324.24)	46,778,035.01	54,011,789.71
14.	**Net profit or loss from ordinary business activities**	**36,168,770.58**	**52,319,123.81**
15.	Extraordinary income	1,292,477.92	496,318.75
16.	Extraordinary expenses	243,481.56	457,141.27
17.	**Extraordinary profit or loss**	**1,048,996.36**	**39,177.48**
18.	Taxes on income and earnings	2,386,511.60	10,108,659.57
19.	Other taxes	50,927.10	449,383.52
20.	**Net profit**	**34,780,328.24**	**41,800,258.20**
21.	Profit brought forward from the previous year	2,536,295.29	483,423.12
22.	Appropriation from retained earnings		
	a) from the reserve for treasury shares	0.00	0.00
	b) from other retained earnings	0.00	0.00
23.	Allocation to retained earnings	14,000,000.00	18,000,000.00
24.	**Distributable profit**	**23,316,623.53**	**24,283,681.32**

Notes to the 2011 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 corporation. In addition to general requirements for books of account (sections 238 ff. of the German Commercial Code), the supplementing requirements for corporations with regard to annual financial statements and management report (sections 264 ff. of the German Commercial Code) and the supplementing regulations of the German Stock Corporation Act (Aktiengesetz, AktG) apply.

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

Merger as of January 1, 2011

Effective January 1, 2011, STADA R&D GmbH as well as LIFE TRANS Pharma Vertriebs GmbH were merged to STADA Arzneimittel AG. The merger was entered in the commercial register on May 27, 2011.

The transfer of the assets of STADA R&D GmbH and LIFE TRANS Pharma Vertriebs GmbH by internal arrangement is effective as of January 1, 2011. As of January 1, 2011, all the transactions and business of STADA R&D GmbH are performed for the account of STADA Arzneimittel AG.

As a result of the merger with STADA Arzneimittel AG, the comparability of the annual financial statements with the items of the previous year is limited. The comparability of significant items of the balance sheet and the income statement is provided for with notes and additional explanations in the Notes to the annual financial statements (provision of the added value of the companies as pro forma figures).

Accounting Policies

Non-current 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. Non-current intangible assets are amortized over a useful lifetime of 3 to 15 years. Non-current intangible assets reported by STADA Arzneimittel AG include drug approvals, brands, licenses and software. 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. 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.

Financial assets/property, plant and equipment 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.

Non-interest bearing loans are recognized at their present value and loans with usual market rates at their nominal value.

For receivables reported at nominal value, identifiable individual risks are accounted for through appropriate individual valuation adjustments. General credit risks are sufficiently accommodated with a general bad debt provision.

Other assets are recognized at nominal value and, to the extent required, at fair value if it is lower than the nominal value on the balance sheet date.

Cash and cash equivalents are recognized at nominal value. Existing cash and cash equivalents in foreign currency are measured at the mean spot exchange rate.

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.

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 their settlement amount.

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 2011 including cumulated cost and cumulated depreciation, please see the following assets schedule.

Statement of changes in non-current assets of STADA Arzneimittel AG as of Dec. 31, 2011 in €	Historic costs of acquisition							Accumulated depreciation								
	As of Jan. 1, 2011	Additions from mergers 2011	Disposals from mergers 2011	Additions 2011		Disposals Reclassifications 2011		As of Dec. 31, 2011	As of Jan. 1, 2011	Additions from mergers 2011	Additions Write-ups 2011		Disposals Reclassifications 2011		As of Dec. 31, 2011	Residual carrying amount Dec. 31, 2011	Residual carrying amount Dec. 31, 2010
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	223,346,750.34	57,271,240.43	0.00	37,303,840.66	A	239,184.39 D 11,141,826.65 R		328,824,473.69	154,504,521.20	21,767,767.57	27,655,010.41 -5,353,973.30	A WU	63,925.07 D 352,569.07 R		198,861,969.88	129,962,503.81	68,842,229.14
2. Advance payments	14,685,631.54	63,451,793.50	0.00	16,893,892.77	A	850,113.46 D -11,137,686.40 R		83,043,517.95	11,615,040.05	14,582,579.60	4,200,171.88	A	17,058.17 D -352,569.07 R		30,028,164.29	53,015,353.66	3,070,591.49
	238,032,381.88	**120,723,033.93**	**0.00**	**54,197,733.43**		**-1,085,157.60**		**411,867,991.64**	**166,119,561.25**	**36,350,347.17**	**26,501,208.99**		**-80,983.24**		**228,890,134.17**	**182,977,857.47**	**71,912,820.63**
II. Property, plant and equipment																	
1. Land, leasehold rights and buildings including buildings on third-party land	64,203,277.41	0.00	0.00	2,788,810.41	A	0.00 D 234,565.30 R		67,226,653.12	16,806,558.68	0.00	2,455,898.42	A	0.00 D 0.00 R		19,262,457.10	47,964,196.02	47,396,718.73
2. Plant and tools and machinery equipment	27,977,714.93	342,522.09	0.00	868,203.43	A	82,145.25 D 0.00 R		29,106,295.20	13,403,203.01	102,328.81	2,020,219.98	A	79,800.22 D 0.00 R		15,445,951.58	13,660,343.62	14,574,511.92
3. Other fixtures and fittings, tools and equipment	33,543,116,20	4,351,971.29	0.00	2,585,147.66	A	185,152.38 D 405,614.92 R		40,700,697.69	20,796,564.36	1,489,647.90	3,018,992.91	A	104,160.02 D 0.00 R		25,201,045.15	15,499,652.54	12,746,551.84
4. Advance payment and construction in progress	331,290.12	313,030.35	0.00	244,216.31	A	0.00 D -644,320.47 R		244,216.31	0.00	0.00	0.00	A	0.00 D 0.00 R		0.00	244,216.31	331,290.12
	126,055,398.66	**5,007,523.73**	**0.00**	**6,486,377.81**		**-107,147.38**		**137,277,862.32**	**51,006,326.05**	**1,591,976.71**	**7,495,111.31**		**-24,359.80**		**59,909,453.83**	**77,368,408.49**	**75,049,072.61**
III. Financial assets																	
1. Shares in associates	1,133,961,367.09	0.00	-471,484.22	61,947,894.65	A	59,152,823.85 D		1,136,284,953.67	5,428,844.40	0.00	0.00		0.00 D		5,428,844.40	1,130,856,109.27	1,128,532,522.69
2. Loans to associates	28,468,085.11	0.00	0.00	0.00	A	0.00 D		28,468,085.11	9,358,041.16	0.00	-2,140,619.92	WU	0.00 D		7,217,421.24	21,250,663.87	19,110,043.95
3. Investments	19,349,690.51	0.00	0.00	0.00	A	0.00 D		19,349,690.51	0.00	0.00	5,490,000.00	A	0.00 D		5,490,000.00	13,859,690.51	19,349,690.51
4. Loans to associates and other participating interests	31,823,115.51	0.00	0.00	0.00	A	7,960,115.51 D		23,863,000.00	0.00	0.00	0.00		0.00		0.00	23,863,000.00	31,823,115.51
	1,213,602,258.22	**0.00**	**-471,484.22**	**61,947,894.65**		**51,192,708.34**	**D**	**1,207,921,808.90**	**14,786,885.56**	**0.00**	**3,349,380.08**		**0.00**	**D**	**18,136,265.64**	**1,189,829,463.65**	**1,198,815,372.66**
	1,577,690,038.76	**125,730,557.66**	**-471,484.22**	**122,632,005.89**		**50,000,403.36**		**1,757,067,662.86**	**231,912,772.86**	**37,942,323.88**	**44,840,293.60 -7,494,593.22**	**A WU**	**105,343.40**	**D**	**306,935,853.64**	**1,450,175,729.61**	**1,345,777,265.90**

2. Trade accounts receivable from third parties

The item includes trade accounts receivable in the amount of € 3,716,078.78, thereof € 565,171.29 with a remaining term of more than one year.

3. Trade accounts receivable from associated companies and participating interests

Trade accounts receivable from associated companies include € 499,254,140.52, thereof € 37,885,000.00 with a remaining term of more than one year.

Trade accounts receivable from participating interests amount to € 946,645.45, exclusively with a remaining term of more than one year.

4. Other assets

The item in the amount of € 176,729,144.51 (previous year: € 32,771,302.69, pro forma € 34,726,739.90) contains € 150.3 million of intangible assets from the purchase of the branded product portfolio from Grünenthal planned for transfer to associated companies.

5. Accrued items

As of the balance sheet date, there were accrued receivables from accruals of interest-bearing transactions in the amount of € 0.7 million and deferred liabilities in the amount of € 14.2 million.

6. Prepaid expenses/deferred charges

Prepaid expenses/deferred charges include a discount in the amount of € 198,755.09 as well as proportionate expenses for the next year in the amount of € 2,642,542.08.

7. Deferred taxes

From 2011, 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 € 3,445,000. Unnetted, deferred tax assets amount to € 3,876,000 and deferred tax liabilities to € 431,000.

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 the German Accounting Law Modernization Act (BilMoG).

8. Equity

Share capital amounted to € 153,312,536.00 and was divided into 58,966,360 registered shares with restricted transferability, each with an arithmetical share of share capital of € 2.60 per share. As of December 31, 2010, share capital still consisted of 58,876,360 registered shares with restricted transferability. Offsetting against treasury shares in the amount of € 250,616.00 results in a recognized share capital of € 153,061,919.40 as of December 31, 2011.

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 restricted transferability against cash or non-cash contributions.

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 € 8,902,036.00 by issuing up to 3,423,860 registered shares with restricted transferability (Conditional Capital 2004/I). The conditional capital increase will be effected only insofar as the holders of warrants exercise their option rights.

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, 2011, the exercise of 171,193 warrants for the subscription of 3,423,860 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.

Treasury shares:

As of the reporting date, the Company held 96,391 treasury shares, each with an arithmetical par value of € 2.60. This is equivalent to a share capital of € 250,616.60 or 0.16 % of share capital. As of December 31, 2010, the Company held 100,706 treasury shares.

In the year 2011, 4,315 shares were issued (selling price € 89,570.49). The resulting proceeds in the amount of € 12,547.74 were added to the capital reserve. Treasury shares were exclusively issued to employees in the context of an employee stock ownership program.

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

Following the resolution adopted at the Annual General Meeting on June 16, 2011, in accordance with Section 71 (1) no. 8 AktG, the Company is 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.

Distributable profit developed as follows:

in €	2011	2010
Balance as of Jan. 1. 2011	**24,283,681.32**	**32,794,501.92**
Distribution of profit for 2010/2009	-21,747,386.03	-32,311,078.80
Profit after distribution 2010/2009	2,536,295.29	483,423.12
Net profit 2011/ 2010	34,780,328.24	41,800,258.20
Appropriations from the reserve for own shares	0.00	0.00
Allocation to other retained earnings	14,000,000.00	18,000,000.00
Appropriation from other retained earnings	0.00	0.00
Balance sheet profits	**23,316,623.53**	**24,283,681.32**

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 € 1,563,000 was necessary.

Pension provisions are 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 5.14% p.a., a pension trend of 1.80% p.a. and a salary trend of 3.0% 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 € 30,538,000. The fair value of pledged reinsurance policy amounts to € 8,235,000 and is thus € 149,000 more than the procurement costs of the reinsurance policy. In accordance with Section 268 (8) HGB, the amount in excess of the procurement costs is not available for distribution. As this amount is covered by the freely available retained earnings, the earnings can be distributed in full.

Other provisions in particular include expenses in the area of personnel (€ 11,553,000), for warranties (€ 4,261,000) and for outstanding settlements from health insurance organizations resulting from the discount agreements with health insurance organizations (€ 55,138,000).

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	35.2	722.9	0.0

12. Trade accounts payable

Remaining maturities of trade payables in € million	up to 1 year	1 to five years	over 5 years
Liabilities to associates	384.9	0.0	0.0
Liabilities to other suppliers	21.2	0.0	0.0
Other liabilities	0.0	6.3	0.0

There are no liabilities to associates and other participating interests.

13. Income Statement

In 2011, sales of STADA Arzneimittel AG in the amount of € 333,536,000 include an international share of € 72,265,000. Thereof, Europe accounts for € 67,168,000 and Asia for € 5,097,000. Sales can be broken down into the following activities:

in € 000s	2011	pro forma 2010	2010	2009
Sales from the delivery of goods	315,989	323,600	323,505	313,986
License revenue	15,499	23,059	6,321	5,239
Sale of approvals	2,048	738	0	0
	333,536	**347,397**	**329,826**	**319,225**

Unscheduled depreciation on non-current assets was at € 9,619,000 (previous year: € 1,850,000, pro forma € 5,605,000) in financial year 2011.

Other operating income includes income outside of the reporting period from credits in the amount of € 552,000 (previous year: 1,179,000, pro forma € 1,265,000) as well as € 3,577,000 (previous year: € 3,100,000, pro forma € 3,824,000) from the reversal of provisions.

In addition, other operating income from additions on unscheduled depreciation in the amount of € 5,354,000 (previous year: € 1,044,000, pro forma € 1,076,000) are recognized.

Taxes on income and earnings are attributed to the ordinary earnings.

Other operating expenses include expenses from outside of the reporting period for insurance payments of € 103,000 (previous year: € 53,000, pro forma € 55,000).

In addition, extraordinary earnings included earnings from mergers in the amount of € 1,292,000 (previous year: € 0, pro forma € 0).

14. Other notes and disclosures

In 2011, the average number of employees was 912, thereof, among other things,
- 112 employees in warehousing and shipping,
- 284 employees in production and packaging,
- 516 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 following persons belong or belonged to the Executive Board:

- Hartmut Retzlaff, Chairman

- Helmut Kraft, Chief Financial Officer

- Dr. Axel Müller, Chief Production and Development Officer

The Executive Board members held the following mandates during financial year 2011:

Mr. Hartmut Retzlaff is also member of the Administrative Board of HSBC Trinkaus & Burkhardt AG, member of the Exchange Council of the Frankfurt Stock Exchange (since January 27, 2011), 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., Hemofarm A.D. (Chairman), STADA Pharmaceuticals (Asia) Ltd., STADApharm AB, Clonmel Healthcare Limited, SFS International Limited and STADA Financial Investments Limited.

Mr. Helmut Kraft is also member of the Supervisory Board of Hemofarm A.D.

Dr. Axel Müller is also member of the Supervisory Board or Board of Directors of Hemofarm A.D. and Clonmel Healthcare Limited.

15. Remuneration of the Executive Board and the Supervisory Board

In financial year 2011, total compensation paid to the Executive Board amounted to € 5,631,335.05[1)] for STADA Arzneimittel AG (previous year: € 4,546,435.82).

In financial year 2011, total compensation paid to the Supervisory Board amounted to € 630,315.20 for STADA Arzneimittel AG (previous year: € 779,173.35).

The compensation paid to former members of the Executive Board amounted to € 280,129.5 in financial year 2011.

1) Thereof progress payments on variable long-term special remuneration in the amount of € 1,106,250.00 as a result of achieving the annual interim goals in the respective individual contracts for financial year 2011.

Current pension provisions for former Executive Board members in financial year 2011 amounted to € 7,643,386.00 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, Herne
- Heike Ebert, Head of Packaging, Niddatal
- Dr. K. F. Amold 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 (since April 11, 2011), Lampe Asset Management GmbH (member of the Advisory Board), Lampe Vermögenstreuhand GmbH (since April 1, 2011), Dale Investment Advisors GmbH (member of the Advisory Board and Chairman since April 1, 2011), 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) and a member of the Board of Trustees of North Rhine-Westphalia of the Stifterverband für die Deutsche Wissenschaft (member of the Board of Trustees).

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 € 104,311,893.45. Of this, € 72,050,664.72 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 Arzneimittel AG 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 € 193,928,393.19.

Maturities of remaining other financial liabilities:

in € million	
2012	170.0
2013	6.9
2014	6.4
2015	3.2
2016	1.6
after 2016	5.8

The figure for 2012 considers a deferred contingent liability in the amount of € 160 million for the purchase of a branded product portfolio from Grünenthal for markets belonging to the EU.

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.

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

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

1) Direct investments of STADA Arzneimittel AG

	Earnings 2011	Equity	Equity interest in %
Germany[1]			
BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel	€ 0	kEUR 253	100%
BIOCEUTICALS Arzneimittel AG, Bad Vilbel	kEUR 311	kEUR 409	15.86%
Mobilat-Produktions GmbH, Pfaffenhofen	€ 0	kEUR 256	100%
STADA GmbH, Bad Vilbel	€ 0	kEUR 359	100%
STADA Pharma International GmbH, Bad Vilbel	€ 0	kEUR 31	100%
STADApharm GmbH, Bad Vilbel	€ 0	kEUR 154	100%
International[2]			
Ciclum Farma, Unipessoal, LDA, Paco de Arcos/Portugal	kEUR 1,157	kEUR 3,655	100%
Clonmel Healthcare Limited, Clonmel/Ireland	kEUR 5,417	kEUR 67,709	100%
Crinos S.p.A., Milan/Italy	kEUR 2,259	kEUR 31,942	100%
EG Labo SAS – Laboratoires Eurogenerics, Paris/France	kEUR 2	kEUR 38	100%
EG S.p.A., Milan/Italy	kEUR 11,341	kEUR 37,671	100%
Germa Pharm Ltd, Cairo/Eqypt[3]	kEGP 905	kEGP 4,333	100%
Grünenthal Central Europe GmbH, Vienna/Austria	kEUR 193	kEUR 353	100%
Grünenthal d.o.o., Mostar/Bosnia-Herzegovina[4]	-	-	100%
Grünenthal d.o.o., Zagreb/Croatia	kHRK 438	kHRK 2,086	100%
Grünenthal OOO, Moscow/Russia	kRUB 1	kRUB 17	100%
Grünenthal Ukraine LLC, Kiev/Ukraine[4]	-	-	100%
Laboratorio STADA, S.L., Barcelona/Spain	kEUR 14,733	kEUR 71,129	100%
OAO Nizhpharm, Nizhny Novgorod/Russia	kRUB 1,423,161	kRUB 7,471,066	100%
OOO STADA Marketing, Nizhny Novgorod/Russia	kRUB 63,607	kRUB 63,507	100%
Oy STADA Pharma Ab, Helsinki/Finland	kEUR -45	kEUR 852	100%
STADA Arzneimittel Gesellschaft m.b.H., Vienna/Austria	kEUR 2	kEUR 4,293	100%
STADA LUX, Luxembourg/Luxembourg	kEUR -8	kEUR 2	100%
STADA PHARMA Slovakia, s.r.o., Bratislava/Slovakia	kEUR 572	kEUR 5,984	100%
STADA Pharmaceuticals (Asia) Ltd., Hong Kong/People's Republic of China	kHKD 17,072	kHKD 156,739	100%
STADA Service Holding B.V, Etten-Leur/The Netherlands	kEUR -580	kEUR 565,461	100%
STADApharm AS, Oslo/Norway	kNOK 0	kNOK 105	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) Figures from financial year 2010.
4) Waiver of disclosures pursuant to Section 286 (3) Sentence 1 no. 1 of the German Commercial Code.

2) Indirect investments of STADA Arzneimittel AG of at least 20%:

	Earnings 2011	Equity	Equity interest in %
Germany[1]			
ALIUD PHARMA GmbH, Laichingen	€ 0	kEUR 1,330	100%
GT Pharma GmbH, Bad Homburg	€ 0	kEUR 223	100%
cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Hanover	€ 0	kEUR 1,548	100%
Grippostad GmbH	€ 0	kEUR 25	100%
HEMOPHARM ENGINEERING Gesellschaft für Planung und Projektierung mbH, Bad Homburg	kEUR -355	kEUR 3	100%
Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg	kEUR -3,487	kEUR 1,955	100%
HF PharmaSwyzz Deutschland GmbH, Bad Homburg	kEUR -4	kEUR 19	100%
IIP Institut für Industrielle Pharmazie Forschungs- und Entwicklungsgesellschaft mbH, Aschaffenburg[3]	kEUR 250	kEUR 3,511	25%
Mainsee 738 VV GmbH, Bad Vilbel	kEUR -1	kEUR 24	100%
STADA Medical GmbH, Bad Vilbel	€ 0	kEUR 33	100%
Zimmer AL Data GmbH, Neu-Ulm[3]	kEUR 40	kEUR 83	30%
International[2]			
AELIA SAS, Saint Brieuc/France	kEUR 15	kEUR 65	20%
Agrovojvodina - Vrsac d.o.o., Vrsac/Serbia	kRSD -79,127	kRSD 3,960	100%
Alphacen N.V., Etten-Leur/The Netherlands	kEUR 0	kEUR 45	100%
Banatska Prica d.o.o., Vrsac/Serbia	kRSD -1	kRSD -7,714	50%
Breathe Pharmaceuticals Limited JV, Clonmel/Ireland	kEUR -10	kEUR 34	50%
Breg d.o.o., Vrsac/Serbia	kRSD -40,637	kRSD 863,395	52.9%
Britannia Pharmaceuticals Ltd., Newbury/United Kingdom	kGBP 0	kGBP 39,667	100%
Cellpharm B.V., Etten-Leur/The Netherlands	kEUR 0	kEUR 18	100%
Centrafarm B.V., Etten-Leur/The Netherlands	kEUR 4,049	kEUR 4,378	100%
Centrafarm Nederland B.V., Etten-Leur/The Netherlands	kEUR -3,848	kEUR -3,367	100%
Centrafarm Pharmaceuticals B.V., Etten-Leur/The Netherlands	kEUR -3,484	kEUR -3,371	100%
CIG (Hong Kong) Limited, Hong Kong/People's Republic of China	kHKD -10	kHKD 95	70%
CNRD 2009 Ireland Ltd. J.V., Dublin/Ireland	kEUR -60	kEUR 211	50%
Croma Medic, Inc., Manila/The Philippines	kPHP 5,360	kPHP 333,901	100%
Crosspharma Ltd., Belfast/United Kingdom	kEUR 133	kEUR 1,258	100%
DATApharm Co. Ltd., Tortola/British Virgin Islands	kUSD 1,906	kUSD 3,849	51%
Genus Pharmaceuticals Holdings Ltd., Newbury/United Kingdom	kGBP 0	kGBP 12,222	100%
Genus Pharmaceuticals Ltd., Newbury/United Kingdom	kGBP 6,878	kGBP 26,414	100%
Global Project d.o.o., Vrsac/Serbia	kRSD -2,855	kRSD 21,679	100%
Healthypharm B.V., Etten-Leur/The Netherlands	kEUR 2,627	kEUR 2,646	100%
Hemofarm A.D., Vrsac/Serbia	kRSD -5,534,769	kRSD 14,434,789	100%
Hemofarm Arabia Ltd., Damascus/Syria[4]	-	-	50%
Hemofarm Banja Luka d.o.o., Banja Luka/Bosnia-Herzegovina	kBAM 2,393	kBAM 63,787	91.5%
Hemofarm Inzenjering d.o.o., Belgrade/Serbia	kRSD 513	kRSD 168,308	100%
Hemofarm Komerc d.o.o., Skopje/Macedonia	kMKD -691	kMKD -7,850	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) For foreign companies, equity is shown both in local currency and in accordance with local law.
3) Figures from financial year 2010.
4) Waiver of disclosures pursuant to Section 286 (3) Sentence 1 no. 1 of the German Commercial Code.

	Earnings 2011	Equity	Equity interest in %
International[2]			
Hemofarm Sabac d.o.o., Sabac/Serbia	kRSD 39,732	kRSD 5,484,639	100%
Hemofarm Slovakia, Bratislava/Slovakia[2]	-	-	54%
Hemomont d.o.o., Podgorica/Montenegro	kRSD 92	kRSD 14,480	71.02%
Hetmark FZCO, Dubai/United Arab Emirates	kUSD 649	kUSD 836	100%
HF Pharmasuisse AG, Chur/Switzerland	kCHF -498	kCHF -2,451	100%
HTP Huisapotheek B.V., Etten-Leur/The Netherlands	kEUR 0	kEUR 0	100%
Jinan Hemofarm Pharmaceuticals, Jinan/People's Republic of China[2]	-	-	35.5%
Moja Apoteka d.o.o., Vrsac/Serbia	kRSD -1	kRSD 39	100%
Neocare B.V., Etten-Leur/The Netherlands	kEUR 345	kEUR 345	100%
Nizhpharm-Kasachstan TOO DO, Almaty/Kazakhstan	kKZT -187,858	kKZT -463,042	100%
Nizhpharm-Ukraine DO, Kiev/Ukraine	kUAH -10,115	kUAH -11,864	100%
OOO Hemofarm Inzenjering Obninsk, Obninsk/Russia	kRUB 282	kRUB 7,532	100%
OOO Hemofarm Obninsk, Obninsk/Russia	kRUB 43,634	kRUB 379,140	100%
OOO STADA CIS	kRUB 29,588	kRUB 29,488	100%
OOO STADA PharmDevelopment, Nizhny Novgorod/Russia	kRUB 266	kRUB -40,793	100%
Pharm Ortho Pedic SAS, Pellouailles les Vignes/France	kEUR 161	kEUR 1,408	25%
PharmaCoDane ApS, Copenhagen/Denmark	kDKK 15,722	kDKK 92,571	100%
PYMEPHARCO JOINT STOCK COMPANY, Tuy Hoa City/Vietnam	kVND 98,641,316	kVND 358,388,951	49%
Quatropharma Holding B.V., Etten-Leur/The Netherlands	kEUR 0	kEUR 329	100%
SFS International Limited, Clonmel/Ireland	kEUR 0	kEUR 17,264	100%
STADA Asiatic Company, Ltd., Bangkok/Thailand	kTHB 21,509	kTHB 64,317	60%
STADA Consumer Health, S.L., Barcelona/Spain	kEUR -1,101	kEUR 28	100%
STADA Financial Investments Limited, Clonmel/Ireland	kEUR -499	kEUR 92,281	100%
STADA Genericos, S.L., Barcelona/Spain	kEUR 1	kEUR 2	100%
STADA Hemofarm d.o.o., Ljubljana/Slovenia	kEUR -5	kEUR 2	100%
STADA Hemofarm d.o.o., Zagreb/Croatia	kHRK 996	kHRK 1,210	100%
STADA HEMOFARM Poland Sp. z.o.o.	kPLN -1,209	kPLN -30	100%
STADA HEMOFARM S.R.L., Temisvar/Romania	kRON 2,508	kRON 15,861	100%
STADA Import /Export Ltd., Tortola/British Virgin Islands	kUSD 162	kUSD 547	51%
STADA PHARMA Bulgaria EOOD, Sofia/Bulgaria	kEUR 131	kEUR 429	100%
STADA PHARMA CZ, s.r.o., Prague/Czech Republic	kCZK -36,049	kCZK 180,447	100%
STADA Pharmaceuticals (Beijing) Ltd., Beijing/People's Republic of China	kCNY 2,387	kCNY 44,898	75%
STADA Production Ireland Limited, Clonmel/Ireland	kEUR 2,069	kEUR 7,811	100%
STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City/Vietnam	kVND 90,475,444	kVND 359,193,170	50%
STADA, LDA, Paco de Arcos/Portugal	kEUR 0	kEUR 5	100%
STADApharm AB, Malmö/Sweden	kSEK 35	kSEK 18,262	100%
STADAPHARMA HEALTHCARE INC., Makati/The Philippines	kPHP -127	kPHP 1,375	40%
S.A. Eurogenerics N.V., Brussels/Belgium	kEUR 12,081	kEUR 36,982	100%
S.A. Neocare N.V., Brussels/Belgium	kEUR 3,947	kEUR 79,232	100%
UAB STADA-Nizhpharm-Baltiya, Vilnius/Lithuania	kLTL 321	kLTL 1,696	100%
Velefarm A.D., Belgrade/Serbia	kRSD -8,234,575	kRSD 6,138,225	19.65%
Vetfrarm A.D., Belgrade/ Serbia	kRSD -265,506	kRSD 38,044	15%
ZAO Makiz-Pharma, Moscow/Russia	kRUB 205,311	kRUB 1,009,878	100%
ZAO Skopinpharm, Skopin/Russia	kRUB 7,704	kRUB 275,739	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.

20. Expenses for the external auditor

Total fees charged by the external auditors for the financial year pursuant to Section 286 no. 17 of the German Commercial Code is disclosed in the relevant Note to the Consolidated Financial Statements.

21. Consolidated financial statements

STADA Arzneimittel AG prepares consolidated financial statements for financial year 2010 in accordance with Section 315a of the German Commercial Code and the IFRS as applicable in the EU. The consolidated financial statements are published in the German electronic Federal Gazette (elektronischer Bundesanzeiger).

22. Corporate Governance Code

In accordance with Section 161 of the German Stock Corporation Act, the Executive and Supervisory Boards have issued their annual joint declaration of compliance with the German Corporate Governance Code on September 1, 2011. 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. Publication in accordance with section 26 of the German Securities Trading Act of 2011

Publication of February 3, 2011:
BlackRock, Inc., New York, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of January 25, 2011 exceeded the threshold of 3% and amounted to 3.24% (1,907,053 voting rights) as per this date. Thereof, their 3.24% (1,907,053 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2.

BlackRock Holdco 2, Inc., Wilmington, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of January 25, 2011 exceeded the threshold of 3% and amounted to 3.24 % as per this date. Thereof, their 3.24% (1,907,053 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2.

BlackRock Financial Management, Inc., New York, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of January 25, 2011 exceeded the threshold of 3% and amounted to 3.24% (1,907,053 voting rights) as per this date. Thereof, their 3.24% (1,907,053 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2.

Bad Vilbel, February 2011
The Executive Board

Publication of February 3, 2011:
BlackRock, Inc., New York, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of January 25, 2011 exceeded the threshold of 3% and amounted to 3.24% (1,907,053 voting rights) as per this date. Thereof, their 3.24% (1,907,053 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2.

BlackRock Holdco 2, Inc., Wilmington, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of January 25, 2011 exceeded the threshold of 3% and amounted to 3.24% as per this date. Thereof, their 3.24% (1,907,053 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2.

BlackRock Financial Management, Inc., New York, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of January 25, 2011 exceeded the threshold of 3% and amounted to 3.24% (1,907,053 voting rights) as per this date. Thereof, their 3.24% (1,907,053 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2.

Bad Vilbel, February 2011
The Executive Board

Publication of March 28, 2011:
BlackRock, Inc., New York, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of March 21, 2011 fell short of the threshold of 3% and amounted to 2.90% as (1,705,880 voting rights) as per this date. Thereof, their 2.90% (1,705,880 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2 of the German Securities Trading Act.

BlackRock Holdco 2, Inc., Wilmington, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of March 21, 2011 fell short of the threshold of 3% and amounted to 2.90% (1,705,880 voting rights) as per this date. Thereof, their 2.90% (1,705,880 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2 of the German Securities Trading Act.

BlackRock, Inc., New York, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of March 21, 2011 fell short of the threshold of 3% and amounted to 2.90% (1,705,880 voting rights) as per this date. Thereof, their 2.90% (1,705,880 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2 of the German Securities Trading Act.

Bad Vilbel, March 2011
The Executive Board

Publication of April 28, 2011:
BlackRock, Inc., New York, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of April 18, 2011 exceeded the threshold of 3% and amounted to 3.01% (1,771,835 voting rights) as per this date. Thereof, their 3.01% (1,771,835 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2 of the German Securities Trading Act.

BlackRock, Inc., New York, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of April 18, 2011 exceeded the threshold of 3% and amounted to 3.01% (1,771,835 voting rights) as per this date. Thereof, their 3.01% (1,771,835 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2 of the German Securities Trading Act.

BlackRock Financial Management, Inc., New York, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of April 18, 2011 exceeded the threshold of 3% and amounted to 3.01% (1,771,835 voting rights) as per this date. Thereof, their 3.01% (1,771,835 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2 of the German Securities Trading Act.

Bad Vilbel, April 2011
The Executive Board

Publication of May 26, 2011:
BlackRock, Inc., New York, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of May 17, 2011 fell short of the threshold of 3% and amounted to 2.77% as (1,627,974 voting rights) as per this date. Thereof, their 2.77% (1,627,974 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2 of the German Securities Trading Act.

BlackRock Holdco 2, Inc., Wilmington, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of May 17, 2011 fell short of the threshold of 3% and amounted to 2.77% (1,627,974 voting rights) as per this date. Thereof, their 2.77% (1,627,974 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2 of the German Securities Trading Act.

BlackRock, Inc., New York, USA, informed us in accordance with section 21 (1) of the German Securities Trading Act that their share in voting rights in our company as of May 17, 2011 fell short of the threshold of 3% and amounted to 2.77% (1,627,974 voting rights) as per this date. Thereof, their 2.77% (1,627,974 voting rights), in accordance with section 22 (1) sentence 1, no. 6, are to be combined with sentence 2 of the German Securities Trading Act.

Bad Vilbel, May 2011
The Executive Board

Publication of November 10, 2011:
Pursuant to section 21 (1), 24 of the German Securities Trading Act in conjunction with section 32 (2) InvG ("German Investment Act"), Deutsche Bank AG, London Branch, Great Britain, on November 9, 2011 notified us that the percentage of voting rights of its subsidiary DWS Investment GmbH, Frankfurt, Germany, in STADA Arzneimittel AG, Bad Vilbel, Germany, exceeded the threshold of 3% on November 4, 2011 and amounts to 3.023% (1,782,270 voting rights) as per this date.[1)]

Bad Vilbel, November 2011
The Executive Board

Publication of November 23, 2011:
Pursuant to section 21 (1), 24 of the German Securities Trading Act in conjunction with section 32 (2) InvG ("German Investment Act"), Deutsche Bank AG, London Branch, Great Britain, on November 22, 2011 notified us that the percentage of voting rights of its subsidiary DWS Investment GmbH, Frankfurt, Germany, in STADA Arzneimittel AG, Bad Vilbel, Germany, exceeded the threshold of 5% on November 21, 2011 and amounts to 5.381% (3,172,757 voting rights) as per this date.[1)]

Bad Vilbel, November 2011
The Executive Board

24. Financial instruments

Currency forwards

STADA concludes currency forwards and currency options in order to limit currency risks. Exchange-rate hedging in 2011 was primarily undertaken for the pound sterling and the Russian ruble.

Currency forwards are measured by way of valuations from banks based on general actuarial measurement approaches.

1) STADA published this notice in English only.

Interest-rate swaps

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).

Swaps are measured by way of curve stripping with daily closing prices at 5.15 pm. In the process, the swap quotes are transferred into discount factors which are used to calculate the forward rates for the floating side. The cash flows thus calculated for the float side are then discounted with discount factors to the present. The same applies for the cash flows on the fixed side, which have already been set upon conclusion of the contract. The difference between these amounts results in the daily swap measurement.

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. With regard to the risks being hedged, the opposing changes in cash flows will likely completely offset each other. The period in which the cash flows offset each other arises from the individual half-yearly interest payments. The effectiveness of the valuation units is determined with the Critical Term Match method.

Composition of derivative financial instruments

	Dec. 31, 2011		
		Market values	
in € 000s	Nominal value	Positive market value	Negative market value
Interest rate hedging of booked transactions			
• Interest swap < 1 year			
• Interest swap > 1 year < 5 years	206,500.0	0.0	9,007.0
• Interest swap > 5 years			
Currency hedging of booked transactions			
• Currency forwards	35,438.0	266.0	0.0

Bad Vilbel, March 14, 2012

STADA Arzneimittel Aktiengesellschaft
The Executive Board

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

Overview of 2011

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

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

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

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

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

The reported operating profit decreased in the reporting year by 26% to € 120.1 million (previous year: € 161.8 million). Reported net income decreased by 68% to € 22.0 million (previous year: € 68.4 million). EBITDA recorded a decrease of 17% to € 223,2 million (previous year: € 268.8 million).

Adjusted for influences distorting the period comparison resulting from one-time special effects and non-operational effects from interest rate hedge transactions (previous year: adjusted for one-time special effects as well as non-operational effects from currency influences and interest rate hedge transactions), adjusted operating profit recorded a plus of 8% in 2011 to € 257.6 million (previous year: € 239.3 million), and thereby reached a new record value in Company history. Adjusted net income recorded growth of 10% to € 146.6 million (previous year: € 133,3 million). Adjusted EBITDA increased by 7% to € 337.2 million (previous year: € 315,9 million).

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

Stable financial position

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

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

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

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

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

Successful product development and cooperation in biosimilar activities

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

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

Accelerated acquisition policy with attractive purchases

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

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

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

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

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

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

In addition to numerous measures to improve internal efficiency in the areas of production, procurement and the supply chain, as well as development, quality management, and marketing and sales, the Group's Irish production facility was also sold in the first quarter of the current financial year.[1)]

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

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

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

Successful securing of promissory notes

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

Very high volatility in the STADA share price

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

Dividend proposal

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

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

Established, comprehensive risks and opportunities management

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

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

Outlook

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

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

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

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

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

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

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

The STADA share

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

Capital structure

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

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

STADA key share data	2011	Previous year
Number of shares (year-end)	58,966,360	58,876,360
Number of treasury shares (year-end)	96,391	100,706
Resulting number of voting shares (year-end)	58,869,969	58,775,654
Average number of shares (without treasury shares)	58,830,209	58,763,492
Year-end closing price (XETRA®) in €	19.25	25.38
High (XETRA® closing price) in €	31.22	32.10
Low (XETRA® closing price) in €	14.40	20.70
Market capitalization (XETRA®) in € million (year-end)	1,135.1	1,494.3
Earnings per share in €	0.37	1.16
Adjusted earnings per share in €	*2.49*	*2.27*
Diluted earnings per share in €	0.37	1.14
Adjusted diluted earnings per share in €	*2.44*	*2.22*
Dividend per share in €	0.37[3]	0.37

1) Under the Company's Articles of Incorporation, STADA's registered shares with restricted transferability can only be transferred in the share register with the consent of the Company and, pursuant to the statutes, grant one vote each in the Annual General Meeting. Shareholders are only those who are registered as such in the share registry and only such persons are authorized to participate in the Annual General Meeting and to exercise voting rights. No shareholder and no shareholder group shall have any special rights.
2) The legally binding option terms and conditions are published on the Company website under www.stada.de and www.stada.com.
3) Proposed.

Broad distribution of shareholder structure

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

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

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

Directors' Dealings

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

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

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

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

Business and General Conditions

Business Model, Core Segments and Structural Environment

STADA business model

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

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

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

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

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

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

Core segments and non-core activities

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

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

1) IMS MIDAS 2011; IMS Market Prognosis, Sep. 2011; IMS Institute For Healthcare Informatics analysis prepared for STADA, Feb. 2012. Data based on the 32 leading generics markets.

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

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

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

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

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

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

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

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

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

Core segment Generics

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

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

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

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

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

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

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

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

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

Core segment Branded Products

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

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

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

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

In addition, the branded product Cetraben® could successfully be acquired for the British market in 2011; the product was al ready marketed via in-licensing by the local STADA sales company.

Effects of overall economic and industry-specific framework conditions

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

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

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

Economic activity does, however, have an effect on the business development of the Group in the form of currency and interest rate volatility. In view of this, STADA continually takes adequate precautionary measures in order to appropriately counteract strong volatility in interest rates and Group-relevant currency relationships.

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

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

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

suppliers. Finally, macro-economic influences can also directly affect STADA's business results when state health care systems are no longer able to generate enough funds for adequate public health care.

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

Operative alignment

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

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

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

Key performance indicators

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1) See the Company's ad hoc release of February 6, 2011. STADA will report the one-time burden in the amount of € 16.6 million before taxes or € 16.5 million after taxes, as a one-time special effect in the first quarter of 2012.

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

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

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

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

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

General statements of the Executive Board on business development in 2011

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

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

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

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

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

Product development

Strategic and organizational focus of development activities

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

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

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

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

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

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

With the goal of increasing the number of in-house developments of strategically important and high-sales products the Group’s internal development activities in recent years have gained increased importance. At the same time, in the first few years of marketing, this is associated with the optimization of the procurement and production costs of new products, as STADA can reduce the acquisition of dossiers

and the associated initial supply commitments. To that end, in-house product developments increasingly pooled and expanded in low-cost Group locations in a targeted manner. In certain cases, however, individual local business units pursue their own development activities for new products that are not significant for the Group.

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

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

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

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

Sustainable development and approval strength

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

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

1) Reporting year and previous year.
2) Without products and sales from acquisitions.

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

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

In 2011 STADA and Gedeon Richter Plc., Budapest, Hungary, signed license and collaboration agreements for the development and marketing of biosimilar products for the two monoclonal antibodies Rituximab and optionally Trastuzumab.[1)]

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

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

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

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

Expenses for research and development costs

Research and development costs were € 50.4 million in 2011 (previous year: € 54.9 million). Since STADA does not carry out any research into new active pharmaceutical ingredients due to its business model, it is only a matter of development costs. In addition the Group capitalized development costs for new products in the amount of € 12.3 million in financial year 2011 (previous year: € 13.3 million).

1) See the Company's corporate news of August 30, 2011.

Procurement, Production and Quality Management

Global procurement of active ingredients and auxiliary materials

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Highest safety and quality standards

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

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

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

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

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

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

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

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

Sales and Marketing

Functionally organized Group with local and close to market sales companies

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

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

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

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

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

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

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

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

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

1) See the Company's ad hoc release of 5/12/2011 as well as the Company's ad hoc updates of July 22, 2011, December 30, 2011, January 1, 2012, January 27, 2012 and January 31, 2012.
2) See the Company's ad hoc release of May 19, 2011 and the Company's ad hoc update of November 9, 2012.

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

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

Employees

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

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

Decentralized organization of personnel management

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

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

Continual personnel development

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

Number of employees at STADA Arzneimittel AG

There was an average of 912 employees at STADA Arzneimittel AG in the reporting year of whom 516 were working in administration. A total of 396 employees were working in the area of manufacturing and warehousing/shipping.

Responsibility and Sustainability

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

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

Selected commercial and charitable activities

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

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

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

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

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

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

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

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

Strong compliance culture

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

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

High importance of sustainability and environment

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

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

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

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

Declaration of Corporate Governance

The Declaration of Corporate Governance is published on the Company's website at
http://www.stada.de/english/investorrelations/corp_gov/

Remuneration Report

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

Remuneration of the Executive Board

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

Executive Board remuneration system

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Hartmut Retzlaff: € 2,317,161.51 (thereof € 1,654,450,87 non-performance related including € 31,880.78 other remuneration and € 662,710.64 performance related[1)]) (previous year: € 2,485,572.71, thereof € 1,415,572.71 non-performance related including € 29,059.16 other remuneration and € 1,070,000.00 performance related)

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

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

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

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

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

Commitments to members of the Executive Board

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

The Chairman of the Executive Board's current pension agreement contains commitments to an annual pension, which, depending on the duration of the Executive Board position, is calculated as a percentage of the basic remuneration and additionally takes into consideration a percentage of the variable remuneration, which was granted during the last five years before the beginning of pension payments. With the new Executive Board contract valid as of September 1, 2011, annual pension is set at a fixed annual amount, whereby after the provision commences, the monthly pension payment is adjusted on July 1 of every year by the percentage of the increase in the current level of pension in the German statutory pension scheme in comparison to the previous year. Payments from the pension commitments generally begin on request as pension payments after completion of the Executive Board contract, valid from September 1, 2011 to August 31, 2016, to the extent that it is not renewed or as disability pension if employment ends before this due to an occupational disability. The service cost in accordance with HGB for the creation of provisions for benefit claims earned in financial year 2011 was € 668,121. The present value of the pension commitments, in accordance with HGB, is € 23,015,540.

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

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

Other commitments

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

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

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

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

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

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

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 shall receive three times, his deputy twice these amounts.

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

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

Remuneration of the Supervisory Board in financial year 2011

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

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

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

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

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

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

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

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

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

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

Advisory Board remuneration

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

Earnings, financial and assets situation of STADA Arzneimittel AG[1)]

Development of sales

In financial year 2011, STADA Arzneimittel AG recorded sales in the amount of € 333.5 million (previous year: € 347.4 million). This includes both sales generated with generics and with branded products. Included as well were license revenue in the amount of approx. € 16.6 million (previous year: € 23.1 million).

Development of Earnings and Costs

In 2011, material expenses (netted with changes in inventories) amounted to € 148.3 million (previous year: € 150.6 million) at STADA Arzneimittel AG. The material expenses thus determined were at 44.5% of sales. In comparison to the previous year (43.4%), the slight change is attributable to the Generics segment.

STADA Arzneimittel AG's earnings situation is as follows:

- The result of ordinary business activities was € 37.5 million (previous year € 55.0 million) in 2011.
- Net profit for the year amounted to € 34.8 million (previous year: € 41.8 million).

Net profit for the year 2011 was significantly influenced by the following factors:

- Income from affiliated companies in the amount of € 115.0 million
- Revenue reductions as a result of discounts to health insurance organizations
- Expenses for external consultancy services
- A net burden in the amount of € 4.2 million from unscheduled depreciation/amortization and write-ups in STADA AG
- Income from the reversal of provisions particularly in the area of personnel of € 3.6 million
- Additions to pension provisions of € 1.5 million
- Amortization on financial assets of € 5.5 million

Development of costs

Material expenses continue to be by far the largest cost item in the income statement of STADA Arzneimittel AG. Against this backdrop STADA, in the scope of ongoing cost optimization, will continue to essentially focus on this item and all sub-areas relevant for this such as procurement costs of the active pharmaceutical ingredients and auxiliary materials as well as the costs which can be applied to pharmaceutical production.

Personnel expenses increased by approx. 4.3% in the reporting period as compared to the previous year, totaling € 74.9 million.

Depreciation and amortization on intangible assets and property, plant and equipment in the reporting period amounted to € 39.4 million and rose compared to the previous year by € 6.8 million particularly as a result of the increase of intangible assets.

Other operating expenses decreased by € 32.6 million to € 178.9 million in 2011.

1) All information is based upon the merger of STADA R&D GmbH and LIFE TRANS GmbH with STADA Arzneimittel AG as of January 1, 2011; figures for the previous year were adjusted accordingly

The financial result, which, as in the previous year, was characterized by interest expenses for borrowed funds and investment income used particularly for the financing of acquisitions, amounted to € 79.6 million in the reporting year (previous year: € 86.6 million).

In financial year 2011, income taxes were at € 2.4 million (€ 10.6 million).

Germany

In **Germany**, STADA's largest national market, the sales in financial year 2011 went down by 7% to € 479,9 million (previous year: € 516.4 million). Whereas sales the decrease still amounted to 9% in the second quarter in the German market, sales decreased in the third quarter by 5% and in the fourth quarter only by 2%. In total STADA's German activities contributed 28.0% to Group sales in 2011 (previous year: 31.7%).

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

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

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

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

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

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

Generics sales generated by STADA in Germany are achieved via various sales companies. The sales of ALIUD PHARMA GmbH, Laichingen, the largest Group-owned sales company in the German generics market, decreased in 2011 by 8% to € 203.8 million (previous year: € 221.3 million). Sales of the Group-owned German generics sales company STADApharm GmbH, Bad Vilbel, decreased in the reporting year by 13% to € 127.8 million (previous year: € 147.5 million). Sales of STADA's other generics label, cell pharm Gesellschaft für

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

pharmazeutische und diagnostische Praparate mbH, Bad Vilbel, special supplier of the indication areas oncology and nephrology, went down in the financial year 2011 by 7% to € 29.4 million (previous year: € 31.7 million).

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

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

The sales achieved with branded products in Germany in the reporting year approximately amounted to the same level of the previous year at € 112,2 million (previous year: € 111,9 million). The total share achieved by STADA with branded products in the German market was 23% in 2011 (previous year: 22%).

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

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

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

These also include sales of the STADA branded product Apo-Go®[5)], which is globally managed by the British subsidiary due to special sales requirements in the STADA Group, among other things. In the third quarter of 2011, the British STADA subsidiary Genus Pharmaceuticals Ltd, dissolved an existing agreement with Cephalon GmbH for the sale of Apo-Go® in the German market. In addition to the fact that Cephalon GmbH became part of the Israeli Teva Group, and thus part of a direct global competitor of STADA, by way of an acquisition, this therefore also takes the decision[6)] of the Munich district court of July 19, 2011 into account, according to which Cephalon, in the sale of the licensed STADA product, was in violation of the obligation to sell in pharmacies. In connection with dissolving this agreement, a burden on earnings resulted in the amount of € 5.4 million before or € 4.0 million after taxes, which was reported as a one-time special effect.

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

1) Active pharmaceutical ingredient tobramycin 2.5 sulfate for the treatment of severe infections caused by tobramycin-sensitive agents.
2) Data from IMS Health based on ex-factory prices.
3) Excluding anti-infective agents.
4) STADA estimate at pharmacy retail prices based on data from IMS Health.
5) Active pharmaceutical ingredient apomorphin for the treatment of Parkinson's disease.
6) This decision is not yet legally binding.

Financial Situation

The equity-to-assets ratio of STADA Arzneimittel AG was 28.5% as of the balance sheet date (previous year: 33.1%) and was primarily influenced by secured promissory notes.

The liquidity was guaranteed at all times in the past financial year. There continues to be a liquidity reserve in form of credit lines not yet used in full and bank balances.

Net debt amounted to € 884.0 million on December 31, 2011 (December 31, 2010: € 786.1 million) and as of the balance sheet date was financed, on the one hand, with long-term promissory notes from various international and national banks with maturities in the area 2012–2016 as well as a loan, and on the other hand, with a bond placed in 2010.

In the course of the continuous and partially also early renewal and/or restructuring of utilized credit lines, the weighted interest rate of 2011 increased to 4.3% p.a. as compared to the relevant figure from the previous year of 4.0% p.a. The Executive Board expects only a slight change of the weighted average interest rate for financial year 2012, insofar as no substantial changes are generally undertaken in the existing financing structure.

Successful securing of new promissory notes

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

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

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

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

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

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

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

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

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

Purchase of the British branded product Cetraben®

In the second quarter of 2011, STADA signed contracts for the purchase of the British branded product Cetraben®.[1)] The sellers were various companies and a private individual. The purchase price amounted to GBP 30 million (approx. € 34.6 million). STADA used cash on hand to finance the acquisition.

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

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

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

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

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

Increased shareholding in Pymepharco Joint Stock Company

In the second quarter of 2011, STADA used the contractually agreed option to increase the shareholding in the Vietnamese pharmaceutical company Pymepharco Joint Stock Company – the business activities of which include the production and sale of pharmaceutical products as well as import activities for the Vietnamese health care and pharmaceutical market – from 23.7% to the maximum amount of 49% in order to benefit even more from the growth opportunities in Vietnam in the future. The purchase price for this investment amounts to a total of € 25.2 million, of which € 15.1 million was paid in financial year 2011.

License and collaboration agreements for two biosimilar products signed

In the third quarter of 2011, STADA and Gedeon Richter Plc, signed license and collaboration agreements for the development and marketing of two biosimilar products for the monoclonal antibodies Rituximab and optionally Trastuzumab.[1)]

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

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

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

1) See the Company's corporate news of August 30, 2011.

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

Sale of oncological product Tobra-cell®

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

Development of the balance sheet

Intangible assets fell to a total of € 183.0 million as of the balance sheet date (December 31, 2010: € 156.3 million). The changes in acquisition and production cost in the amount of € 53.1 million were offset by impairment/write-ups in the amount of € 26.4 million.

Property, plant and equipment decreased by € 1.1 million as compared to the previous year (December 31, 2010: € 78.5 million). The changes result from a decrease in investing activities compared with the previous year.

The **financial assets** went down as of December 31, 2011 to € 1,168.6 million (December 31, 2010: € 1,198.8 million). This change resulted on the one hand from a reduction of loans to BIOCEUTICALS Arzneimittel AG and on the other from valuation allowances[2)] on shares in associates. In addition, the capital guarantee granted[3)] to BIOCEUTICALS AG was not utilized.

Inventories increased to € 60.5 million[4)] as of December 31, 2011 (December 31, 2010: € 54.5 million). Inventories of finished pharmaceutical goods increased by € 5.7 million as compared to the previous year.

Trade accounts receivable decreased significantly from € 11.7 million as of December 31, 2010 to € 3.7 million as of December 31, 2011.

The item **cash and cash equivalents**, which is distinctly influenced by reporting date effects, amounted to € 224.1 million as of December 31, 2011 (December 31, 2010: € 110.4 million).

On the **equity and liabilities** side of the balance sheet, shareholders' equity rose to € 689.8 million as of the balance sheet date December 31, 2011 (December 31, 2010: € 675.2 million).

Provisions amounted to € 106.6 million as of the balance sheet date (December 31, 2010: € 85.5 million) and were thereby above the previous year's level. This change results primarily from the adjustment of provisions for discounts to health insurance organizations.

Liabilities to banks and from the issue of bonds, which primarily consist of promissory notes with maturities in 2012-2016 and a bond, increased as of December 31, 2011 to € 1,108.1 million (December 31, 2010: € 896.5).

Trade accounts payable increased to € 21.2 million as of as of the balance sheet date (December 31, 2010: € 16.5 million).

In view of these key figures, the Executive Board's view is that the STADA Arzneimittel AG's financial position continues to be stable.

1) Active pharmaceutical ingredient tobramycin 2.5 sulfate for the treatment of severe infections caused by tobramycin-sensitive agents.
2) In financial year 2010, two loans in the amount of € 5.5 million and € 6.7 million respectively were extended until December 31, 2012 and one loan in the amount of € 25.0 million was extended until December 31, 2014.
3) The capital guarantee was extended in financial year 2010 until December 31, 2011. At the same time, the amount of the capital guarantee was reduced from the original € 25.0 million to € 5.0 million.
4) Adjusted for the intangible assets held for sale within the Group.

Supplementary Report

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

These events included:

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

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

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

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

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

- On March 1, 2012, the Executive Board resolved and published to propose a dividend in the amount of € 0.37 per STADA common share (previous year: € 0.37) for financial year 2011.[8)]

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

Opportunities and Risk Report

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

Opportunities management

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

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

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

Risk management

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

Risk management system

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

The fundamental components of the risk management system are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Categories of risks and period of prognosis

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

Environmental and industry risks

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

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

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

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

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

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

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

Corporate strategy risks

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

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

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

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

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

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

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

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

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

Regulatory risks

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

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

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

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

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

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

Product portfolio risks

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

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

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

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

Legal risks

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

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

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

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

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

Performance-related risks

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

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

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

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

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

Human resources risks

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

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

Information technology risks

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

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

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

Economic risks

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

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

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

In addition, STADA generally conducts business transactions not against cash payment, but on an invoicing basis to numerous individual debtors. Thus, the fundamental, partly also cyclical commercial risk of debtor default is associated with this. STADA therefore strives to maintain business relations only with business partners of impeccable financial standing and in addition, partly uses suitable measures to safeguard itself against default risk, such as guarantees, loan insurances or the transfer of property, plant and equipment. However, it cannot be ruled out that these measures are insufficient and non-payments of individual debtors arise to a significant extent. In addition, there is the risk that in a difficult economic environment, national health care systems delay or fail to make payments to STADA or business partners of STADA and that, as a result, directly or indirectly increased default risks arise.

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

Financial risks

To the extent that it is possible, STADA counters financial risks with finance policy methods and a specific risk management.

The basic principles of financial policy and of financial risk management are determined or confirmed at least once annually by the Executive Board. In addition, all transactions above a relevant threshold determined by the Executive Board additionally require the Executive Board's prior approval, who, in addition, is regularly informed on the nature, scope and the amount of the current risks. With a view to assets, liabilities and planned transactions, these risks relate in particular to changes in exchange rates, interest rates and stock exchange prices. It is the objective of financial risk management to limit these market risks through the current operative and finance-related activities. For this purpose, depending on the assessment of the financial risk, selected derivative and non-derivative hedging instruments are used. However, on principle only financial risks are hedged which have significant consequences on the Group's cash flow.

STADA's currency risks result by far mainly from operating activities, investments and financing measures. Foreign currency risks which do not significantly influence the Group's cash flows remain unhedged while risks due to foreign currencies are usually hedged if they can significantly influence the Group's cash flows.

In the operating area, the individual Group companies carry out their activities mainly in their individual functional currency. For this reason, from today's perspective, the currency risk from the Group's current operating activities is estimated as low. There is, however, a significant currency translation risk in the transfer of results from local subsidiaries outside of the euro area into Group accounting. Some Group companies are exposed to foreign currency risks in connection with planned payments outside their functional currencies. These mainly relate to the refinancing of the Serbian Hemofarm group and the Russian subsidiary Nizhpharm.

STADA is primarily exposed to interest rate risks in the euro area, in the United Kingdom, Serbia and Russia.

STADA counters risks from interest rate and currency related fluctuations with derivative financial instruments, which are exclusively used to hedge interest and currency risks resulting from operating activities, financial transactions and investments. Derivative financial instruments are neither held nor issued for speculation purposes.

STADA, on principle, employs different financial derivatives to hedge assets, liabilities and anticipated future cash flows denominated in foreign currency. In the reporting year, STADA made particular use, among other things, of foreign-exchange futures contracts. The maturity dates of futures contracts are selected to match the Company's anticipated cash flows. Generally, however, their terms do not exceed one year. Based on the respective foreign currency planning, a hedge strategy is thereby developed in the context of a risk analysis, making use of the variance-covariance method.

However, it cannot be ruled out that the hedging strategies against currency risks turn out to be insufficient, wrong or suboptimal because, for example, the financial markets develop contrary to expectations and that adverse effects for STADA result from this.

In order to minimize the effects of interest rate fluctuations, STADA manages the interest rate risk for the financial liabilities denominated in euro and ruble with hedging transactions. STADA calculates existing interest rate risks using sensitivity analyses, which show the effects of changes in market interest rates on interest payments, interest income and expenses as well as equity.

In financial year 2011, to hedge the interest rate risk, there were cash flow hedges in the form of interest-rate swaps as well as interest rate swaps not part of a hedging relationship.

Payer interest-rate swaps, whose variable interest payments are changed into fixed interest payments are used to hedge the cash flow risks of floating rate debt. n the course of these hedging relationships, interest-rate related changes in the cash flows of the hedged items are offset against the changes in the cash flows of the interest rate swaps. Floating rate bonds are hereby converted into fixed interest ratefinancial liabilities and the resulting interest payment cash flows are accordingly hedged.

In addition, STADA may be exposed to a default risk in its operating business or as a result of financing activities if contracting parties fail to meet their obligations. To avoid default risks in financing activities respective credit management processes are in place and such transactions are generally only concluded with counterparties of impeccable financial standing. Past due receivables in the operating area are continuously monitored and potential default risks are anticipated through the creation of valuation adjustments.

The supply of goods and services to international wholesalers is also subjected to special monitoring. As of the balance sheet date, beyond the value adjustments on receivables from various Serbian pharmaceutical wholesalers reported as one-time special effects, there were no significant concentrations of risks.

Further financial risks relate to STADA's liquidity. To guarantee liquidity and to secure financial flexibility, a liquidity reserve in the form of credit lines and, insofar as it is necessary, cash reserves, are maintained. In this regard, STADA has completed bilateral credit agreements with various banks.

In addition, in the context of a hypothetical risk assessment, there are also other price change risks related to market prices. However, as of the balance sheet date, STADA only recognizes available-for-sale financial assets, whose fair values are determined based on market prices, to a non-significant extent.

In general, however, it cannot be ruled out that the financial policy methods and the specific financial risk management implemented by STADA and described above, prove insufficient to avoid all financial risks and the materially adverse effects for STADA that are potentially associated with them.

Value of STADA's assets

The value of the assets included in the consolidated balance sheet, in particular the goodwill and other intangible assets, are subject to careful and detailed review. Within the scope of an annual impairment test, the value of the goodwill as well as the other intangible assets with determinable and indeterminable useful lives is reviewed. In addition, in the case of specific indications, both intangible assets as well as property, plant and equipment are subject to a case-related impairment test. Generally, it can not be ruled out here that in the annual impairment tests or in the case-related impairment tests carried out over the course of the year that, for example, as a result of new findings in approvals or changes to the market conditions in individual national markets, a relevant impairment may occur. For a detailed description, in particular for the goodwill of the Hemofarm subgroup, please see Notes to the Consolidated Financial Statements Note 10. ff., as well as, in particular, Note 25. on capitalized goodwill including the parameters used and related sensitivity analyses.

Other risks

STADA is in possession of a number of trade and business secrets that must be treated with confidentiality. STADA makes use of confidentiality agreements with employees, external alliance partners, and service providers as well as with certain other contractual partners in order to safeguard these. However, there is no guarantee that these agreements and other protective measures taken to ensure business and trade secrecy actually represent effective protection or that they will not be violated. In addition, there is no assurance that business and trade secrets will not become known to competitors by other means. This may have adverse material effects on the Group.

Like any company, STADA as a Group and the STADA subsidiaries in their national markets are subject to additional general business risks such as unexpected disruptions in infrastructure, strikes, accidents, natural disasters, sabotage, criminal activities, terrorism, war and other unforeseeable materially adverse influences. STADA protects itself against such risks to the extent possible and financially reasonable through appropriate insurance policies. However, it cannot be ruled out that these insurances are insufficient.

Summary evaluation of risk

In the event that one or more of the above-mentioned risks should materialize or newly occur in the development of business, this could respectively have materially adverse effects on the Group's business activities. In particular, respectively material adverse effects on STADA's business, financial and earnings situation could be associated with this.

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

Takeover-Relevant Information: disclosures 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, 2011, share capital consisted of 58,966,360 ordinary shares, each with an arithmetical share of share capital of € 2.60 per share.

These ordinary shares of STADA Arzneimittel AG are exclusively registered shares with restricted transferability, which, under the Articles of Incorporation, can only be entered into the share registry with the approval of the Company and which, in accordance with the Articles of Incorporation, grant one vote each in the Annual General Meeting. Shareholders are only those who are registered as such in the share registry and only such persons are authorized to participate in the Annual General Meeting and to exercise voting rights.

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

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

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

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

The Articles of Incorporation may generally be amended through a resolution of the Annual General Meeting.

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

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

Authorizations of the Executive Board to issue or buy back shares

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

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

For the purposes of servicing these bonds with warrants and/or convertible bonds, the Annual General Meeting on June 10, 2008 conditionally increased the share capital by up to € 66,823,458.00 by issuing up to 25,701,330 registered shares with restricted transferability and carrying a dividend right as of the beginning of the financial year in which they are issued. The Executive Board is authorized to determine the further details of implementation of the conditional capital increase (Conditional Capital 2008/I). The Executive Board has not made use of this authorization to date.

The share capital of the Company was conditionally increased as of December 31, 2011 by up to € 8,902,036 by issuing up to 3,423,860 registered shares with restricted transferability (Conditional Capital 2004/I). The conditional capital increase will be effected only insofar as the holders of warrants exercise their option rights.

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

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

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

Prognosis Report

Further focus on business model with sustainable growth potential

STADA's business model has been characterized by constancy and sustainability for years. The Executive Board sees no fundamental need for a change in the business model and will, also in the future, focus the business activities of the Group on products with off-patent active pharmaceutical ingredients in selected segments of the pharmaceutical market. The core segments in this regard will continue to be Generics and Branded Products.

In the assessment of the Executive Board, the focus of STADA's business activities therefore continues to be on markets with long-term growth potentials - even if these can vary depending on economic, regulatory and competitive framework conditions from market to market and year to year (see "Business and General Conditions - Business Model, Core Segments and Structural Environment").

In light of this, the sales and earnings development of the Group in financial years 2012 and 2013 will continue to be generally characterized by differing and in part opposite factors in the various national markets. For the Executive Board's specific expectations regarding the existing opportunities and risks in individual segments and national markets in which the Group is active, see the reporting on regional developments.

Although in principle, in the case of an accumulation of difficult framework conditions in national markets that are particularly important for the Group, a weakened or reduced growth dynamic cannot be ruled out. With a view to the strategic success factors, the STADA Executive Board clearly sees the opportunity, however, to be able to generate further growth in the future.

Strategic success factors open growth opportunities

In the view of the Executive Board, STADA has a range of strategic success factors that are of particular importance in taking advantage of opportunities for growth and for securing the Group's future success.

One of these success factors is strong product development. Based on the product pipeline, which remains well-filled, STADA will continue in the future to constantly expand the Group portfolio – particularly in the core segment Generics. In addition to sales and earnings achieved in the context of new product launches, the opportunity also exists to attain an improved margin mix as well as for economy of scale effects insofar as the new products can be launched with margins that are initially better than the Group average or that they can be launched within the scope of existing sales structures in the individual national markets. In the context of a "time and cheap to market" strategy, STADA pursues the goal of launching new products not only at the earliest point in time in the respective national markets, but also at the best possible cost of sales.

Among the Group's further success factors is the international sales structure in currently 33 countries which has enabled STADA to market the products from the Group portfolio in a way which is adapted to the different regulatory and competitive framework conditions in the individual national markets. STADA intends to further expand this sales network in order to further reduce dependence on individual national markets, to be able to better counteract local challenges and risks in individual markets and to optimally use the respective growth opportunities.

In the context of the accelerated acquisitions policy pursued by the Group, the Executive Board aims to continue, on the one hand, the regional expansion of business activities in selected markets, preferably in high-growth emerging markets and, on the other hand, the expansion and internationalization of the Generics and Branded Products core segments. Against the backdrop of increasing pressure to reduce costs, to which the individual national health care systems are exposed, the Executive Board sees further growth opportunities in particular in the Branded Products segment as well, which is generally characterized by better margins and less regulatory intervention. The Executive Board generally does not exclude, also in the future, cooperations with a significant capital investment. For larger projects such as acquisitions or cooperations with capital investments, appropriate capital measures continue to be imaginable if the burden on the equity-to-assets ratio from such acquisitions or cooperations is not too high.

The high degree of flexibility with short decision-making processes, the decentralized sales organization with close market proximity and the centralized functional reporting structures also count among the Group's established success factors. This is of particular importance with regard to sales activities, because the ability to react in the short-term to structural, regulatory or competition-related changes, plays an essential role in both exploiting opportunities and reducing risks. For this reason, STADA will continue to pursue an aggressive price policy in individual cases with, if necessary, an associated decrease of operating margins, in order to achieve a better market position or a higher market share. The goal for this approach continues to be, however, that the business activities in the relevant market are profitable or become so within a foreseeable time.

In the context of earnings development, efficient cost management is of high importance in the Group. Because cost of sales represents by far the Group's largest cost item, STADA, in the scope of ongoing cost optimization, will continue to focus on this item and all costs within this context such as procurement costs of the active pharmaceutical ingredients and auxiliary materials as well as the costs which can be allocated to pharmaceutical production. These include, among other things, measures that involve suppliers in the market risk such as price escalation clauses or renegotiations as well as selecting suppliers in low-cost countries.

The further consistent implementation of "STADA – build the future" will also contribute in particular to strengthening the mid and long-term earnings potential. The Executive Board continues to expect that this project will allow additional earnings contributions to be achieved, which with the gradual implementation of the individual measures will add up to annual savings in the double-digit million euro area. As planned until the end of 2013, increased investments and burdens on the income statement due to project-related one-time special effects will continue to be associated with this approach.

STADA employees will continue to be of central importance for the further success of the Group in the future with their experience, their enormous commitment and their extensive expertise – especially in the areas of product development, procurement and production as well as sales and marketing.

Overall economic outlook

In the opinion of experts, the global economy is headed for the next crisis in 2012 if the industrial countries don't get a handle on their public debts. Alone the current uncertainty over whether the financial and economic policy measures will take hold, will presumably lead to a significant weakening of global growth in 2012. The refinancing possibilities of the southern euro countries and their economic prospects are shaped increasingly by the uncertainty of holders of government bonds. With a view to the further development of the global economy, the large emerging markets are becoming increasingly important, but are at the same time dependent on demand in the industrialized countries.[1)]

1) See Press release from the FAZ Institute World Economy 2012: Moderate Expansion – Big Risks.

According to estimates of the International Monetary Fund, global economic output will rise by 3.3%[1)] in 2012. For the European Union, a decrease in gross domestic product (GDP) of 0.1%[1)] in the current year is expected. In this context, the individual EU countries will, however, exhibit quite variable growth rates. For Germany, experts forecast an increase of 0.3%[1)] in GDP, and for France 0.2%[1)], whereas GDP will decrease in Spain by 1.7%[1)] and in Italy by 2.2%.[1)]

The situation in the capital markets in 2012 will be determined by security instead of yield, according to finance experts. Low interest rates, reduced profit expectations and political uncertainty shape the markets in the USA and Europe. This is expected to cause the euro to the US dollar exchange rate to fluctuate without clear direction. Precious metals and sustainable investments still remain in demand, according to current expert opinion.[2)]

In addition, the development of the common currency euro, which is also the Group currency for STADA, is also under careful scrutiny in 2012. The departure of individual countries would likely weaken the euro zone economically and bring with it additional currency risks. A complete abandonment of the common currency would, from today's perspective, have unforeseeable consequences and is not expected by most experts.

The Executive Board of STADA continually follows the opportunities and risks of global economic development. From today's perspective, the Executive Board sees no reason to question the Group's fundamental business model.

Industry specific outlook

A majority of national health care markets will also be characterized in the future by high growth opportunities that are relatively independent of economic activity. These opportunities are based, on the one hand, on general growth drivers in the form of global population growth, an aging society in industrialized countries and medical progress, and on the other, on specific growth drivers such as progressive generics penetration as a result of increasing spending restraints in individual national health systems and continuous patent expiries. Based on this continually increasing demand in the health care market and in view of the fact that in the health economy comparison, drugs are generally viewed as relatively quite efficient in comparison to other treatment methods, the international pharmaceutical market will continue to be characterized by further growth in the future. According to forecasts, sales in the international pharmaceutical market will increase by 4% to 6% annually until 2016 (see "Business and General Conditions - Business Model, Core Segments and Structural Environment").[3)]

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

For the future, IMS Health, a leading international pharmaceutical market research institute, has forecast an annual growth rate for the global generics market of up to 9.6%[4)] by 2016, although considerable volume increases may turn out to be weaker as a result of increased price pressure.

1) Source: International Monetary Fund: World Economic Outlook update of January 24, 2012.
2) See Press release from the FAZ Institute World Economy 2012: Moderate Expansion – Big Risks.
3) IMS MIDAS 2011; IMS Market Prognosis, Sep. 2011; IMS Institute For Healthcare Informatics analysis prepared for STADA, Feb. 2012. Data based on the 32 leading generics markets.
4) IMS MIDAS 2011; IMS Market Prognosis, Sep. 2011; IMS Institute For Healthcare Informatics analysis prepared for STADA, Feb. 2012. Market data on generics fluctuates – in some cases substantially – due to differing market definitions from source to source.

With a view to the sales volume for newly available active pharmaceutical ingredients for generics competition between 2012 and 2015 in the largest national markets by sales in Europe – Germany, France, Italy, Spain and the United Kingdom – which, according to current market research figures, will amount to more than € 13 billion, the STADA Executive Board expects that, in particular, the European generics market holds sustainable growth potentials.[1)] For most EU countries, STADA therefore anticipates further growth in generics penetration which may continue to vary greatly in the individual national markets.

This view is confirmed by estimates from IMS Health as well, according to which average annual generics growth in the EU will amount to an average of 6.1%[2)] from 2011 to 2013. For selected Eastern European markets[3)], IMS Health[4)] forecast an average annual generics increase of 8.2% until 2016. According to estimates from IMS Health, expected generics growth in Russia from 2012 to 2016 amounts on average to 12.3%.[5)]

With a share in sales of 23% currently generated by STADA in Eastern European markets with generics, the Executive Board continues to expect to be able to participate appropriately in the growth potential of this region. With a view to the growth opportunities forecast in Eastern Europe, a focus of the internationalization strategy which continues to be pursued by the Group is thus also on the expansion of Group activities in Eastern European countries.

General challenges and risks of the business model

In addition to the growth opportunities listed above, the Group is generally subject to operating challenges and risks, which are described in detail, among other things, in the scope of reporting on segments and the regional developments in the individual national markets and in the Opportunities and Risk Report (see “Business and General Conditions – Business Model, Core Segments and Structural Environment” as well as “Opportunities and Risk Report”).

In the Executive Board’s assessment, many of these challenges and risks are based on the structures and mechanisms of the market segments which STADA cannot influence and in which the Group is active. In light of the fact that to a significant extent, these cannot be separated from the structural growth opportunities, taking such risks in order to optimally take advantage of this growth potential is also unavoidable in the future (see “Business and General Conditions – Business Model, Core Segments and Structural Environment” and “Opportunities and Risk Report”).

STADA will, also in the future, continue to be active in markets and market segments which are characterized, among other things, by high price sensitivity, continued margin pressure, intense com petition and continuously changing regulatory framework conditions. In order to manage resulting challenges and risks, the Group will also continue to react flexibly and at short notice with counter-measures, such as sales restructuring in order to compensate for the continuing margin pressure by means of constant cost optimization.

Overall, for the Executive Board there continue to be no apparent challenges or risks from today’s perspective that would jeopardize the existence of the Group.

Specific challenges and risks as a result of economic effects

STADA’s business model is generally geared towards an industry in which demand tends to be independent of economic trends, so that business development in the Group is generally less influenced by global economic development and much more by regulatory conditions in individual national markets where the Group is active.

1) STADA estimate of sales volumes in 2011 at ex-factory prices for active pharmaceutical ingredients for which STADA from today’s perspective expects the patents or other commercial property rights relevant for generics competition to expire by 2015, based on data provided by various international market research institutes. STADA’s expectations as to the date of availability of active pharmaceutical ingredients for Generics competition are continuously being reviewed from a legal perspective and may in future significantly differ from today’s expectations (as of: March 1, 2012) as expressed in this data. The actual sales volumes becoming available for generics competition at the respective dates are subject to fluctuations as a result of changing market success, legal situations or market structures, among other factors.

2) Own calculation based on the analysis of IMS Institute For Healthcare Informatics, Feb. 2012; the calculation is based on the five leading West European generics markets.
3) Poland, Russia, Slovakia, the Czech Republic and Hungary.
4) Data from IMS Institute For Healthcare Informatics (2011): own calculation based on the IMS estimates for Poland, Russia, Slovakia, the Czech Republic and Hungary.
5) IMS MIDAS 2011; IMS Market Prognosis, Sep. 2011; IMS Institute For Healthcare Informatics analysis prepared for STADA, Feb. 2012.

Despite this, the Group will continue to have to deal with specific consequences of economic effects in the future in addition to the general challenges and risks associated with STADA's business model.

Against this backdrop, STADA prepares, within the scope of what is possible, for potential resulting specific risks such as defaults by business partners or strong volatility in interest rate levels and currency relations that are relevant for the Group (see "Opportunities and Risks Report"). However, in spite of this, burdens resulting from one-time special effects, for example due to payment defaults or non-operational effects from currency influences and interest rate hedge transactions cannot be completely ruled out. The sales and earnings contributions of STADA's business activities in the non-euro markets of Serbia and Russia will thus remain in financial years 2012 and 2013 predominantly influenced by the development of the currency relation of the Serbian dinar and the Russian ruble to the euro.

In addition, due to an economic-related long-term significant reduction in demand and/or sales in individual national markets or due to impairment tests, value adjustments for such intangible assets may be necessary, the balance-sheet value of which is primarily characterized by the currency relationship at acquisition and/or by future market expectations such as the goodwill of acquired companies or product approvals. In addition, there is the risk that in a difficult economic environment, national health care systems delay or fail to make payments to STADA or business partners of STADA and that, as a result, directly or indirectly increased default risks arise.

In view of the cost pressure already existing in numerous national health care systems, particularly in the case of weakened or negative economic development, the opportunity or risk generally exists that the speed and scope of local regulatory measures to reduce costs will increase further. In this context, regulation for generics can result in both weakening and stimulating effects, for example in the case of state-ordered price reductions or state-ordered incentives for the prescription of low-cost generics.

STADA's Branded Products core segment can however also be affected by regulatory framework conditions such as modified reimbursement regulations or pricing requirements as a result of economic developments. This applies however with lower frequency and less markedoperating consequences than with generics. Furthermore, weakened or negative economic activity in individual national markets can affect Group's branded products activities to the extent that the majority of the costs are assumed by the patients themselves and only partly reimbursed. This affects, in particular, STADA's business activities in the national markets in which the Group sells numerous products for self-pay patients.

Generally, economic effects and the associated situation in the financial markets with a view to financing possibilities can also affect the Group's acquisition policy. In this connection however, from today's perspective, the Executive Board does not see any significant limitations as STADA's debt structure is mainly organized in the long term (see "Financial Situation").

Financing

The financial situation of the Group continues to be and will remain, from the Executive Board's perspective, stable.

The Executive Board expects only a light change in the weighted average interest rate in the Group for the financial years 2012 and 2013 – insofar as no essential changes are undertaken in the existing financing structure.

In light of the good financial situation, the Executive Board expects to be able to finance the organic growth, i.e. growth without consideration of acquisitions, through generated cash flow in 2012 and 2013 as well.

For the key figure "net debt to adjusted EBITDA ratio" used in the Group, the Executive Board continues in the future to strive for a maximum value of 3. For 2012, however, it can be assumed that this target value will be exceeded due to the accelerated acquisitions policy; the Executive Board, from today's perspective, expects to approximately reach this target figure again by the end of 2013.

Investments

Overall, the future development of cash flow from investing activities with respect to total intangible assets that exist in the Group depends in particular on individual decisions on acquisition, cooperation and disposal projects. Regarding investments in other intangible assets to support organic growth in the context of the operating business, STADA plans investments of an amount similar to 2011 in the coming years.

For investments in property, plant and equipment in the financial years 2012 and 2013, STADA expects a scale similar to the level of 2011.

The further development of investments in financial assets generally depends on individual decisions on acquisition and/or investment projects.

Operative alignment and cost efficiency program "STADA – build the future"

STADA has a predominantly functionally centralized organizational structure in the areas of Finance, Development, Production including Procurement and Quality Management, Risk Management, Compliance, Corporate Governance as well as overall responsibility for the Group strategy. The sole exception is sales functions, which are primarily locally and regionally organized in order to ensure a high degree of market proximity. On the basis of agreed targets, the sales responsibility related to sales and earnings of the individual local sales company, its product portfolio and its personnel management lies with the respective local management (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Operative Alignment").

STADA will continue to adhere to this organizational structure in the future, because as a result of the Group-wide harmonization and centralization – on the basis of this operative alignment – the Group increased efficiency and at the same time gained the necessary flexibility and market proximity for the business model to be able to react quickly to changing framework conditions.

In view of the business model focused on long-term growth markets and the proven strategic success factors, STADA also has the opportunity in the years to come to benefit from this growth. However, also in the future, an essential requirement for this will be that the Group is in a position to adjust its own operating structures to the continually changing structural framework conditions of the various national markets.

Against this backdrop, STADA will consistently continue in the implementation of the Group-wide cost efficiency program "STADA – build the future", scheduled for the period of 2010 to 2013, which aims at strengthening mid and long-term earnings potential.

In addition to numerous running measures to improve internal efficiency in the areas of production, procurement and the supply chain, as well as development, quality management, and marketing and sales, the Group's Irish production facility was also sold in the first quarter of the current financial year (see "Supplementary Report"). Besides reducing the number of employees by approx. 180 as a result, the goal of this sale was to improve local utilization at other STADA-owned production facilities, with the commenced, successive transfer of the production volumes of the Irish production facility to these facilities, and thereby lower unit costs of the respective products on the medium term.

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

In the context of the implementation of the "STADA – build the future" project, a total of approx. 800 full-time positions and thus approx. 10% of the existing Group-wide personnel level at the beginning of financial year 2010 are also to be reduced – mainly outside Germany (see "Business and General Conditions – Business Model, Core Segments and Structural Environment – Further Consistent Implementation of 'STADA – build the future'"). STADA expects to achieve the personnel reduction originally planned for the period of 2010 to 2013 of approx. 10% within the current financial year and thereby one year earlier than planned.

Summarizing outlook including statements on the development of sales and earnings

STADA's business model is geared towards markets with long-term growth potential and growth opportunities in the health care and pharmaceutical market. Inseparably linked to this, however, are also risks and challenges resulting in particular from changed or additional state regulation and intensive competition. In view of this, in the Executive Board's assessment, far-reaching regulatory interventions, a high level of competition, default risks and significant margin pressure can continue to occur in individual national markets in the future. The latter applies primarily to the increasing volume of business activities in the Generics core segment characterized by tenders.

In addition, STADA will continue to have to deal with non-operational influence factors. The most important currency relations for the Group, in particular of the Serbian dinar and the Russian ruble to the euro, will thus also affect the Group's future development in financial years 2012 and 2013. Furthermore, STADA will still have to deal with the effects of the global economic and financial crisis. In view of this, the Group continues to prepare itself, within the realm of possibility, for specific potential risks in this regard, such as a significantly increased default risk of business partners, subsidies to crisis-prone competitors that distort com petition or continued strong volatility in interest rate levels and currency relations that are relevant for the Group. However, in view of the extraordinary dimension of the global financial and economic crisis, burdens which result from this such as one-time special effects from payment defaults or non-operational burdens on earnings from currency influences can, as before, not be ruled out.

The sales and earnings development of the STADA Group will continue to be characterized by various and partially stimulating, but also in part very challenging framework conditions in the various national markets in which STADA is active. In the overall assessment of opposing influence factors, the Executive Board, from today's perspective, nevertheless expects a further clear increase in Group sales for 2012 and 2013, in particular with the inclusion of the current acquisitions, the purchase of the branded product package from Grünenthal[3] for various national markets as well as the purchase of Spirig Healthcare's generics business[4].

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

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

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

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

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

Furthermore, the Executive Board affirms its long-term prognosis envisaged for 2014[3], according to which Group sales of approx. € 2.15 billion, at an adjusted level, EBITDA of approx. € 430 million and net income of approx. € 215 million should be reached. The Group's recent acquisitions, which STADA finances organically, i.e. without a capital increase, give the Executive Board a high level of confidence that these long-term growth targets will, at a minimum, be reached despite the operating challenges that still remain in individual national markets.

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

Auditor's Report

We have audited the financial statements – comprising the balance sheet, the income statement and the 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, 2011. 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 the accounting, financial statements and the management report are examined primarily on a test basis within the framework of the audit.

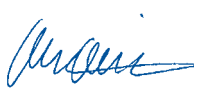
The audit includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

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 give a true and fair view of the net assets, financial position and results of operations of the company in accordance with general accepted accounting standards. The management report is consistent 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 am Main, March 14, 2012

PKF Deutschland GmbH
Wirtschaftsprüfungsgesellschaft



Roman Brinskelle
German Public Accountant

Santosh Varughese
German Public Accountant

Report of the Supervisory Board

Dear shareholders,

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

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

Meetings of the Supervisory Board and focus of activities

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

These meetings focused on the following themes, among others:

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

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

Composition of the Executive Board and the Supervisory Board

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

Work of the committees

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

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

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

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

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

Corporate governance

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

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

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

Annual and consolidated financial statements, audit

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

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

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

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

Bad Vilbel, March 22, 2012

Dr. Martin Abend
Chairman of the Supervisory Board

Responsibility Statement

To the best of our knowledge and in accordance with the applicable reporting principles for annual financial statements reporting, 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 the STADA Arzneimittel AG's expected development.

Bad Vilbel, March 14, 2012

H. Retzlaff
Chairman of the Executive Board

H. Kraft
Chief Financial Officer

Dr. A. Müller
Chief Production and Development Officer

Circular Resolution of the Executive Board

Appropriation of the balance sheet profit of financial year 2011

Subject to the approval of the Supervisory Board the Executive Board of STADA Arzneimittel AG, Bad Vilbel, consensually adopts the following resolution by written circulation procedure:

The Executive Board and the Supervisory Board will recommend to the Annual General Meeting of STADA Arzneimittel AG, Bad Vilbel, on May 30, 2012 to appropriate the balance sheet profit of financial year 2011 as follows:

in €	
Dividend distribution of € 0.37 per share	21,782,235.59
Balance carried forward to new account	1,534,387.94
Balance sheet profit	**23,316,623.53**

Bad Vilbel, March 14, 2012

H. Retzlaff
Chairman of the Executive Board

H. Kraft
Chief Financial Officer

Dr. A. Müller
Chief Production and Development Officer

www.stada.de
www.stada.com

STADA
Arzneimittel