STADA
Arzneimittel

STADA KEY FIGURES

Key figures for the Group in € million	2013	Previous year[1]	± %
Group sales	2,014.4	1,837.5	+10%
• Generics (core segment)	1,234.8	1,213.1	+2%
• Branded Products (core segment)	708.5	596.2	+19%
Operating profit	251.5	202.1	+24%
Operating profit, adjusted[2] [3]	*306.3*	*266.2*	*+15%*
EBITDA (Earnings before interest, taxes, depreciation and amortization)	383.5	323.7	+18%
EBITDA (Earnings before interest, taxes, depreciation and amortization), adjusted[2] [3]	*415.2*	*367.4*	*+13%*
EBIT (Earnings before interest and taxes)	252.7	205.9	+23%
EBIT (Earnings before interest and taxes), adjusted[2] [3]	*307.4*	*270.0*	*+14%*
EBT (Earnings before taxes)	189.4	135.6	+40%
EBT (Earnings before taxes), adjusted[2] [4]	*240.8*	*200.5*	*+20%*
Net income	121.4	86.5	+40%
Net income, adjusted[2] [4]	*160.6*	*147.9*	*+9%*
Cash flow from operating activities	205.4	212.7	-3%
Capital expenditure	365.1	401.0	-9%
Depreciation and amortization (net of write-ups)	130.8	117.9	+11%
Employees (average number calculated on the basis of full-time employees Jan. 1 – Dec. 31)[5]	9,154	7,814	+17%
Employees (as of the balance sheet date calculated on the basis of full-time employees)	9,825	7,761	+27%

Key share figures	2013	Previous year[1]	± %
Market capitalization (year-end) in € million	2,171.7	1,448.3	+50%
Year-end closing price (XETRA®) in €	35.93	24.41	+47%
Number of shares (year-end)	60,442,500	59,332,260	+2%
Average number of shares (without treasury shares)	59,571,959	59,059,393	+1%
Earnings per share in €	2.04	1.46	+40%
Earnings per share in €, adjusted[2] [4]	*2.70*	*2.50*	*+8%*
Diluted earnings per share in €	2.00	1.44	+39%
Diluted earnings per share in €, adjusted[2] [4]	*2.65*	*2.47*	*+7%*
Dividend per share in €	0.66[6]	0.50	+32%
Total dividend payments in € million	39.8[6]	29.6	+34%
Distribution ratio as a percentage	33%[6]	34%	-3%

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).
2) The deduction of such effects which have an impact on the presentation of STADA's earnings situation and the derived key figures aims at improving the comparability of key figures with previous years. To achieve this, STADA uses adjusted key figures, which, as so called pro forma figures, are not governed by the accounting requirements in accordance with IFRS. As other companies may not calculate the pro forma figures presented by STADA in the same way, STADA's pro forma figures are only comparable with similarly designated disclosures by other companies to a limited extent.
3) Within the context of this report, adjustments in connection with the operating profit, EBITDA and EBIT generally relate to one-time special effects.
4) Within the context of this report, adjustments in connection with EBT, net income, earnings per share and diluted earnings per share generally relate to one-time special effects and effects from the measurement of derivative financial instruments under financial income and expenses.
5) This average number includes initial consolidations on a pro-rata basis.
6) Proposed.

STADA AT A GLANCE

STADA BUSINESS MODEL

- Focus on products with off-patent active pharmaceutical ingredients in the health care market – concentrating on the pharmaceutical market
- Core segments
  - Generics (61% of Group sales)
  - Branded Products (35% of Group sales)
- Strategic success factors
  - Focus on long-term growth markets with accelerated growth in emerging markets
  - Comprehensive generics portfolio and expansion and internationalization of attractive-margin branded products
  - Efficient and functional reporting lines with strong regional positioning in the area of marketing & sales and short decision-making processes
  - Successful product development without cost-intensive research
  - Strong organic growth complemented by promising acquisitions
  - Established culture of continuous cost optimization including the identification of individual projects to improve efficiency

STADA FINANCIAL YEAR 2013

- Group sales rise to € 2.0 billion (+10%) – organic growth +6%
- All reported key earnings figures exceed previous year
  - Reported EBITDA increases to € 383.5 million (+18%)
  - Reported net income shows growth to € 121.4 million (+40%)
  - Earnings per share rises to € 2.04 (+40%)
- All adjusted key earnings figures at the Group level exceed previous year
  - Adjusted EBITDA records growth to € 415.2 million (+13%)
  - Adjusted net income rises to € 160.6 million (+9%)
  - Adjusted earnings per share rises to € 2.70 (+8%)
- Substantial growth in emerging markets, particularly Russia (+22%) and Vietnam (+328%)
- International expansion of self-pay patient portfolio from high sales growth in branded products (+19%)
- Strong product development with 724 product launches worldwide and thereby the highest amount in STADA's history (previous year: 717 product launches)
- Active acquisition policy especially to strengthen the Branded Products segment
- Successful placement of a second corporate bond in the amount of € 350 million
- Significant growth in the STADA share price of 47%
- Recommendation for a substantial dividend increase of 32% to € 0.66 per STADA common share (previous year: € 0.50).

STADA OUTLOOK

- Outlook for 2014: slight growth in
  - Group sales
  - Adjusted EBITDA
  - Adjusted net income

STADA Annual Report 2013

LETTER TO SHAREHOLDERS FROM THE CHAIRMAN OF THE EXECUTIVE BOARD

Dear shareholders,

In financial year 2013, the sales and earnings development was within the scope of our expectations. Both Group sales and all reported key earnings figures and key earnings figures adjusted at the Group level increased. Adjusted EBITDA – one of our key performance indicators – increased by 13% to € 415.2 million. The adjusted EBITDA margin was 20.6%. The development of these two key earnings figures shows that we are moving ahead as planned in the areas of cost efficiency and the concentration on high-growth emerging markets and high-margin branded products. In Branded Products, which are gaining increasing importance for us, we recorded, for example, sales growth in the amount of 19% to € 708.5 million. Worth mentioning here is not just the exceedingly positive growth in sales, but also the fact that branded products now contribute 51% to the adjusted operating profit of the core segments – and the upwards trend is accelerating.

With a view to regional development, the market region CIS / Eastern Europe should be highlighted, on one hand, with sales growth of 19% to € 629.2 million. Not only do our two largest markets of Russia and Serbia show thoroughly positive business developments, but so do Kazakhstan and Ukraine each with substantial double-digit sales growth in percentage. On the other hand, sales of the Asia & Pacific market region increased significantly by 190% to € 72.4 million – particularly due to the consolidation of the Vietnamese companies Pymepharco and STADA Vietnam.

The development of our Branded Products segment, as well as the business development of the two market regions CIS / Eastern Europe and Asia & Pacific, counts as proof that we are correct in our multi-pillar strategy. We have also made further progress in 2013 in the context of the active acquisition policy we pursue. With OTC supplier Thornton & Ross, we were able to acquire the number 5 in the British OTC market and, at the same time, the fastest growing top company in the British pharmaceutical market. In the current financial year 2014, furthermore, we concluded the purchase of the Russian branded product portfolio Aqualor® for the area of sinusitis and sore throat. Over the past five years, the products were not only able to generate average sales growth of approx. 34%, but in 2012 they reached a substantially higher EBITDA margin than that of the average for branded products in the Group. In Vietnam, we also achieved control of Pymepharco and STADA Vietnam in 2013.

At the end of 2013 in Myanmar, we were able to take a further step towards the regional expansion of our business activities in countries where we are not yet present. Local partners have since been introducing STADA generics and STADA branded products to the market via in-licensing. With our local activities, we are one of the first western pharmaceutical companies in this Southeast Asian country that shows substantial pent-up demand since its opening – particularly in the area of high-quality, low-cost medicines – and thereby offers us good growth opportunities.

We proved the strength of our product development in 2013 with the introduction of 724 individual products worldwide – the highest amount in Company history. We extended our range of biosimilars by in-licensing Grastofil, the filgrastim product of Apotex, the largest independent Canadian pharmaceutical company. Furthermore, we still posses the license and collaboration agreements for the development and marketing of the two monoclonal antibodies Rituximab and optionally Trastuzumab.

In the reporting year, the Group's financing structure was further strengthened by the placement of a second five-year corporate bond in the amount of € 350 million with an interest rate of 2.25% p.a. The successful issuance of the bond which was oversubscribed by more than three times showed us once again that participants in the refinancing market continue to have great trust in the viability and sustainable performance of our Group, and that we would have substantial room to maneuver on the capital markets for additional financing possibilities other than capital increases, if we were to need this for external growth.

In the context of our Group-wide cost efficiency program "STADA – build the future", which we concluded at the end of 2013 as planned, the remaining outstanding measures were implemented. They include, among other things, the founding of STADA IT SOLUTIONS DOO in Serbia, a shared IT service center for the Group with which we will generate net cost savings of over € 2 million as of the current financial year and substantially more than € 3 million as of 2015. In the second half of 2013, furthermore, we took necessary measures which led to the implementation of our resolved tax optimization program and allowed for the realization of tax improvements.

The STADA share price developed very well in 2013. Overall, STADA's share price increased in the period by 47% as compared to the previous year. We thereby beat the 39% increase of the MDAX® in 2013, the index which STADA's share belongs to, by no small margin.

Against the backdrop of the strong devaluation of the Russian ruble and the Ukrainian hryvnia, as well as the uncertainties regarding the future business development in the context of the current CIS crisis, we in the Executive Board no longer expect to completely achieve the outlook for 2014 as published in the context of a long-term prognosis in 2010. However, we do expect slight growth in Group sales, adjusted EBITDA and adjusted net income.

Both the success achieved over the financial year and our future goals have only been, and will only be, possible to achieve thanks to the great performance and strong commitment of our employees whom I wish to thank on behalf of the entire Executive Board. We also extend our gratitude to the STADA Supervisory Board and the STADA Advisory Board for their professional cooperation characterized by mutual respect.

Hartmut Retzlaff
Chairman of the Executive Board

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In financial year 2013, the Supervisory Board of STADA Arzneimittel AG carefully executed the duties imposed on it in accordance with the law and the Articles of Incorporation. The Supervisory Board monitored the management of the Company and advised the Executive Board regularly in the management of the Group. In all decisions of fundamental importance for the Company, the Executive Board involved the Supervisory Board regularly, directly and in a timely manner. Within the scope of its supervisory and consultative duties, the Supervisory Board had the Executive Board inform it promptly and comprehensively through monthly oral and written reports on business development, the strategy and corporate planning including financial, investment and personnel planning as related to the Company and the STADA Group. At all times, the members of the Supervisory Board had the opportunity in the committees and in the plenum to critically examine the reports and proposed resolutions submitted by the Executive Board and to present input of their own. In particular, the Supervisory Board intensively discussed all business transactions of importance for the Company and reviewed them for their plausibility on the basis of the Executive Board reports. The Executive Board briefed the Supervisory Board – also between the regular meetings – regarding all questions of strategy, planning, business development, the risk situation, risk management and compliance. The Executive Board also briefed the Chairman of the Supervisory Board on the progress of business including the sales development and profitability, important business events and issues of particular importance. In addition, the Supervisory Board monitored the accounting process and the measures taken by the Executive Board for risk management, the internal control system, the internal auditing system as well as the compliance measures taken. The Executive Board explained in detail to the members of the Supervisory Board eventual deviations in the business development from the plans and objectives.

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

Meetings of the Supervisory Board and focus of activities

The Supervisory Board convened for a total of six meetings in financial year 2013 (on March 19, May 3, June 4, July 2, August 7 and November 12).

These meetings focused on the following themes:

- the Company strategy and its operative implementation,
- the acquisition policy,
- the economic situation of the Group, its segments and subsidiaries and, in particular, their respective sales, sales volume, costs and earnings development, the development of working capital, the cash flow, inventories, the balances and terms of receivables as well as the effects of the global financial and economic crisis,
- the market structures, development of demand, the competitive situation and the price, conditions and discount development in the individual market regions and in particular the development of market shares of the Group and the relevant competitors,
- the assets situation of the Group and its finance and liquidity situation considering especially the investment plans in the Group, the financing structures and refinancing strategies as well as the development of the debt-to-equity ratio,

- the risk and opportunities management and the significant risks for the Group that were revealed as a result as well as the internal control and auditing systems, contemplated, planned and executed acquisitions, disposals and cooperations of the Group as well as the integration of acquired companies and products in the Group, in particular that of Thornton & Ross, United Kingdom, and the Aqualor branded product portfolio, Russia, as well as the achieving of control over the Vietnamese companies Pymepharco and STADA Vietnam,
- the effects of regulatory state interventions on the Group and/or on the individual subsidiaries and the necessary reactions to these, especially in the German home market with regard to discount agreements with health insurance organizations,
- all significant aspects in the context of the implementation of the "STADA – build the future" Group project carried out in financial year 2013, 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 evaluation of cost-optimized process allocations, process and control optimizations and improvements including IT optimization through intercompany outsourcing.
- the product development and product portfolio of the Group,
- the realignment of the German sales organization,
- STADA's capital market position,
- Executive Board personnel issues, compensation questions and questions relating to company pension plans,
- questions on the composition and the efficiency of the Supervisory Board (including the execution of an efficiency review),
- issues of corporate governance and compliance,
- the filling of positions on the Advisory Board and
- the Annual Report and the interim reports of the Group prior to their respective publication.

Composition of the Executive Board and the Supervisory Board

The Executive Board consists of Hartmut Retzlaff (Chairman), Helmut Kraft (Chief Financial Officer) and Dr. Matthias Wiedenfels (Chief Business Development & Central Services Officer).

The following changes were made in the composition of the Executive Board in financial year 2013:

The Supervisory Board appointed Dr. Matthias Wiedenfels as Chief Business Development & Central Services Officer on May 3, 2013.

Dr. Axel Müller, Chief Production and Development Officer, resigned his position with effect from August 7, 2013.

In financial year 2013, regular elections of the Supervisory Board members representing the shareholders took place. The Annual General Meeting elected the Supervisory Board members Dr. Martin Abend, Dr. Eckhard Brüggemann, Dr. K. F. Arnold Hertzsch, Dieter Koch, Constantin Meyer and Carl Ferdinand Oetker to new terms in office on June 5, 2013. The employee representatives in the Supervisory Board remain Manfred Krüger, Heike Ebert and Karin Schöpper.

Work of the committees

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

The Audit Committee convened for four meetings in financial year 2013 (on March 18, May 2, August 6 and November 11). Within the framework of these meetings, it dealt primarily with the results, key figures, accounting, Group financing principles, internal risk management, internal audit and compliance in the Group. Furthermore, the auditor reported to the Supervisory Board in a meeting on the audit of the condensed interim consolidated financial statements and the interim Group Management Report of June 30, 2013.

The Human Resources Committee convened for seven meetings in financial year 2013 (January 25, February 15, April 30, July 1, August 5, August 6 and October 15). At these meetings the committee dealt with Executive Board personnel issues, compensation questions and issues relating to company pension plans.

Due to the size of STADA's Supervisory Board with six shareholder representatives, the Supervisory Board believes that a Nomination Committee as recommended by the German Corporate Governance Code in the version of May 13, 2013 is structurally superfluous. The Supervisory Board, however, created a Nomination Panel consisting of the Chairmen of the Human Resources Committee and the Audit Committee.

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

Corporate governance

In financial year 2013, 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 November 12, 2013 on the basis of the German Corporate Governance Code as amended on May 13, 2013 is printed in this Annual Report in the chapter "Corporate Governance Report" and is publicly available on the Company's website at www.stada.de or www.stada.com.

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

Annual and consolidated financial statements, audit

The Supervisory Board satisfied itself that the Company is being properly managed. The annual financial statements of STADA Arzneimittel AG and the consolidated financial statements as well as the Company's Management Report for financial year 2013 were audited by PKF Deutschland GmbH, Wirtschaftsprüfungsgesellschaft, Hamburg, and issued with an unqualified audit opinion. The Supervisory Board had no doubts with regard to the independence of the auditor. The auditor submitted the Statement of Independence as required by the Code. The main areas of the audit were established by the Supervisory Board within the scope of the commissioning of the auditor. The Audit Committee reviewed the annual financial statements and consolidated financial statements as well as the Management Report and the Group Management Report as well as the proposal for the appropriation of profits and also included the reports of the auditor on the audit of the financial statements in its review. The auditor reported on significant results of the audit in a meeting of the Audit Committee and was available for questions to the members of the Committee. The members of the Audit Committee dealt extensively with the submissions from the Executive Board and the audit reports and discussed these with the auditor. The Audit Committee raised no objections and recommended to the Supervisory Board to approve the financial statements and the Management Report as well as the Group Management Report and assent to the Executive Board's proposal for the appropriation of profits.

On the basis of the preparation by the Audit Committee, the Supervisory Board examined the annual financial statements and the consolidated financial statements prepared by the Executive Board, the Management Report and the Group Management Report of the Executive Board on the financial year 2013 as well as the Executive Board's proposal for the appropriation of profits. The Chairman of the Audit Committee reported to the Supervisory Board on the work and the audit results of the Audit Committee. The auditor reported to the Supervisory Board on significant results of the audit and was available for questions from members of the Supervisory Board. The Supervisory Board discussed the submissions mentioned above and the conclusions of the auditor in detail with the auditor and the Executive Board. Also following the final results of the Supervisory Board's own examination, the Supervisory Board had no objections to the annual financial statements, the Management Report, the consolidated financial statements and the Group Management Report on the financial year 2013 and concurred with the outcome of the audit. The auditor also determined that the Executive Board had implemented an appropriate information and monitoring system which, in its concept and use, is suitable for the early recognition of any developments that could threaten the continuation of the Company.

The Supervisory Board approved the annual financial statements and the consolidated financial statements prepared by the Executive Board. The annual financial statements are thus adopted. The Supervisory Board concurred with the individual assessments of the business situation and the outlook as given in the Management Report of the Executive Board and with the proposal of the Executive Board for the appropriation of profits that provides for a dividend of € 0.66 per STADA common share.

The Supervisory Board wishes to express its gratitude to all of the Group's employees, the Executive Board and management for their tremendous commitment to their work and the good result in financial year 2013.

Bad Vilbel, March 26, 2014

Dr. Martin Abend
Chairman of the Supervisory Board

OVERVIEW

Five-year comparison in € million	2013	2012[1]	2011[1]	2010[1]	2009[1]
Group sales	2,014.4	1,837.5	1,715.4	1,627.0	1,568.8
Operating profit	251.5	202.1	120.1	161.8	191.9
Operating profit, adjusted	*306.3*	*266.2*	*257.6*	*239.3*	*211.1*
EBITDA[2]	383.5	323.7	223.2	268.8	280.1
EBITDA, adjusted	*415.2*	*367.4*	*337.2*	*315.9*	*287.5*
EBIT[3]	252.7	205.9	121.2	162.1	192.5
EBIT, adjusted	*307.4*	*270.0*	*258.7*	*239.6*	*210.8*
EBT[4]	189.4	135.6	69.5	109.0	141.5
EBT, adjusted	*240.8*	*200.5*	*205.8*	*186.2*	*163.0*
Net income	121.4	86.5	22.0	68.4	100.4
Net income, adjusted	*160.6*	*147.9*	*146.6*	*133.3*	*115.8*

Positive business development according to expectations

In financial year 2013, the STADA Group recorded positive business development in line with the expectations of the Executive Board and reflected the outlook of the Executive Board published at the beginning of the year – except for the development of the adjusted EBITDA of the Generics core segment.

Group sales rose in the reporting year – with varying development in the individual market regions – by 10% to € 2,014.4 million (previous year: € 1,837.5 million). When effects on sales attributable to changes in the Group portfolio and currency effects are deducted, Group sales increased by 6% in 2013.

Earnings development in financial year 2013 was characterized by an increase in financial performance as shown by growth in all of the reported key earnings figures and key earnings figures adjusted at the Group level.

Reported operating profit grew by 24% to € 251.5 million (previous year[5]: € 202.1 million). Reported EBITDA increased by 18% to € 383.5 million (previous year[5]: € 323.7 million). Reported net income rose by 40% to € 121.4 million (previous year[5]: € 86.5 million).

After adjusting the key earnings figures for influences distorting the year-on-year comparison resulting from one-time special effects, operating profit increased by 15% to € 306.3 million (previous year[5]: € 266.2 million). Adjusted EBITDA recorded a plus of 13% to € 415.2 million (previous year[5]: € 367.4 million) and thereby reached a new record value in STADA Company history. Net income, adjusted for one-time special effects and effects from the measurement of derivative financial instruments under financial income and expenses, increased by 9% to € 160.6 million (previous year[5]: € 147.9 million).

In the overall opinion of the Executive Board, STADA achieved a positive result with this development in financial year 2013 based on the Group's sustainable business model focused on market regions with long-term growth potential.

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.). For reasons of the practicability caveat as specified under IAS 8.43 ff., the previous year figures for financial year 2011 and earlier were not adjusted.
2) Earnings before interest, taxes, depreciation and amortization.
3) Earnings before interest and taxes.
4) Earnings before taxes.
5) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

Stable financial position

In the opinion of the Executive Board, the financial position of the STADA Group remains characterized by a high degree of stability.

As of December 31, 2013, the equity-to-assets ratio was 29.6% (December 31, 2012[1)]: 30.5%) and was thereby satisfactory in the opinion of the Executive Board. Net debt amounted to € 1,306.8 million as of the balance sheet date (December 31, 2012: € 1,177.3 million).

The net debt to adjusted EBITDA ratio was 3.1 in the reporting year (previous year[1)]: 3.2).

The financing structure was further strengthened by the placement of a second corporate bond in the amount of € 350 million with a term of five years and an interest rate of 2.25% p.a. in the second quarter of 2013. In addition, as of December 31, 2013, there was 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., as well as long-term promissory notes with maturities in the area of 2014–2017 in the total amount of € 436.5 million for the long-term refinancing of the Group.

Cash flow from operating activities amounted to € 205.4 million in the reporting year (previous year: € 212.7 million). Free cash flow amounted to € -107.0 million in 2013 (previous year: € -255.8 million). Free cash flow adjusted for payments for significant acquisitions and proceeds from significant disposals amounted to € 134.9 million (previous year: € 149.6 million).

Successful product development with well-filled pipeline

With the further expansion of the product portfolio and 724 individual product launches worldwide – the highest amount in STADA's Company history – (previous year: 717 product launches), the Group once again proved the strength of its product development in financial year 2013.

An example of another timely generic product launch when the patent of the original product expired is the successful sales start in 2013 of products with the Viagra active ingredient sildenafil both in Germany as well as in numerous other European countries.[2)]

In view of the product pipeline, which remains well-filled, the Executive Board expects to be able to continuously launch new products in the individual national markets of the respective market regions – with a focus on generics in European countries – in the future as well.

Active acquisition policy with promising purchases

In financial year 2013, the STADA Group continued to pursue an active acquisition policy to further accelerate the Group's organic growth with external growth impulses. This generally focuses, on the one hand, on the regional expansion of business activities concentrating on high-growth emerging markets. On the other hand, the Group pursues the expansion and internationalization of the core segments, in particular branded products as they are generally characterized by better margins and less regulatory interventions than generics. The STADA Group made further value-enhancing purchases in the context of its active acquisition policy in the reporting year.

In 2013, the British STADA subsidiary STADA UK Holdings Ltd. acquired the British OTC supplier Thornton & Ross for a purchase price of approx. GBP 221 million (approx. € 259 million according to the valid exchange rate on the day the ad-hoc update was published) or approx. GBP 193 million on a so-called cash and debt-free basis (approx. € 226 million according to the valid exchange rate on the day the ad-hoc

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).
2) See the Company's press release of June 23, 2013.

update was published).[1)] As the number 5 in the British OTC market and at the same time the fastest growing company within the top 10 in the British pharmaceutical market at the time of acquisition, the company has numerous well-known non-prescription branded products in a wide range of indication areas such as cold, pain and dermatology.

In addition, the Russian STADA subsidiary OAO Nizhpharm signed a framework agreement for the purchase of the branded product portfolio Aqualor® in the reporting year.[2)] The purchase price for the Aqualor® product package amounts to a total of € 131 million in cash. The product package comprises ten prescription-free product presentations based on seawater in the form of sprays and drops with the local regulatory status of medical devices for the treatment of sinusitis and sore throat. Over the past five years, the branded product portfolio generated average growth in sales of approx. 34% and recorded an EBITDA margin in 2012 that was substantially above the average of branded products in the STADA Group. The closing of the contract, and therefore the consolidation of Aqualor® product sales, was completed as planned in the first quarter of the current financial year.

In financial year 2013, STADA also achieved control of the Vietnamese pharmaceutical company Pymepharco Joint Stock Company – whose business activities focus on the production and sale of pharmaceutical products as well as import activities for the Vietnamese health and pharmaceutical market – via additional indirect investments and legal arrangements. STADA shall benefit even more from the local growth opportunities as a result of the completed consolidation, taking minority interests into account, of Pymepharco which was previously treated as an associated company.

In the reporting year, furthermore, STADA achieved control of STADA Vietnam J.V. Co., Ltd., another company in the Vietnamese market whose business activities comprise the production and sales of pharmaceutical products. The consolidation, taking minority interests into account, of STADA Vietnam as a subsidiary – and not as a joint venture as in the past – further strengthened STADA's position in the growth market of Vietnam.

The control achieved over the Vietnamese pharmaceutical companies, as well as the related purchase price allocations, resulted in effects from the revaluation of the shares previously held in these companies. Please see the Notes to the Consolidated Financial Statements for more details.

STADA also acquired the pharmaceutical wholesale and commercial business of Spirig Pharma AG via Spirig HealthCare AG in 2013.

Implementation of outstanding measures of "STADA – build the future" with successful conclusion

In the context of the further 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 implemented the outstanding measures of reorganization with respect to the centralized control of Group companies in the reporting year. As planned, all significant activities were concluded or introduced by the end of 2013 after the personnel reduction goals were exceeded, having already been achieved a year earlier than planned in the previous year.

Considering that the operational implementation of "STADA – build the future" was nearly complete, the Executive Board evaluated measures for further cost optimization in the Group in cooperation with external consultants in 2013. As a result of the evaluation, the Executive Board, from today's perspective, does not deem it necessary to introduce a new efficiency program because the culture of continuous cost optimization that has meanwhile established itself to a wide extent in the Group regularly leads to the identification and introduction of efficiency-improving individual projects.

1) See the Company's ad hoc release of August 6, 2013 and ad hoc update of August 16, 2013.
2) See the Company's ad hoc release of October 18, 2013 and ad hoc update of February 28, 2014.

Measures introduced in the reporting year in the course of "STADA – build the future" include, among others, the founding of STADA IT SOLUTIONS[1], a shared IT service center for the Group in Serbia. In the second half of 2013, furthermore, STADA took necessary measures which led to the implementation of the tax optimization program – resolved by the Executive Board with effect as of July 1, 2013 – which resulted in tax improvements.

Significant growth in the STADA share price

The STADA share price developed very well in 2013. Overall, STADA's share price increased in the period by 47% as compared to the previous year. The MDAX®, the index which the STADA share belongs to, increased by 39%. Whereas STADA's market capitalization was € 1.448 billion at the end of 2012, it was € 2.172 billion at the end of 2013.

Dividend proposal

In the framework of STADA's consistent dividend policy, the Executive Board recommends the Supervisory Board to propose a dividend for financial year 2013 in the amount of € 0.66 per common share to the next Annual General Meeting on June 4, 2014.[2] This corresponds to a significant dividend increase of 32% as compared to € 0.50 per common share in the previous year. With the proposed resolution, the Executive Board aims to give shareholders a share in the increased reported net income without placing too great a restriction on the Group's financial flexibility for further growth nor jeopardizing the mid-term goal of decreasing net debt.

Established and wide-reaching risk management as well as opportunities management

The established and wide-reaching risk management system in the STADA Group aims to continuously identify relevant risks that may jeopardize the Company's continued existence, to assess their effects on the Group and to determine measures that can be taken in due time if necessary. Looking to the current state of the risk management system, there are currently no recognizable risks that could jeopardize the continued existence of the Group in the Executive Board's opinion. In order to strengthen the short, middle and long-term success of the Group, STADA's entrepreneurial activities also include opportunities management, which focuses on the recognition and realization of new growth potential and on ensuring and expanding upon existing growth opportunities. This is based on strategic success factors which primarily include strong product development, an international sales structure, an active acquisition policy, a functionally organized group, efficient cost management and qualified employees.

Outlook

In future, the sales and earnings development of the Group will also continue to be characterized by both growth-stimulating and challenging framework conditions in the individual markets of STADA's respective market regions. In the overall assessment of opposing influence factors, however, the positive prospects are expected to prevail. Against the backdrop of the strong devaluation of the Russian ruble and the Ukrainian hryvnia, as well as the uncertainties regarding the future business development in the context of the current CIS crisis, the Executive Board no longer expects to completely achieve the outlook for 2014 as published in the context of a long-term prognosis in 2010[3]. STADA does, however, expect slight growth in Group sales, adjusted EBITDA and adjusted net income. For more details, please refer to the information provided in the Prognosis Report of the Management Report in this Annual Report.

1) See the Company's press release of September 9, 2013.
2) See the Company's ad hoc release of March 3, 2014.
3) See the Company's ad hoc release of June 7, 2010.

BOARDS OF THE COMPANY

THE STADA SUPERVISORY BOARD
(as of March 1, 2014)

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

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

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

1) Employee representative.

THE STADA EXECUTIVE BOARD
(as of March 1, 2014)

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

Helmut Kraft
Chief Financial Officer
Executive Board member since 2010
Contract until December 31, 2018

Dr. Matthias Wiedenfels
Chief Business Development & Central Services Officer
Executive Board member since 2013
Contract until December 31, 2016

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

THE STADA ADVISORY BOARD
(as of March 1, 2014)

Members of the STADA Advisory Board are appointed by the Chairman of the Supervisory Board on the recommendation of the Executive Board and the Supervisory Board. According to the Company's Articles of Incorporation, the duty of the Advisory Board is to support and advise the Executive and Supervisory Boards. Furthermore, members of the Advisory Board are available to act as proxy for shareholders who do not wish to exercise their voting rights in person at the Annual General Meeting. The Advisory Board, appointed for five years from 2014 through 2018, currently includes the following orderly members:

Dr. Thomas Meyer, Seelze (Chairman)
Dr. Frank-R. Leu, Gießen (Deputy Chairman)

Rika Aschenbrenner, Mainburg
Wolfgang Berger, Gießen
Gerd Berlin, Haßloch
Alfred Böhm, Munich
Jürgen Böhm, Kirchhain
Axel Boos, Darmstadt
Reimar Michael von Kolczynski, Stuttgart
Dr. Wolfgang Schlags, Mayen
Jürgen Schneider, Offenbach

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

THE STADA SHARE

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

Capital structure

As of December 31 2013, the subscribed share capital of STADA Arzneimittel AG was at an amount of € 157,150,500 (December 31, 2012: € 154,263,876) consisting of 60,442,500 registered shares with restricted transferability[1] (December 31, 2012: 59,332,260 registered shares), each with an arithmetical share in share capital of € 2.60. Changes from the previous year resulted from the exercising of 55,512 warrants 2000/2015[2]. As of December 31, 2013, 97,386 warrants 2000/2015 for the subscription of 1,947,720 STADA registered shares with restricted transferability were thus still outstanding.

Capital structure of STADA Arzneimittel AG	Dec. 31, 2013	Dec. 31, 2012
Number of issued registered shares with restricted transferability	60,442,500	59,332,260
Number of outstanding warrants 2000/2015[2]	97,386	152,898
Number of potential shares from warrants 2000/2015[2]	1,947,720	3,057,960

Significant growth in the STADA share price

The STADA share price developed very well in 2013. Whereas the STADA share price closed at € 24.41 at the end of 2012, it amounted to € 31.94 at the end of the first quarter of 2013. At the end of the second quarter, the share price was at € 33.07 and arrived at € 37.49 at the end of the third quarter of 2013. With a closing price of € 35.93 at the end of 2013, STADA's share price grew by a total of 47% in 2013.

The relevant national comparative indices for STADA showed percentage-rate differences in their share price rises during the course of 2013. The German benchmark index DAX®[3] recorded growth of 25% as compared to the previous year. The MDAX®[4], which the STADA share belongs to, increased by 39% in the same period. Both developments relate to their XETRA®[5] closing prices. The Bloomberg Pharmaceutical Index[6] increased in 2013 by 22% in comparison with year end 2012.

Whereas STADA's market capitalization was € 1.448 billion at the end of 2012, it was € 2.172 billion at the end of 2013. Based on Deutsche Börse AG's index system, which only considers free float, STADA was on place 17 in terms of market capitalization in the MDAX® in 2013. STADA occupied position 24 in this category in the previous year.

The average daily volume of the STADA share in the trading volume at the XETRA® trading and the Frankfurt Stock Exchange amounted to € 11.1 million in 2013. In 2012, the average trading volume per day of the STADA share was € 7.9 million. Based on Deutsche Börse AG's index system, STADA took place 13 in trading volume for 2013. In the previous year, STADA had occupied position 20 in this area.

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) DAX® is the index of Deutsche Börse AG, largely consisting of the 30 biggest companies by market capitalization and order book volume.
4) MDAX® is the index of Deutsche Börse AG for midcap companies, largely consisting of the 50 next-biggest companies by market capitalization and order book volume below the DAX®, thus also including the STADA share.
5) XETRA® is the electronic trading system of Deutsche Börse AG.
6) The Bloomberg Pharmaceutical Index is a market capitalization-weighted index of all companies involved in the pharmaceutical sector of the Bloomberg Europe 500 Index and it also comprises the STADA share.

STADA key share data	2013	2012[1)]
Number of shares (year-end)	60,442,500	59,332,260
Number of treasury shares (year-end)	91,989	93,676
Average number of shares (without treasury shares)	59,571,959	59,059,393
Year-end closing price (XETRA®) in €	35.93	24.41
High (XETRA® closing price) in €	42.41	26.23
Low (XETRA® closing price) in €	24.95	19.28
Market capitalization (XETRA®) in € million (year-end)	2,171.7	1,448.3
Earnings per share in €	2.04	1.46
Adjusted earnings per share in €	*2.70*	*2.50*
Diluted earnings per share in €	2.00	1.44
Adjusted diluted earnings per share in €	*2.65*	*2.47*
Dividend per share in €	0.66[2)]	0.50

Broad distribution of shareholder structure with 100% free float

On December 31, 2013, a total of approx. 37,000 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 approx. 60% of STADA's shares are held by institutional investors and that approx. 11% of STADA's capital is held by pharmacists and doctors.

As part of an employee share ownership program, STADA sold 1,687 of its own shares in 2013 at an average price of € 34.43. As of December 31, 2013, 91,989 treasury shares were thus held by the Company, compared to 93,676 shares which STADA held as of December 31, 2012.

In financial year 2013, the Group published all of the received voting rights notices according to Section 26 of the German Securities Trading Act (WpHG). These 22 received voting rights notices, as well as any received later, can be viewed on the website at www.stada.de or www.stada.com.

Directors' Dealings

In financial year 2013, STADA reported, according to information available to the Company, a total of three Directors' Dealings in the form of a sale, a purchase and the exercising of warrants. On April 2, 2013, Hartmut Retzlaff, Chairman of the Executive Board, sold 3,000 STADA warrants at a price of € 299.167 per warrant. Furthermore, Hartmut Retzlaff purchased 1,574 STADA shares at a price of € 32.449 per share on April 2, 2013. Hartmut Retzlaff also exercised 1,000 STADA warrants on November 13, 2013 and purchased 20,000 STADA shares at a purchase price of € 16.45 per share.

1)The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).
2) Proposed.

CORPORATE GOVERNANCE REPORT

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

DECLARATION OF CORPORATE GOVERNANCE

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

1. Declaration of Compliance 2013

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

STADA Arzneimittel AG complies with the recommendations of the German Corporate Governance Code in the version of May 13, 2013 (published on June 10, 2013 in the Federal Gazette) with the following deviations:

Section 5.3.3: Nomination Committee for Supervisory Board elections

In view of the size of STADA's Supervisory Board with six shareholder representatives the Supervisory Board believes that such an additional committee is structurally superfluous, but assigned the task of a nomination panel to the Chairmen of the Human Resources Committee and the Audit Committee; the additional remuneration, which pursuant to the articles of incorporation would be payable to Supervisory Board members involved in such a committee, is thus avoided.

Section 5.4.6, para. 2, sentence 2: Performance-related compensation of the Supervisory Board

In addition to an annual fixed sum the members of the Supervisory Board receive a variable remuneration depending on the Group earnings before tax until the end of the financial year 2013. The annual remuneration depending on the earning is oriented toward the performance of the Company and is a performance-related compensation of the members of the Supervisory Board in accordance with legal requirements.

On June 5, 2013 the Annual General Meeting resolved upon an adjustment of the remuneration policies that shall take effect at the beginning of the financial year 2014. Pursuant to Section 18 of the Company's articles of incorporation the members of the Supervisory Board will then receive a remuneration based on the long-term success of the Company in addition to the annual fixed remuneration. According to the resolution of the Annual General Meeting, the variable remuneration will thus comply with the recommendation in Section 5.4.6, para. 2 sentence 2 of the German Corporate Governance Code from January 1, 2014 onwards.

Section 6.3: Shares held by members of the Executive Board and Supervisory Board

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

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

Bad Vilbel, November 12, 2013

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

2. Relevant information on Company practices

Corporate governance

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

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

Risk Management and Internal Auditing

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

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

Strong compliance culture

Compliance comprises all actions taken by a company in line with legal requirements as well as the drafting and monitoring of internal regulations which a company places on itself. The goal of all compliance efforts is to avoid possible damage to the company and to prevent wrong-doing. At STADA, compliance is embedded in the mission statement of a responsible company leadership and corporate governance.

All of STADA's business processes and Group activities are carried out exclusively within the framework of respective laws in force.

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.

With the aid of various measures such as e-learning measures, traditional training, regular newsletters and leaflets with compliance-relevant content, STADA employees are informed on an ongoing basis of relevant legal requirements and internal guidelines.

The Chief Compliance Officer who is responsible for the Compliance Management System is a member of the Executive Board, coordinates the entire system and receives complaints and information – also anonymously if needed. The officer is supported in Germany and internationally by Compliance Managers, and by an external Ombudsman in Germany. In order to guarantee the adherence to external legal regulations and internal company policies of compliance in an effective manner, STADA regularly controls and further develops the Compliance Management System.

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

Details on the topics of "quality and safety", "sustainability and environment" and the mission statement of STADA can be found in this Annual Report in the chapters "Procurement, Production and Quality Management" and "Responsibility and Sustainability".

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

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

a) Executive Board

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

Tasks and responsibilities

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

STADA's Executive Board comprises at least two people in accordance with the Articles of Incorporation.

The following changes in the Executive Board occurred in the financial year: Effective May 3, 2013, the Supervisory Board appointed Dr. Matthias Wiedenfels as a member of the Executive Board of STADA Arzneimittel AG for Executive Board area of Business Development & Central Services. Dr. Axel Müller, Chief Production and Development Officer, resigned from the Executive Board of STADA Arzneimittel AG with effect from August 7, 2013 at 12:00 am. The Executive Board responsibilities for the area of production and development were distributed among the remaining three members of the Executive Board. Responsibilities were divided as follows as of March 1, 2014:

- Hartmut Retzlaff, Chairman of the Executive Board (under contract until August 31, 2016), is the Executive Board member responsible for the areas of Marketing and Sales, Corporate Strategy, Corporate Communications, Production, Purchasing and Procurement, Research and Development, as well as Biotechnology.

- Helmut Kraft, Chief Financial Officer (under contract until December 31, 2018), is responsible for, in addition to the area of Finance (Controlling and Accounting, Treasury and Taxes), the areas of Internal Auditing, IT, as well as Investor Relations.

- Dr. Matthias Wiedenfels, Chief Business Development & Central Services Officer (under contract until December 31, 2016), is the member of the STADA Executive Board responsible for Business Development, Portfolio Management, Human Resources, Legal, IP/Patents, Compliance, Export Control, Risk Management, Facility Management, as well as Quality Assurance and Quality Control.

Working practices of the Executive Board

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

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

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

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

The STADA Executive Board has not established any Executive Board committees.

Conflicts of interest

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

Remuneration Report

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

b) Supervisory Board

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

Tasks and responsibilities

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

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

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

The term of all of the shareholder representatives on the Supervisory Board ends with the completion of the Annual General Meeting 2018.

Working practices of the Supervisory Board

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

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

The Supervisory Board generally passes resolutions in meetings. Outside of meetings, resolutions made in written form, via telephone, telefax or with the aid of other common means of communication (via e-mail) are permitted. The Supervisory Board shall constitute a quorum if at least two thirds of its members, including the Chairman of the Supervisory Board or the deputy, are present, or absent members have another member of the Supervisory Board submit their written vote. Supervisory Board resolutions are passed with a simple majority of votes cast. In case of a tie, the chairman of the meeting shall have the casting vote.

Composition and working practices of the Supervisory Board committees

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

- Audit Committee

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

  The Audit Committee deals in particular with monitoring the accounting process, the effectiveness of the internal control system and that of the internal auditing system, the risk management system and compliance. Furthermore, the Audit Committee deals with the financial statement audits, in particular the required independence of the auditor, the additional tasks rendered by the auditor, the award of the audit contract to the auditor, the determination of the main areas for the audit and the fees agreement with the auditor. In addition, it discusses the annual and interim reports with the Executive Board prior to their publication.

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

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

- Human Resources Committee

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

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

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

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

- Nomination Panel

  As the declaration on the German Corporate Governance Code already submitted on November 12, 2013 describes in more detail, the Supervisory Board appointed a Nomination Panel, consisting of the Chairmen of the Human Resources Committee and the Audit Committee, to develop objectives and a profile for the composition of the Supervisory Board.

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

Goals for the composition of the Supervisory Board

In financial year 2012, the Nomination Panel presented to the Supervisory Board Plenum goals as well as an appointment plan for the composition of the members of the Supervisory Board to be elected at the Annual General Meeting on June 5, 2013 as representatives of the shareholders.

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

1. General goals

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

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

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

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

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

2. Concrete goals, appointment plan

a) required knowledge, abilities and specialist experience

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

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

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

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

b) personal requirements

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

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

c) appointment plan

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

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

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

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

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

Taking these goals into consideration, the Supervisory Board submitted a candidate recommendation at the 2013 Annual General Meeting, which was approved at that Annual General Meeting. A review of the goals of the Supervisory Board will be carried out in due time prior to the Supervisory Board election in 2018.

Conflicts of interest

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

Efficiency review

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

Remuneration Report

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

c) Advisory Board

The Chairman of the Supervisory Board convenes the members of the Advisory Board of STADA Arzneimittel AG upon recommendation of the Executive and Supervisory Boards. According to the Company's Articles of Incorporation, the duty of the Advisory Board is to support and advise the Executive and Supervisory Boards. Furthermore members of the Advisory Board are available to act as proxy for shareholders who do not wish to exercise their voting rights in person at the Annual General Meeting. The Advisory Board had 13 members on the balance sheet date. The currently elected 11 members of the Advisory Board are appointed until the end of financial year 2018. The Remuneration Report, which can be found in the Management Report of the Executive Board, presents the principles of the remuneration system of the STADA Advisory Board.

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

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

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

TRANSPARENT CORPORATE GOVERNANCE

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

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

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

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

FINANCIAL REPORTING AND FINANCIAL STATEMENT AUDIT

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

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

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

The Company does not have a stock option plan or similar share-based incentive systems.

The significant investments of the Company as well as the related parties are presented in the Notes to the Consolidated Financial Statements.

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

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

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

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

Management Report of the Executive Board

2013

BASIS OF THE GROUP
Group Business Model

Focus on health care market concentrating on pharmaceutical market

STADA's business model focuses on the health care market. As one of the global growth industries, the pharmaceutical market in particular is at the heart of the internationally focused Group activities.

The global health care and pharmaceutical markets recorded further growth in 2013. Sales in the international pharmaceutical market increased by approx. 2.9%[1)] to approx. € 739.6 billion[1)] as compared to the previous year.

In the Executive Board's assessment, numerous national health and, in particular, pharmaceutical markets will continue to be characterized in the future by high growth opportunities that are relatively independent of economic activity and based both on general as well as generics-specific stimulus. The former includes stimulus via global population increase, an aging society in industrialized nations and further medical progress. The latter involves an increasing drive to reduce costs in individual national health care systems as well as ongoing patent expirations. In view of the continually rising demand in the health care market and the fact that drugs continue to offer a relatively high level of efficiency as compared to other forms of treatment, further growth is also expected for the international pharmaceutical market in future. According to forecasts, sales in the global pharmaceutical market will increase by 5% to 7% per year until 2018 (see "Prognosis Report").[1)]

The STADA Group has focuses on selected segments within the health care and pharmaceutical market. In consideration of aspects of costs and risks, STADA deliberately refrains from conducting research on, and marketing new active pharmaceutical ingredients. Instead, the Group concentrates on the development and marketing of products with active ingredients – generally active pharmaceutical ingredients – which are free from commercial property rights, particularly patents. The products sold by STADA are primarily positioned in the two core segments of Generics and Branded Products.

With regard to regional divisions, STADA's business activities are broken down into the four market regions of Germany, Central Europe, CIS / Eastern Europe and Asia & Pacific.[2)]

In 2013, the composition of the Group changed in particular as a result of the acquisition of the British OTC supplier Thornton & Ross as well as the control achieved over the two Vietnamese pharmaceutical companies Pymepharco and STADA Vietnam (see "Economic Report – Business Development and Situation – Financial Situation").

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.[3)]

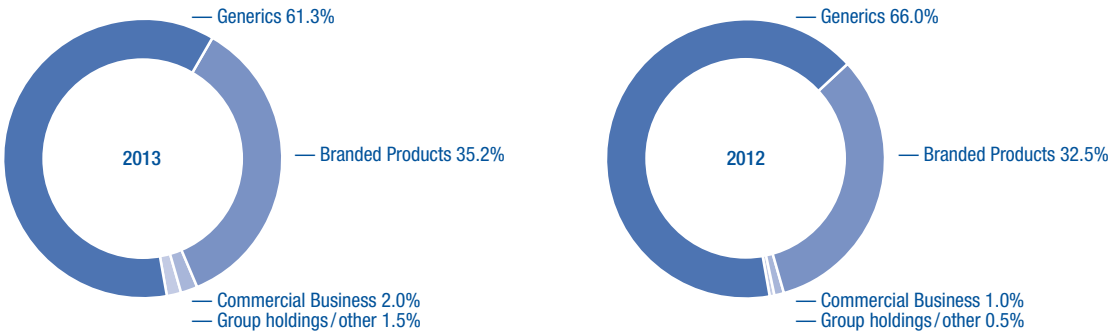
1) IMS Market Prognosis, September 2013; IMS Market Prognosis Global, September 2013; IMS Syndicated Analytics Service (September) 2013; prepared for STADA, March 2014.
2) For a breakdown of the national sales activities of the STADA Group according to the four market regions, see "Development of Segments".
3) For a detailed segment definition see "Notes to the Consolidated Financial Statements – Note 43.".

In addition to this different sales positioning, the two core segments are differentiated from one another in other areas such as the demand structure, growth and margin expectations as well as the respective requirements of portfolio expansion and development strategies.

In the Generics segment, the requirements on the product portfolio are strongly characterized by the regulatory structure of the individual markets in the respective market regions and the regional market power of the locally active STADA subsidiaries. This product portfolio commonly includes numerous dosage forms and strengths for the most relevant active pharmaceutical ingredients and thus partly also products with an only low significance for Group sales. In only a few markets such as the United Kingdom, on the other hand, STADA is active as a niche provider and offers a selected product portfolio with special active pharmaceutical ingredients that have good sales prospects in the respective market. The Group adopts this type of portfolio structure if it seems to be promising based on specific local market conditions, and in particular taking earnings aspects into consideration.

STADA pursues a generally selective portfolio approach in the Branded Products core segment. In this context, the Group markets branded products in consideration of availability and demand in selected markets of the individual market regions. STADA generally pursues the concept of "strong brands" which – as they are very well known and ideally as the local market leader – enjoy growth that is largely independent of local market trends with comprehensive promotional and sales support.

Share of core segments and non-core activities in STADA Group sales



In 2013, the two core segments Generics and Branded Products had a total share of 96.5% in Group sales (previous year: 98.5%). Generics generated 61.3% of Group sales (previous year: 66.0%); 86% of the generics are prescription products (previous year: 89%). Branded Products contributed 35.2% of Group sales (previous year: 32.5%); 59% of the branded products are non-prescription products (previous year: 61%).[1)]

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

1) At Group level, prescription products contributed approx. 69% (previous year: approx. 73%) and non-prescription products approx. 31% (previous year: approx. 27%) to Group sales (according to national categorization).

The **Commercial Business** segment includes activities primarily with a trading character such as wholesaling activities. In financial year 2013, the segment's share of Group sales amounted to 2.0% (previous year: 1.0%).

Other non-core activities not presented separately as well as Group holding-related items are reported under **Group holdings / other**. They contributed 1.5% to Group sales in the reporting year (previous year: 0.5%).

Core segment Generics

Sales in the global generics market increased by 6.3%[1)] to approx. € 110.7 billion[1)] in 2013 as compared to the previous year. The market share of generics in the global pharmaceutical market amounted to approx. 15.0%[1)].

In the view of the Executive Board, the Generics segment, in particular, has 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 health care markets. In addition, the potential available for generics competition is constantly being expanded due to the expiration of patents or other commercial property rights.

This assessment is also confirmed by forecasts of IMS Health, a leading international pharmaceutical market research institute (see "Prognosis Report").

In the reporting year, the STADA Group maintained its position as number 5[2)] in terms of sales in the international ranking of classic generics companies according to the Company's own estimates. In a large number of the Group's important national markets of the individual market regions, the individual STADA subsidiaries occupied leading positions in the relevant market segments in 2013 as in past years.

Core segment Branded Products

In consideration of continued growth, the Executive Board intends to continue the expansion and internationalization of the Branded Products core segment as it is generally characterized by less regulatory intervention and better margins.

In the reporting year, STADA was able to strengthen the brands segment through the purchase of the British OTC supplier Thornton & Ross[3)] as well as by signing the contract for the purchase of the Russian branded product Aqualor®[4)] (see "Economic Report – Business Development and Situation – Financial Situation").

Operative alignment

In the context of the operative alignment, STADA Arzneimittel AG is the central strategic leader in the areas of Development, Production, Procurement, Central Purchasing and Quality Management. The same applies to the areas of Finance, Risk Management, Compliance, Corporate Governance as well as to the overall responsibility for the Group strategy. The sole targeted exception is sales functions, which are organized through the STADA market regions with a primarily local and regional focus in order to ensure the greatest degree of market proximity in accordance with Group strategy. On the basis of agreed targets, the sales responsibility related to sales and earnings of the market regions, their product portfolio and their personnel management lies with the respective regional management.

1) IMS Market Prognosis, September 2013; IMS Market Prognosis Global, September 2013; IMS Syndicated Analytics Service (September) 2013; prepared for STADA, March 2014.
2) Source: STADA estimate.
3) See the Company's ad hoc release of August 6, 2013 and ad hoc update of August 16, 2013.
4) See the Company's ad hoc release of October 18, 2013 and ad hoc update of February 28, 2014.

In the context of this operative alignment, STADA pursues the goal of possessing the necessary flexibility and market proximity for the business model to be able to react quickly to changed framework conditions, despite the Group-wide harmonization and centralization that is needed in order to increase efficiency.

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

Product Development

Strategic and organizational basis of development activities

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

The focus of Group-wide development activities is on the development of new products for international marketing using STADA's sales companies. Additional development activities focus on the expansion of the existing product portfolio by way of additional dosage forms or strengths and the internationalization of nationally successful products. The Group also focuses on the support of transfer projects, such as by the transfer of knowledge in the production area, as well as the optimization of products already launched with the goal of reducing the cost of sales or to create improvements in potential areas of application.

Development activities for new products focus on market readiness. In the case of pharmaceuticals this usually involves receiving national approval from the responsible regulatory authorities in the context of differentiated, partly supranational approval processes. In the majority of cases, STADA prefers supranational, in particular EU-wide, approval procedures, in order to achieve numerous national approvals of a product in different countries nearly simultaneously. 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. With this international orientation of development activities, the Group also aims at generating economy of scale effects through optimized batch sizes.

The Group's development activities are generally aimed at the long term, in order to drive organic growth via a continuous flow of new product launches particularly in the core segment Generics. In view of this, STADA is now already working on the development of generic products with potential launch dates beyond 2020. STADA currently assumes a regulatory preparation time including an approval period of at least three years for Generics with Group-wide relevance. For this reason products which the Group plans to launch within this time frame are thus generally already in the approval process today. The Group generally pursues a "time and cheap to market" strategy with the goal of launching new products not only at the earliest point in time, but also at the best possible cost of sales.

With a view to the great significance that strong product development has for the Group's success, the planning and organization of development activities is primarily centrally structured. STADA's development activities generally utilize in-house as well as third-party development, among other things. Internal development centers are located in Bad Vilbel, Germany, and Vrsac, Serbia. In the context of development contracts, for example, four projects are currently being implemented by third-party developers in India. Apart from in-house development, STADA generally uses an international network of external development partners in the area of product development and partially or fully acquires dossiers or approvals from third parties in selected projects. The Group – as is usual in this sector in some cases – also enters into joint development projects with competitors. In general, 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 – which is also significant in terms of costs – of increasing the number of in-house developments of strategically relevant and high-sales products, STADA has continually expanded internal development activities in recent years. This allows for, among other things, the optimization of procurement and production costs in the initial years because it is possible to reduce the acquisition of dossiers and the

corresponding initial supply commitments. Looking to an additional factor in costs, an important role is played by the increasing concentration of in-house developments at low-cost Group locations. If new products are not significant at the Group level, local business units also carry out their own development in exceptional cases.

In the context of the implementation of the Group-wide cost efficiency program "STADA – build the future", STADA continued the development activities in low-cost Group locations in the reporting year. In the meantime approx. 55% of ongoing Group-wide in-house developments of generics are processed by the development center in Vrsac, Serbia.

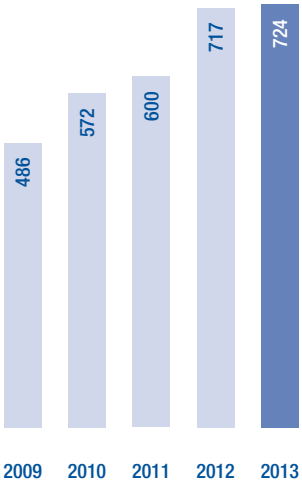
For the management of all development projects, STADA has central project management with active interface management which facilitates the transparent management of product development in the Group.

Development activities clearly focus on the core segment generics. Depending on the local patent and approval situation and on the relevant market strategy, STADA or the management of the respective market region decides which active pharmaceutical ingredients are to be launched into a market and at what time. As the long-term success of a generic drug also depends on its time of launch, STADA 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 on the day of or as soon 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 market, the commercial property rights that have to be observed play an important role as their scope and duration can be very different depending on the respective market. As a precautionary measure, the regional management and STADA Group management regularly receive legal recommendations on commercial property rights from both internal and external experts. Regardless of this, both 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 also give rise to a negative result.

In the Branded Products core segment, the development activities are better focused on individual markets and have a more flexible time frame than 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.

5-year development: Number of product launches



Sustainable development and approval strength

The Group's sustainable development and approval strength is evident in the large number of product launches every year. The Group once again proved the strength of its product development in financial year 2013 with 724 individual product launches worldwide – and once again the highest amount in STADA's Company history – (previous year: 717 product launches).

The great importance of STADA's successful product development is displayed by the 7% share in sales generated with products the Group introduced in the last two years[1)2)] (previous year: 8%).

The Group continues to have a well filled product pipeline. This assessment is confirmed by the high number of running approval procedures as of December 31, 2013 totaling over

1) Reporting year and previous year.
2) Not including products and sales from acquisitions.

1,100 for over 150 active pharmaceutical ingredients and active ingredient combinations for more than 50 countries. This applies in particular to generics in the EU. In addition the Group conducts approval activities also in markets outside of the EU where STADA has its own subsidiaries or is active in the export business.

An example of another timely generic product launch when the patent of the original product expired in numerous European countries is the successful sales start in the reporting year of products with the Viagra active ingredient sildenafil for the treatment of erectile dysfunction.[1)] With Sildenafil STADA, Sildenafil AL and Silda in mid 2013, the two German subsidiaries STADApharm GmbH and ALIUD PHARMA GmbH launched three generics of varying strengths – which are significantly less expensive than the original product in Germany.

In addition to the high number of successful new launches in the area of classic generics, the high level of expertise of product development also becomes clear with a few specific projects.

For example, there have been license and approval agreements with Gedeon Richter Plc., Hungary, since 2011 for the development and marketing of biosimilar products for the two monoclonal antibodies rituximab and optionally trastuzumab.[2)] The approval of the biopharmaceutical active ingredient Rituximab, which Gedeon Richter is currently developing as a biosimilar, is expected for the middle of 2018 from today's perspective. For the Trastuzumab biosimilar, STADA has, at the time of the beginning of the clinical studies, an exercisable option to acquire a distribution license at commercial conditions analogous to those of the Rituximab biosimilar.

STADA generally holds negotiations on an ongoing basis for the licensing of additional biosimilars in order to continue the targeted expansion and strengthening of this area in the future.

Expenses for research and development costs

The research and development costs amounted to € 55.7 million in the reporting year (previous year: € 52.2 million) (see "Economic Report – Business Development and Situation – Earnings Situation – Development of Earnings and Cost"). Since STADA does not carry out any research into new active pharmaceutical ingredients due to its strategic positioning and business model, it is only a matter of development costs. In addition, the Group capitalized development costs for new products in the amount of € 18.8 million in 2013 (previous year: € 14.5 million) resulting in a capitalization rate of 25.2% (previous year: 21.7%). Amortization of capitalized development costs amounted to approx. € 6 million in financial year 2013 (previous year: approx. € 5 million). In financial year 2013, the Group had 538 employees in the area of product development (previous year: 528).

1) See the Company's press release of June 23, 2013.
2) See the Company's press release of August 30, 2011.

Procurement, Production and Quality Management

International network for procurement of active ingredients and auxiliary materials

Based upon considerations of flexibility and cost, the Group has generally abstained from manufacturing any active ingredients or auxiliary materials necessary for pharmaceutical production, but utilizes – throughout the Group and valid for all Group companies – an international network of raw materials suppliers. In this context, STADA is increasingly – particularly for the procurement of active pharmaceutical ingredients – focusing on low-priced suppliers from low-cost countries, mainly Asian countries. Nevertheless, STADA does not rule out future cooperations in the area of active pharmaceutical ingredient production with the goal of achieving greater vertical integration.

In the course of the further implementation of "STADA – build the future" in financial year 2013, the Group concluded the centralization and internationalization of the procurement of active ingredients and auxiliary materials as well as of the procurement of bulk and finished goods with the goal of optimizing stock levels. After STADA established a procurement office in Shanghai, the People's Republic of China, in 2012, the Group also opened an additional procurement office in Mumbai, India, in the reporting year. In light of continuous cost optimization, both China and India now represent important resources for the procurement of low-cost active ingredients for STADA.

If STADA products are produced in the context of contract manufacturing, the Group is dependent on global purchase price developments of the necessary raw and auxiliary materials and on the prices of 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 generally involves suppliers – if possible – in this market price risk. This occurs, for example, by using price escalation clauses in which procurement prices are linked to selling prices, subsequent negotiations or the agreement of special procurement prices for special sales volumes, such as volumes that are put out to tender by public health insurance organizations in the context of discount agreements.

As a result of new EU regulations, increased documentation and information requirements were placed on pre-suppliers of pharmaceutical ingredients, in particular also from non-EU countries, which require greater involvement of national and/or local authorities in the third countries as of July 2, 2013. The new requirements did not lead to any supply bottlenecks in terms of active ingredient procurement in the STADA Group because non-EU countries met these new regulations to an increasingly large extent in 2013 and STADA took bridging measures for the introductory period,

Centralized needs planning

In the area of supply chain, the STADA Group's needs planning generally focusses on central management through STADA Arzneimittel AG. In addition, there are three hubs at the Bad Vilbel, Vrsac and Moscow locations where supply chain management is carried out for the Group's top products selected according to specified criteria. As a result of the corresponding pooling of individual services, the Group creates cost synergies that then lead to cost savings. This project was started in 2011, continuously expanded in 2012 and concluded in financial year 2013. Generally, the underlying concept is, however, developed on a regular basis in the context of an improvement process.

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 with over 16,000 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 utilizes an international network of internal and external resources in the supply chain and pharmaceutical production.

Due to the substantial scope for reducing costs in the area of production and within the context of "STADA – build the future" in 2013, STADA continued to increase the concentration of production processes at its own locations, in particular in Serbia, Bosnia-Herzegovina, Russia and Vietnam. This measure includes both the gradual assumption of production volumes from contract manufacturing as well as the shifting of production volumes within Group-owned plants. The objective of the concentration process is, on the one hand, to benefit from the structural cost advantages of these locations and, on the other hand, to reduce unit costs of respective products by increasing capacities.

The Group continued to pursue the expansion of its process optimization programs at the production sites in Serbia and Bosnia-Herzegovina where utilization has increased markedly which led to immediate improvements in capacity and thereby results in nearly reaching full utilization of individual production stages. Furthermore, STADA made investments in the reporting year to adjust the varying capacities of individual process stages of pharmaceutical production to the respective capacities of individual locations.

In 2013, STADA also launched new IT programs at Serbian locations with the objective of improving networking between procurement and production planning in the Group.

As a result of the control of the Vietnamese subsidiary Pymepharco achieved in 2013, the number of Group production sites increased in 2013 by one production site in Tuy Hoa. This production facility is actually predominately focused on products for the Vietnamese market and, as a result, will not initially be integrated into the central production controlling for products with Group significance. However, looking to the EU certification received in the first quarter of 2013 for a section of this facility, the technical potential of this production site makes gradual Group integration seem fundamentally possible.

STADA also added an EU-GMP certified production facility to the Group's internal production network in the reporting year through the acquisition of the British OTC supplier Thorton & Ross.[1)] The production facility in Huddersfield is set to be built up as an OTC center of excellence in pastes and liquids for the ongoing advancement of the standing range of branded products and the development of new products in the Group.

1) See the Company's ad hoc release of August 6, 2013 and ad hoc update of August 16, 2013.

As of March 1, 2014, the Group has pharmaceutical production facilities in the following locations:

Market region Germany	· Bad Vilbel (Germany)
	· Pfaffenhofen (Germany)
Market region Central Europe	· Huddersfield (United Kingdom)
Market region CIS / Eastern Europe	· Banja Luka (Bosnia-Herzegovina)
	· Dubovac (Serbia)
	· Nizhny Novgorod (Russia)
	· Obninsk (Russia)
	· Podgorica (Montenegro)
	· Sabac (Serbia)
	· Vrsac (Serbia)
Market region Asia & Pacific	· Beijing[1] (China)
	· Hoc Mon District[1] (Greater Ho Chi Minh City) (Vietnam)
	· Binh Duong Branch (Greater Ho Chi Minh City) (Vietnam)
	· Tuy Hoa[1] (Vietnam)

As a general rule, STADA makes appropriate annual investments to ensure that all Group-owned production facilities are maintained 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 € 18.4 million in financial year 2013 (previous year: € 12.6 million).

Highest safety and quality standards

As a health company, STADA places the highest priority on the quality and safety of its products. This focus relates not only to the finished products but also to the raw materials that the Group processes, its services and working conditions.

In the context of regular and comprehensive audits, the Group Quality Management reviews the quality standards set by the Group, which in part exceed the legal requirements, not just at its own production facilities, but also for suppliers and contract manufacturers.

From the external side, the Group's production facilities are also regularly inspected by the nationally responsible regulatory authorities. Within the EU, these inspections are carried out every two to three years. In addition to inspection by national authorities outside the EU, STADA also orders so-called EU GMP compliance inspections in order to receive extensions of the required EU import authorizations valid for three years each. In the context of the inspections, the responsible authorities review whether each of the inspected production facilities comply with the EU GMP standards. Between 2011 and 2013, nine inspections in total were successfully completed in third countries, including production facilities such as: Hemofarm A.D., Vrsac, Serbia; Hemofarm Banja Luka d.o.o., Banja Luka, Bosnia-Herzegovina; Hemofarm d.o.o., Sabac, Serbia; Hemomont d.o.o., Podgorica, Montenegro; LCC Nizhpharm J.S.C., Nizhny Novgorod, Russia; Pymepharco Joint Stock Company, Tuy Hoa, Vietnam; and STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City, Vietnam.

1) Production unit that is exclusively or primarily focused on local demand and not integrated in the Group.

Since the Group strives to secure, also in countries outside of the EU, EU quality standards for drugs, which often go beyond local requirements, the Group-owned production facilities not located in the EU in Banja Luka, the greater Ho Chi Minh City area (Binh Duong Branch), Nizhny Novgorod, Obninsk, Podgorica, Sabac, Tuy Hoa and Vrsac are set up for the production of certain pharmaceutical dosage forms for EU countries and are therefore authorized by the responsible EU regulatory authorities for delivery to the EU according to the above-mentioned inspections.

In addition to legal provisions, the Group holds international certifications in accordance with external quality management systems. Therefore, at numerous production sites, STADA not only focuses on good manufacturing practice standards (GMP standards), but also on the relevant ISO standards. At several locations, the Group holds various ISO certificates such as ISO-9001:2008 and ISO-14001:2004.

If individual quality problems do occur despite all the preventative and controlling measures, the quality management area focuses on an active approach to root cause identification and problem solving. The procedure was confirmed, for example, at the Serbian production facility when, in the third quarter of 2011, technical problems arose in the injection substances area which is primarily used for contract manufacturing. Thanks to the active discontinuation of sales carried out in agreement with the customers, a market recall was avoided and the production of Group-internal approvals recommenced in the forth quarter of 2011.

Following these technical problems, the US regulatory authority FDA published an import alert in the second quarter of 2012 and a warning letter in the third quarter of 2012 concerning the production location in Vrsac. The topics and measures mentioned there had already been integrated to a large extent with the completed technical optimization – which made use of external experts – of the facility and production processes that were inspected by the FDA, but this was not taken into account by the FDA at that time. Due to the optimizations carried out, it was possible to re-commence production on the affected production line for the local and European markets in the second quarter of 2012. An inspection of the affected production line and the connected processes, which also include microbiological quality control, on July 17, 2012 by the responsible Serbian supervisory authority confirmed the measures taken by Hemofarm and did not result in any objections. For the US market, STADA has foregone further delivery due to economic considerations. In the third quarter of 2012, the topics addressed by the FDA were processed according to plan with the use of additional external experts and a corresponding status report was sent to the FDA in a timely manner at the end of the third quarter. In the context of the ongoing GMP optimization program, quarterly reports will continue to be sent to the FDA until re-inspection by the FDA, which is planned for the current financial year 2014. Successful inspections of the affected production line and the connected processes, which also include the microbiological quality control, in the second quarter of 2013 carried out by the Australian and, in the fourth quarter, by the German supervisory authorities confirmed the measures taken by Hemofarm.

As a result of the further measures taken in the context of “STADA – build the future”, the Group is now also positioned to be more centralized, international and cost-effective with respect to quality management. In 2013, STADA continued to pursue further optimization processes in this area. In the reporting year, for example, the Group continued the second expansion phase initiated in 2012 of the Group-owned laboratory building in Timisoara where STADA carries out laboratory tests for the purpose of product authorizations. With the completion of the overall project in the current first quarter of 2014, the Group laid the foundations for doubling test capacities there. In addition to cost advantages, STADA selected the location in Romania for two additional reasons. First of all, Timisoara is located within the EU meaning that EU-wide quality control audits are possible from there. Second, Timisoara is very close to the Group’s important production location in Vrsac, Serbia, and the new laboratory is well-suited, also in consideration of logistics, to carrying out process controlling for products manufactured in Vrsac.

Sales and Marketing

Functionally organized Group with local and close to market sales companies in STADA's four market regions

The international sales structure of the STADA Group is made up of numerous nationally aligned sales companies, thereby with close market proximity, which are regionally managed within STADA's four market regions and supported by central Group functions.

Depending on the local market structure and the corresponding demand structure, the individual STADA subsidiaries 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 the area of sales and marketing in coordination with the management of the respective market regions.

Generally, sales activities are coordinated at the international level in the Group. This applies, for example, for structuring the portfolio in the context of the further internationalization of individual products or for sales activities such as wholesaling cooperative agreements. If it is necessary due to structural or legal framework conditions, STADA separates the marketing and sales activities of various sales companies within the four market regions. This applies, for example, to the maintenance of so-called "confidential tenders" in the context of tenders for discount agreements in the German generics market.

If necessary, STADA is also active in certain market regions with sales companies that operate in parallel to one another. While adhering to the requirements of the Group, the individual subsidiaries are responsible for sales decisions in the local market so that they can optimally serve the respective local needs of individual target groups.

In light of this market region-oriented sales concept, STADA is in the position to respond promptly to changes in the individual markets of the respective market regions and to immediately adapt local sales to the corresponding requirements. These include, for example, a different product assignment, an adapted market presentation, or the diversification, expansion or reduction of local sales structures.

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

Against the backdrop of the active acquisition policy, the Group continues in its endeavor to constantly expand the existing sales network. On the one hand, this is to further reduce the dependence on individual countries, such as Germany, whose health care system is characterized by difficult local framework conditions for generics. On the other hand, STADA intends to optimally utilize the growth opportunities that arise as a result.

In the reporting year, STADA expanded the Group's international sales structure through the acquisition of the British OTC supplier Thornton & Ross completed in the third quarter of 2013 (see "Economic Report – Business Development and Situation – Financial Situation").[1)] As the number 5 in the British OTC market and at the same time the fastest growing company within the top 10 in the British pharmaceutical market at the time of acquisition, the company is primarily active in the pharmacy and drugstore distribution channels in the United Kingdom. At the time of takeover, the company had 439 employees, 32 of which worked in sales.

As of March 1, 2014, the Group was active in the four market regions Germany, Central Europe, CIS/Eastern Europe and Asia & Pacific. The sales focus in 2013 was on the market regions Germany, Central Europe and CIS/Eastern Europe.

In addition, in the Asia & Pacific market region, as of March 1, 2014, STADA operated its own sales companies in China, the Philippines, Thailand and Vietnam.

More information on the development of Group activities in the individual market regions is published under "Economic Report – Situation – Earnings Situation – Development of Segments – Information by Market Region".

Establishment of a logistics and distribution center in Dubai

In the first quarter of 2013, STADA initiated the establishment of a logistics and distribution center for the Middle East and North Africa (MENA region) in Dubai in order to supply all countries of this region where the Group is active using the central supply hub.[2)] In the context of implementing the project, STADA founded a subsidiary in Dubai and built up the new sales organization in cooperation with a local partner. On the one hand, the initiative takes account of the increased STADA sales in the MENA region and, on the other hand, more efficiently organizes the sales activities of the respective countries which were previously locally organized.

1) See the Company's ad hoc release of August 6, 2013 and ad hoc update of August 16, 2013.
2) See the Company's press release of March 21, 2013.

STADA sales structure (as of March 1, 2014)[1)]

The following overview shows STADA's sales structure with all significant sales companies according to the allocation to the Group's four market regions.

Market region Germany	Germany	· ALIUD PHARMA GmbH, Laichingen · cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Bad Vilbel · Hemopharm GmbH Pharmazeutisches Unternehmen[2)], Bad Homburg · STADA GmbH[3)], Bad Vilbel · STADApharm GmbH[3)], Bad Vilbel · STADAvita GmbH, Bad Homburg
Market region Central Europe	Belgium	· S.A. Eurogenerics N.V., Brussels · S.A. Neocare N.V., Brussels
	Denmark	· PharmaCoDane ApS, Herlev
	Germany	· STADA CEE GmbH[4)2)], Bad Homburg
	Finland	· Oy STADA Pharma Ab, Helsinki
	France	· EG Labo - Laboratoires Eurogenerics SAS, Boulogne-Billancourt · Laboratoires d'études et de recherches en oligo éléments thérapie SA, Boulogne-Billancourt
	United Kingdom	· Britannia Pharmaceuticals Ltd., Newbury · Thornton & Ross Ltd., Huddersfield
	Ireland	· Clonmel Healthcare Limited, Clonmel
	Italy	· Crinos S.p.A., Milan · EG S.p.A., Milan
	The Netherlands	· Centrafarm B.V., Etten-Leur · Centrafarm Services B.V., Etten-Leur · Healthypharm B.V., Etten-Leur · Neocare B.V., Etten-Leur
	Austria	· STADA Arzneimittel Gesellschaft m.b.H., Vienna
	Poland	· STADA Poland Sp. z o.o., Warsaw
	Portugal	· Ciclum Farma, Unipessoal, LDA, Paco de Arcos
	Switzerland	· Spirig HealthCare AG, Egerkingen
	Slovakia	· STADA PHARMA Slovakia s.r.o., Bratislava
	Spain	· Laboratorio STADA, S.L., Barcelona
	Czech Republic	· STADA PHARMA CZ, s.r.o., Prague
Market region CIS / Eastern Europe	Bosnia-Herzegovina	· Hemofarm Banja Luka d.o.o., Banja Luka
	Bulgaria	· STADA PHARMA Bulgaria EOOD, Sofia
	Kazakhstan	· Nizhpharm-Kazakhstan TOO DO, Almaty
	Lithuania	· UAB STADA-Nizhpharm-Baltija, Vilnius
	Montenegro	· Hemomont d.o.o., Podgorica
	Romania	· STADA M&D S.R.L., Bucarest
	Russia	· OOO Hemofarm[5)], Obninsk · ZAO Makiz-Pharma[5)], Moscow · OAO Nizhpharm[5)], Nizhny Novgorod
	Serbia	· Hemofarm A.D.[6)], Vrsac
	Ukraine	· Nizhpharm-Ukraine DO, Kiev
Market region Asia & Pacific	China	· STADA Import/Export International Ltd., Hong Kong · STADA Pharmaceuticals (Asia) Ltd., Hong Kong · STADA Pharmaceuticals (Beijing) Ltd., Beijing
	The Philippines	· Croma Medic, Inc., Manila
	Thailand	· STADA Thailand Company, Ltd., Bangkok
	Vietnam	· Pymepharco Joint Stock Company, Tuy Hoa · STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City

1) All significant companies with a STADA share of at least 50% have been listed.
2) Export sales.
3) Acting as commission agents on behalf of STADA Arzneimittel AG.
4) Allocated to the market region Central Europe for reasons of management responsibility.
5) Bundled under the umbrella brand STADA CIS.
6) Including various local sub-labels.

Employees

Long-term personnel policy

The STADA Group's operative alignment is in principle based on the management of a comprehensive network of internal and external resources. This applies in particular to sales and marketing, product development as well as procurement and production. The employees are critically important and have a significant share in the long-standing success of the Group with their proven expertise and their strong commitment.

In view of this, STADA's personnel management pursues a long-term personnel policy that focuses on optimally supporting employees and carrying out the personnel changes required for sustainable development. In addition to fostering loyalty among current staff, a further objective of the personnel policy includes making contact to those who are interested in STADA as a potential employer.

Decentralized organization of personnel management

The area of personnel management is intentionally organized with a decentralized structure in order to optimally fulfill the different needs and demands of its employees at various Group locations of the individual market regions. This is especially true of the international subsidiaries, which are largely independent in many areas of personnel policy such as recruitment, training and remuneration, while at the same time maintaining Company guidelines. The Group's strategic and operational guidelines, in particular the compliance regulations, must be observed in general.

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

Continual personnel development

Training and staff development plays an important role in consideration of the great importance of employees in the STADA Group. For that reason, STADA offers various career training programs in the pharmaceutical, administrative and warehouse logistics areas. Young individuals also have the opportunity to take part in various internships and gain their first insights into the processes of a company in the pharmaceutical industry. The Group's employees generally benefit from the opportunity to update their knowledge and gain specialist support in their field. In addition to the support program for young managers described below, there is management training, foreign language classes and specialized workshops and seminars, among other things. In addition, the Board has established a wealth of additional personnel development measures in the context of an institutionalized employee dialog.

"STARS" securing management talent for the long term

The Group program "STARS" – Searching Talents in All Regions of STADA – aims to provide early and targeted support for future managers to prepare them for their future tasks in the context of specialized international talent and development programs. All current managers recommend potential future managers from their area or company on an annual basis; those recommended then undergo a selection process. Once the assessment center is successfully completed, a 12 to 15 month program starts that includes a total of three successive modules on various topics and which take place in different countries. In general, "STARS" makes it possible for the Group to recruit managers from within its own ranks and thereby not be obliged to solely rely on external applicants for these positions. In this manner, STADA has ensured itself the managers required for the Company's sustainable success from within the Group and at an early stage.

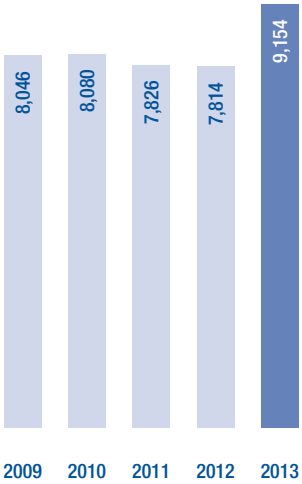
Development of the number of employees

Despite the substantial reduction in the number of employees in the context of "STADA – build the future", the number of employees in the STADA Group increased in financial year 2013. The increase applies both to the average number as well as the number of employees at the balance sheet date. The average number of employees in 2013 increased to 9,154 (previous year: 7,814). The number of employees at the balance sheet date of December 31, 2013 increased to 9,825 (December 31, 2012: 7,761).

The most substantial reasons for the increase in the number of employees include the control achieved of Pymepharco in Vietnam with an average of 1,108 employees, the purchase of the British OTC supplier Thornton & Ross with an average of 147 employees as well as the control achieved of STADA Vietnam in Vietnam with an average of 505 employees, who are now completely consolidated in the Group (see "Economic report– Business Development and Situation – Financial Situation").

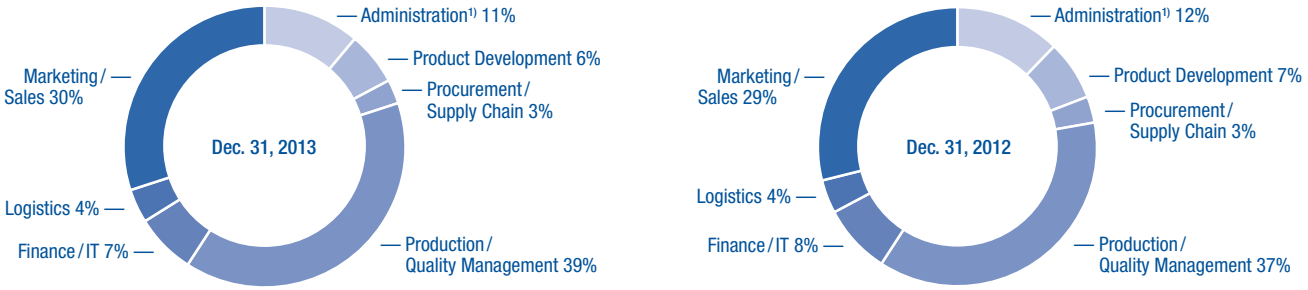
The regional breakdown of employees in the Group shows that there was an average of 1,269 employees in Germany in 2013 (previous year: 1,261). Of these, an average of 988 employees were located at the Group's headquarters in Bad Vilbel in the reporting year (previous year: 1,007). The average number of persons employed in international Group companies in financial year 2013 amounted to 7,885 (previous year: 6,553).

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



With regard to the Group's average total number of employees, the following percentage distributions resulted for the functional areas as of December 31, 2013:

STADA employees by functional area



The proportion of women in management positions in the Group amounted to approx. 51% in the reporting year (previous year: approx. 52%).

In the course of the implementation of "STADA – build the future" and in view of the health care policy framework conditions in the German market – particularly as a result of health insurance organization tenders – the Group introduced a 40-hour week with no wage increase in financial year 2011 until the end of 2012 – in the context of a company agreement with the Works Council and with the approval of the parties to the wage agreement – in order to ensure the competitiveness of the German locations in Bad Vilbel and Florstadt. In return, for the first time in the Company's history, STADA gave the affected employees a commitment effective until December 31, 2012 that no dismissals for operational reasons would take place. As this company agreement was not extended, the Bad Vilbel and Florstadt locations have once again returned to the 37.5-hour week as of January 1, 2013, while at the same time the commitment that no dismissals would be made for operational reasons is no longer valid. The commitment that no dismissals would be made for operational reasons that was made in the course of the restructuring measures in 2011 for the remaining employees at the German Group location in Laichingen also ended according to the agreement on December 31, 2012.

Personnel expenses

Personnel expenses amounted to € 321.2 million in financial year 2013 (previous year[2]: € 291.6 million). The personnel expenses ratio amounted to 15.9% in the reporting year (previous year[2]: 15.9%).

As a result of the aforementioned control achieved of the two Vietnamese companies, Pymepharco and STADA Vietnam, and the acquisition of the British OTC supplier Thornton & Ross, STADA expects an increase in the personnel expenses ratio in the years to come.

1) Including facility management.
2) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

Personnel structure by market region and functional area

Average number of STADA employees in 2013

	Marketing / Sales	Logistics	Finance / IT	Production / Quality Management	Procurement / Supply Chain	Product Development	Administration[1]	2013 total
Germany	**290**	**137**	**178**	**301**	**78**	**175**	**142**	**1,301**
• Germany	264	137	174	301	77	174	142	1,269
• Other[2]	26	0	4	0	1	1	0	32
Central Europe	**715**	**33**	**88**	**118**	**86**	**80**	**81**	**1,201**
• Belgium	114	0	9	0	5	12	9	149
• France	60	0	8	8	9	6	8	99
• United Kingdom	96	13	18	88	16	19	30	280
• Italy	31	0	13	3	6	6	6	65
• The Netherlands	11	9	6	7	11	6	2	52
• Poland	91	0	3	0	0	3	2	99
• Spain	139	0	12	2	5	7	11	176
• Czech Republic	49	0	2	0	2	4	2	59
• Other[2]	124	11	17	10	32	17	11	222
CIS / Eastern Europe	**1,349**	**93**	**310**	**2,280**	**120**	**236**	**561**	**4,949**
• Bosnia-Herzegovina	25	9	8	96	3	2	15	158
• Kazakhstan	82	0	5	0	8	2	1	98
• Montenegro	11	6	4	109	3	1	10	144
• Romania	25	3	1	25	0	1	4	59
• Russia	738	34	148	711	37	130	380	2,178
• Serbia	155	38	130	1,339	69	95	150	1,976
• Ukraine	190	3	7	0	0	2	1	203
• Other[2]	123	0	7	0	0	3	0	133
Asia & Pacific	**417**	**96**	**69**	**861**	**18**	**47**	**195**	**1,703**
• Vietnam	367	83	58	860	18	41	186	1,613
• Other[2]	50	13	11	1	0	6	9	90
Group total	**2,771**	**359**	**645**	**3,560**	**302**	**538**	**979**	**9,154**

1) Including facility management.
2) Other countries of the respective market regions each have less than 50 employees.

Goals and Strategies

Growth in sales and earnings through multi-pillar strategy

With its business model, STADA aims to generate further growth in the Group. In the framework of this growth strategy, STADA strives to achieve leading positions in each relevant market segment with individual subsidiaries in numerous national markets that are important for the Group within the individual market regions. In general, both organic growth shall be expanded upon and external growth impulses should be leveraged consistently. In the context of the active acquisition policy, STADA pursues a multi-pillar strategy that focuses on increasing the diversification of the portfolio. This reduces potential risks and builds upon opportunities. In the context of the multi-pillar strategy, Executive Board focuses, on the one hand, on the regional expansion of business activities concentrating on high-growth emerging markets. On the other hand, the Executive Board pursues the expansion and internationalization of the Branded Products segment as they are generally characterized by better margins and less regulatory intervention than the generics area.

Strategic success factors as the basis for utilizing available growth opportunities

STADA's strategic success factors create the basis for utilizing existing growth potentials and thereby securing sustainable Group success. They include strong product development, an international sales structure, an active acquisition policy including experienced integration management, a group that is organized into market regions for sales that has short decision-making processes and efficient cost management (see "Prognosis Report").

With strong product development and a well-filled product pipeline, STADA ensures a continuous flow of product launches in order to continuously expand the existing Group portfolio – particularly in the core segment Generics.

The international sales structure with four market regions is designed 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 markets of the respective market regions.

The active acquisition policy focuses on selected markets, predominately high-growth emerging markets, as well as on the expansion and further internationalization of both core segments Generics and Branded Products. Against the backdrop of increasing pressure to reduce costs, to which the individual health care systems are exposed, the Executive Board particularly targets further growth opportunities in Branded Products as they are generally characterized by better margins and are subject to less regulatory intervention.

With respect to future growth, an important role is inherent in the organization by market region with short decision-making structures while maintaining a strong local market presence at the same time. This particularly applies to sales activities, because the ability to react in the short-term to structural, regulatory or competition-related changes, is critically important both in terms of exploiting opportunities and reducing risks.

In consideration of earnings, efficient cost management takes high priority in the Group. Continuous cost optimization also focuses on cost of sales and all the associated costs, as this clearly represents the Group's largest cost item.

Implementation of the outstanding measures of the Group-wide cost efficiency program and the successful conclusion

In the reporting year, STADA implemented the outstanding measures of the Group-wide cost efficiency program initiated in 2010 "STADA – build the future", which aims at strengthening the mid and long-term earnings potential.

STADA was able to conclude or introduce all significant activities of the Group-wide cost efficiency program by the end of the reporting year 2013 as planned after the personnel reduction goals were exceeded, having already been achieved a year earlier than planned in the previous year.

Considering that the operational implementation of "STADA – build the future" was nearly complete, the Executive Board evaluated measures for further cost optimization in the Group in cooperation with external consultants in financial year 2013. As a result of the evaluation, the Executive Board, from today's perspective, does not deem it necessary to introduce a new efficiency program because the culture of continuous cost optimization that has meanwhile established itself to a wide extent in the Group regularly leads to the identification and introduction of efficiency-improving individual projects.

Projects in the areas of operations and IT counted among measures introduced in the reporting year in the context of "STADA – build the future". In 2013, for example, STADA founded STADA IT SOLUTIONS, its own shared service center where a large number of IT services have been bundled.[1)] The company, which will only provide intercompany services, is part of Hemofarm A.D. a wholly-owned subsidiary of the STADA Group in Serbia. Approximately 85 employees at the Serbian Hemofarm locations in Vrsac and Belgrade focus primarily on the implementation of SAP and Microsoft projects and the corresponding support for the entire Group. These projects include SAP roll-outs, upgrades and the introduction of new Sharepoint solutions. STADA saves a substantial portion of previous costs by foregoing the use of external consultants. As early as within the current financial year 2014, net cost savings of over € 2 million can be realized in the IT budget based on workload and cost volume in 2013. STADA expects annual savings of significantly more than € 3 million as from 2015. The approximately 60 employees of the former Hemofarm IT are now part of the newly established STADA IT SOLUTIONS. In consideration that the new shared service center has taken over projects for the entire STADA Group, the capacity was increased, creating approximately 25 additional jobs.

In the area of taxes, STADA took necessary measures in the second half of 2013 which led to the implementation of the tax optimization program – resolved by the Executive Board with effect as of July 1, 2013 – which resulted in tax improvements.

The remaining project-related costs in relation to the outstanding measures amounted to € 9.1 million in the reporting year and were reported as one-time special effects (see "Economic report– Business Development and Situation – Earnings Situation").

In the context of the implementation of the cost efficiency program "STADA – build the future" started in 2010 to sustainably increase earnings, the Executive Board adopted a long-term forecast for financial year 2014.[2)] Against the backdrop of the strong devaluation of the Russian ruble and the Ukrainian hryvnia, as well as the uncertainties regarding the future business development in the context of the current CIS crisis, the Executive Board no longer expects to completely achieve the outlook for 2014 as published in the context of this long-term prognosis in 2010. STADA does, however, expect slight growth in Group sales, adjusted EBITDA and adjusted net income.

1) See the Company's press release of September 9, 2013.
2) See the Company's ad hoc release of June 7, 2010.

Controlling

In the course of the growth strategy pursued by STADA, which is based on growth both by organic means and through acquisitions, the Group's corporate areas are managed based on strategic and operative guidelines as well as various financial indicators. The financial performance indicators used by STADA as key figures for the operational management of the Group include Group sales and the adjusted EBITDA, both of which are subject to controlling at the segment level, as well as adjusted net income and the net debt to adjusted EBITDA ratio, both of which are managed at the Group level.

The development of **Group sales** is a key element to ensure business success. Accordingly, top-line programs to increase sales play a significant role for future development in the STADA Group. A major financial performance indicator for STADA here is reported sales, as STADA, with its business model, focuses on generating further growth in the Group also by way of an active acquisition policy.

Adjusted EBITDA has been chosen as a financial performance indicator in favor of operating profit – which was defined as such in the previous year – as it seems more appropriate to evaluate performance without the impairments that arise from purchase price allocations resulting from acquisitions, in accordance with IFRS 3, in view of the large number of opportunities that were taken to carry out acquisitions in the recent past.

Adjusted EBITDA[1)] in the STADA Group corresponds to EBITDA adjusted for one-time special effects within operating profit with the exception of one-time special affects that relate to impairments and write-ups of non-current assets. The Group utilizes the development of adjusted EBITDA to measure the operational performance and the success of the individual business areas adjusted for influences distorting the year-on-year comparison resulting from one-time special effects. Result from associated companies and investment income are included.

Adjusted net income[1)] in the STADA Group is net income adjusted for one-time special effects and effects from the measurement of derivative financial instruments under financial income and expenses. Net income was defined as a financial performance indicator in financial year 2013 as it represents a key figure for the overall success of the Group – also in consideration of the tax optimization program – and is therefore utilized for Group monitoring.

The **net debt to adjusted EBITDA ratio** is an indication of the financial stability of the Group and is used as a benchmark for the borrowing of funds. This key figure therefore represents a financial performance indicator in the STADA Group.

As a result of the successful placement of a second corporate bond in the past financial year 2013 and the planned exploitation of further corporate bonds, STADA has succeeded in further expanding its financing possibilities. In this context, free cash flow was no longer considered an important key performance indicator for financial year 2013.

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

The financial performance indicators of adjusted EBITDA, adjusted net income and net debt to adjusted EBITDA ratio are derived as follows:

Financial performance indicators	Determined based on the consolidated income statement and the consolidated balance sheet in accordance with IFRS	
		Result distributable to shareholders of STADA Arzneimittel AG (net income)
	±	One-time special effects
	±	Effects from the measurement of derivative financial instruments under financial income and expenses
Adjusted net income	=	**Adjusted net income**
		EBIT (Earnings before interest and taxes)
	±	Balance from depreciation and amortization / write-ups on intangible assets (including goodwill), property, plant and equipment and financial assets
	=	**EBITDA (Earnings before interest, taxes, depreciation and amortization)**
	±	One-time special effects within operating profit excluding one-time special effects that relate to impairments and write-ups of non-current assets
Adjusted EBITDA	=	**Adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA)**
		Non-current financial liabilities
	+	Current financial liabilities
	=	**Gross debt**
	–	Cash, cash equivalents and “available-for-sale” securities
	=	**Net debt**
	÷	Adjusted EBITDA
Net debt to adjusted EBITDA ratio	=	**Net debt to adjusted EBITDA ratio**

Responsibility and Sustainability

STADA mission statement firmly anchored in the Group

Health is not just a great asset, it also plays a significant role in society from the economic perspective. As a company with a strong tradition of competence in health care and, in particular, the pharmaceutical industry, the STADA Group has great responsibility that it lives up to with high-quality, low-cost generics and well-known branded products. Care for people's health and well-being is at the center of STADA's activities, all of which has developed into a philosophy and mission statement that is a fixed component of the Group. It is expressed by wishing "All the best".

In accordance with the intentions of Corporate Social Responsibility (CSR), a company's economic success ought to come in accord with responsible social and ecological behavior. In order to live up to this principle, the Group supports selected social and cultural projects both in Germany and in numerous other countries, which frequently take the form of sponsoring, charitable donations and foundations.

Support of social and cultural projects

STADA Arzneimittel AG supports the "Kinderzukunft" (Children's Future) Foundation project, which helps Romanian children in need. The children's village in Timisoara, Romania, was founded in 1994 and provides care and safety to approximately 200 children between three and 18 years of age that come from poor families as well as orphans and children who have been neglected or abandoned. Kinderzukunft's holistic concept goes well beyond mere care and support. After finishing school, youths can complete state recognized vocational training at the village's own training centers so that they will be able to financially support themselves later in life. Financial support of this project has been provided since 2012 and also covers 2013 and 2014.

In cooperation with the Hochschule Fresenius in Idstein, Germany, STADA has supported the STADA foundation professorship "health management" since 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 on the development of saving potential of transsectoral supply models which allow for a holistic provision of services by means of complex services.

There has been a fund in the Group since 2011 that provides financial relief to STADA employees in Germany, as well as their families, who have come into difficulties by no fault of their own. The decision of who can take advantage of this aid and to what extent is made in coordination with the Works Council and Human Resources management. 14 STADA employees have already benefited from the fund since it was established.

In addition to regional cultural projects, such as the castle festivals in Bad Vilbel, Germany, which STADA has sponsored for over 20 years, the Company supported other projects in 2013. STADA Arzneimittel AG provided quick help to pharmacies affected by severe flooding in German regions in mid 2013 by providing free replacement of damaged goods, for example. This provided aid to pharmacists, who have a close relationship to the Company by tradition, and also contributed to the supply of medicines for people in the flooded regions. STADA also donated antibiotics and pain medication at the end of 2013 following the "Haiyan" typhoon in the Philippines in order to provide the medicines needed by the teams of doctors working there. In the context of a sweepstakes in cooperation with the singing competition "The Voice

of Germany" on ProSieben in 2013, the German subsidiary STADA GmbH supported the charity event "Red Nose Day" whose donations go to support children's aid organizations and projects in Germany and abroad.

Dolphin aid e.V. in Düsseldorf, Germany, is another project that has been jointly supported since 2007 by STADA GmbH and STADA Arzneimittel AG as the main sponsors. The non-profit association promotes alternative therapies and enables ill and handicapped children to undertake "dolphin therapy". There, children closely interact with dolphins in a nature-oriented environment, thus being able 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 to demonstrate a holistic understanding of health that is not exclusively focused on drugs.

In cooperation with Charité-Universitätsmedizin Berlin, the Germany subsidiary STADApharm GmbH has now been supporting the so-called "Deutschlandstipendium" (scholarship of Germany) for two years. The scholarship is an educational scholarship initiated by the federal government. It focuses on supporting new talents and encouraging top performance as well as fostering a new scholarship culture in Germany. Half of the funding for the Deutschlandstipendium is provided by the government while the other half is covered by private support. STADApharm currently supports five scholars at Charité in Berlin.

Active support of athletics

In consideration that sports make a significant contribution to people's health and well-being, STADA Arzneimittel AG and various STADA subsidiaries support numerous sport projects for the general population, handicapped individuals and professionals.

Since 1995, STADA has supported, among others, the Rollstuhlbasketball-Verein (RSV) Lahn-Dill, a very successful wheelchair basketball club in the German Basketball Bundesliga and at European level. With financial support from STADA, the club had another successful year in 2013 with a double win of a cup and a championship, and participated in the final round of the Champion's League.

Since 1996, ALIUD PHARMA GmbH has supported Hanne Brenner, a two-time Olympic winner in dressage at the 2012 Paralympics in London. The top athlete became a paraplegic in a riding accident and is an inspiration to other handicapped athletes as a result of her achievements which gives them encouragement to face difficult challenges despite handicaps. The "Kleine Glücksritter" (small riders) club was initiated by Hanne Brenner and is also supported by ALIUD PHARMA. It provides quick and easy access to some happy hours with horses for seriously ill children and their siblings so they can forget about their difficulties for at least a moment.

Employee sports are also a major focus at the STADA Group. It not only supports the staff health, but their team spirit as well. For this reason, STADA keeps a space open in its calendar for the annual J.P. Morgan Corporate Challenge in Frankfurt with a total of around 70,000 participants. A Mobilat team from Pfaffenhofen has also participated in the B2RUN running event in Munich over the past years.

Selected aid projects of international STADA subsidiaries

The Russian holding, STADA CIS, started the CSR project "Open your Heart" in 2012. In 2013, the Russian STADA subsidiary continued its tour through Russia, Ukraine and Kazakhstan with a mobile diagnostic center. The project aims at increasing public awareness of cardio-vascular disease, as well as to educate the public on the causes of and prevention of cardiovascular disease. It is supported by way of press conferences, pre- and post-reports in the media, lectures and scientific documentation. STADA CIS is providing people the possibility to have

their cardiovascular systems checked for free no matter their age, gender or financial situation and also provides the people information on their state of health and advice from leading specialists.

STADA CIS also initiated the project "Medicine for life" in 2011 and has continued it ever since. Its objective is to give Russian citizens knowledge of how to take care of their health and provide basic information on how to use medicines. The company spreads information on various topics by way of brochures, its own radio programs, social media activities and media events.

In addition to a wide range of charitable and social activities, STADA CIS is also active in related areas of the pharmaceutical industry. The photography project "The Doctor's Job", initiated by STADA, in Russia, Ukraine and Kazakhstan, aims to foster trust in the services that doctors provide and to encourage the public to have regular preventative check-ups. The long-term project with the true faces of those pictured provides an impression of the range of services provided by doctors as a well as the daily challenges they face. The photo exhibitions take place at medical conventions and patient forums.

The Serbian subsidiary Hemofarm has also been involved in comprehensive charitable activities for many years. For many projects in this context, it cooperates with the Hemofarm Foundation, which celebrated its 20 year anniversary in 2013 and also signed agreements for two strategic partnerships. For the first of these, the Hemofarm Foundation works together with UNICEF for the "Support to Parents – For Healthy Environment for Growth and Development of Every Child" project. In the second, Hemofarm entered a cultural partnership with the national orchestra, the Belgrade Philharmonic, for the construction of a concert hall.

Furthermore, the Hemofarm Foundation supports social clubs in the form of gifts and financial donations. These are especially for children without parental care or children raised in poor families, but also support institutions in the health care sector. The Hemofarm Foundation has sponsored the annual "Vasko Popa" book award that supports Serbian poetry since 1995.

Since sustainability is also highly valued in the context of CSR at Hemofarm, the company was the first Serbian pharmaceutical company to publish a sustainability report. In accordance with the Global Reporting Initiative's guidelines, Hemofarm received a rating of b+, which counts as the highest rating awarded to a Serbian company to date in this area.

In cooperation with various Spanish institutions in the health care sector, the Spanish subsidiary Laboratorio STADA, S.L. initiated the "kNOW Alzheimer" project as early as 2012. In cooperation with neurologists, general practitioners, pharmacists as well as scientists and specialists in geriatrics and geriatric care, dementia is investigated in greater depth. The goal is to raise awareness of Alzheimer's disease and thereby improve the situation for patients.

The Spanish STADA subsidiary has been active in the area of sports since 2012 with its support of the largest European sporting event for women, the "Carrera de la Mujer", a five to seven-kilometer race held in eight cities in Spain. The goal of this event is to increase awareness in the area of cancer with Ladival® as one of the main sponsors thus showing the relevance of sun protection as a preventative measure in skin cancer.

Furthermore, Laboratorio STADA has been sponsoring the non-governmental Spanish organization “Farmaceúticos Sin Fronteras de España” for more than seven years now, providing medicine to the organization’s medicine reserves which are used for worldwide emergencies and cooperative projects.

Further information on activities in the area of CSR can be found on the STADA website at www.stada.de or www.stada.com.

Targeted activities in sustainability, health and environment

The strategic positioning of the STADA Group is characterized by sustainability by virtue of its essence alone because, with its low-cost and high-quality medicines and health care products, the Company makes a significant contribution to more efficient health care and thus to a sustainable utilization of resources in an area of life that is of great importance to people.

As a company active in the health care industry, STADA encourages its employees to take a responsible approach to their own health. At Group headquarters in Bad Vilbel, Germany, there is a health care center that offers exercise equipment, yoga classes and massage sessions, among other things. It gives employees the opportunity to take active steps in the prevention of musculoskeletal disease, as well as to increase fitness and thereby improve general well-being. In 2013, STADA introduced health consultation within the Company where employees can gain holistic knowledge of health-related topics such as coping with stress, relaxation and nutrition. All of this is accompanied by a regular health newsletter.

STADA is also active in the area of environmental protection and continuously strives to improve procedures and processes in order to conserve resources and minimize negative environmental effects and health risks. In this context, STADA’s production processes are generally characterized by no or very little emissions as the Group intentionally forgoes the chemical synthesis of active ingredients and auxiliary materials.

STADA’s business model that focuses on long-standing and proven active ingredients requires no types of genetic research with embryos despite the Company’s positioning in the pharmaceuticals market.

Group-wide compliance as a fixed component

Compliance, or the adherence to laws and internal regulations, has been a fixed component of the STADA Group for many years. Detailed information on compliance and the Code of Conduct at STADA can be found in this Annual Report in the chapter “Corporate Governance Report”.

ECONOMIC REPORT

General Economic and Industry-Specific Situation

Overall economic development

In relation to the global financial and economic crisis, 2013 was another transitional year. The effects of the crises will be overcome on a very gradual basis. Nevertheless, sentiments in international financial markets improved noticeably. The rates of the most important global indices increased by double digits in percent and, in part, reached new record highs.

According to information from the International Monetary Fund (IMF), global economic output in 2013 recorded growth of 3.0%.[1)] It should, however, be considered that this growth is primarily a result of strong ongoing developments in emerging markets with an increase of 4.7% and, in particular, China with 7.7%.[1)] Advanced economies grew by 1.3%.[1)] In this context, economic output of the USA, the world's largest economy, grew by 1.9%.[1)] In Euro countries, on the other hand, the gross domestic product (GDP) decreased by 0.4% in the same period, whereby the individual Euro countries continued to record wide variation in their developments.[1)] Whereas GDP grew in Germany and France by 0.5% and 0.2% respectively, the figures in Spain and Italy decreased by 1.2% and 1.8%.[1)]

Industry-specific development

Sales in the global generics market increased by approx. 6.3%[2)] to approx. € 110.7 billion[2)] in 2013 as compared to the previous year. The market share of generics in the global pharmaceutical market amounted to approx. 15.0%[2)]. The sales development of generics in the four STADA market regions in 2013 was as follows: Germany approx. +6.6%[3)] to approx. € 5.89 billion[3)], Central Europe approx. +4.9%[3)] to approx. € 22.43 billion[3)], CIS/Eastern Europe approx. +9.0%[3)] to approx. € 7.24 billion[3)], Asia & Pacific approx. +6.1%[3)] to approx. € 7.42 billion[3)].

Sales in the global OTC market increased by approx. 7.7%[4)] to approx. € 51.30 billion[4)] in 2013 as compared to the previous year. The market share of OTC products amounted to approx. 8.2%[4)]. The sales development of OTC products in the four STADA market regions in 2013 was as follows: Germany approx. +4.8%[3)] to approx. € 4.68 billion[3)], Central Europe approx. +2.6%[3)] to approx. € 11.19 billion[3)], CIS/Eastern Europe approx. +14.7%[3)] to approx. € 5.86 billion[3)], Asia & Pacific approx. +2.1%[3)] to approx. € 3.11 billion[3)].

Effects of overall economic and industry-specific framework conditions

Due to the fact that the business model of STADA is oriented toward the health care market with demand that is relatively independent of the economy, the global economic conditions generally have less of a direct influence on the business development of the Group than the respective regulatory environment in the individual markets of the four STADA market regions.

Notwithstanding, economic activity does have an effect on Group activities in the form of currency and interest rate volatility. Therefore, STADA continually takes adequate precautionary measures in order to appropriately react to strong volatility in interest rates and Group-relevant currency relationships (see "Risk Report" as well as "Notes to the Consolidated Financial Statements – 46.").

1) Source: International Monetary Fund: World Economic Outlook Update from January 21, 2014.
2) IMS Market Prognosis, September 2013; IMS Market Prognosis Global, September 2013; IMS Syndicated Analytics Service (September) 2013; prepared for STADA March 2014.
3) IMS MIDAS (September) 2013, data based on the definition of STADA market regions.
4) IMS MIDAS (September) 2013.

With a view to the currency effects in financial year 2013, an uneven development can be seen in translation of sales and earnings in the most important national currencies for STADA of the Russian ruble, Serbian dinar and the pound sterling. Whereas the Russian ruble and the pound sterling showed weaker development, the Serbian dinar had a slightly positive currency effect. The currency relationships in other countries relevant for STADA only had a small influence on the translation of sales in local currencies into the Group currency euro.

Furthermore, the Group's operational business development was effected by economic developments in the self-pay markets. Thus the demand for STADA products, to a certain extent, is also affected by the financial means of the respective patients in the affected markets of the individual market regions. A more or less strong cost pressure in the individual health care systems, which depends on the respective economic development, is also a burden that results in regulatory measures that can also affect generics suppliers (see "Economic Report– Business Development and Situation – Earnings Situation – Development of Segments – Information by Market Region"). In addition, macroeconomic influences can also directly affect STADA's financial results, if individual state health care systems no longer have sufficient funds to finance adequate health care for their people.

Business Development and Situation | Development of 2013 Compared to Outlook

In the outlook for 2013, the Executive Board expected, as in the Prognosis Report of the Annual Report 2012, further growth in Group sales. In this context, the Executive Board envisaged sales growth in both core segments while the Branded Products segment was expected to grow at a disproportionately high rate and thereby lead to an increased share of branded products in Group sales. In the course of the further implementation of the Group-wide cost efficiency program "STADA – build the future" until the end of 2013, the Executive Board calculated the remaining, expected project-related costs to be reported as one-time special effects to amount to the single-digit million euro area as planned. Nevertheless, the Executive Board saw the opportunity for the Group's EBITDA, adjusted for one-time special effects, to increase further into the high single-digit percentage range, and therefore reach a new record value. In addition, the Executive Board expected an increase in adjusted EBITDA for both core segments in 2013.

Group sales in the reporting year increased – with varying developments in the individual market regions – by 10% to € 2,014.4 million. Sales in the Generics core segment increased by 2% to € 1,234.8 million, and thereby contributed 61.3% to Group sales. Sales of the core segment Branded Products increased by 19% to € 708.5 million, so that it had a share of 35.2% in Group sales. The remaining project-related costs for "STADA – build the future" amounted to € 9.1 million in 2013 and were classified as one-time special effects. All reported key earnings figures increased in financial year 2013, among other things, due to effects from business combinations carried out in financial year 2013 as well as the sale of intangible assets with subsequent back-licensing, which are presented in the business, financial and earnings situation accordingly. The Group recorded an increase in adjusted EBITDA of 13% to € 415.2 million. Adjusted EBITDA of the core segment Generics decreased – contrary to the Executive Board's assessment – slightly by 1% to € 214.3 million. This development was primarily due to the difficult local framework conditions for generics in Germany, which are attributable to intensive competition for tenders for discount agreements with public health insurance organizations; the now fully expired portfolio agreements in the German market; and a deliberate partial renouncement of sales from discount agreements for the benefit of operating profitability in the market region Germany. Adjusted EBITDA of the core segment Branded Products increased by 19% to € 225.1 million.

Business Development and Situation | Development of financial performance indicators

In financial year 2013, the financial performance indicators of the STADA Group developed as follows:

Financial performance indicators of the STADA Group

in € million	2013	2012[1)]	±%
Group sales	**2,014.4**	**1,837.5**	**+10%**
• Generics	1,234.8	1,213.1	+2%
• Branded Products	708.5	596.2	+19%
Adjusted EBITDA	**415.2**	**367.4**	**+13%**
• Generics	214.3	217.1	-1%
• Branded Products	225.1	189.0	+19%
Adjusted net income	**160.6**	**147.9**	**+9%**
Net debt to adjusted EBITDA ratio	**3.1**	**3.2**	**-3%**

Further details on the development of STADA's financial performance indicators can be found in the following information on the earnings situation.

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

Business Development and Situation | Earnings Situation

Development of Sales

Increase in Group sales and positive organic growth

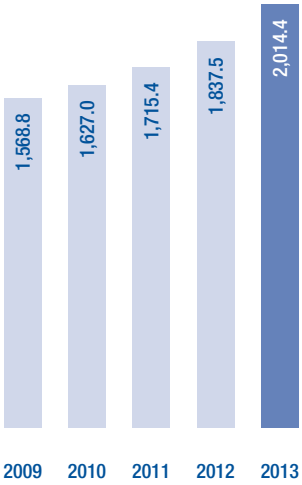
STADA recorded a rise in Group sales in financial year 2013 – with varying development in the individual market regions – of 10% to € 2,014.4 million (previous year: € 1,837.5 million).

When effects on sales based on changes in the Group portfolio and currency effects are taken into account, Group sales increased by 6% to € 1,941.1 million in 2013.

Portfolio changes had a total share of € 106.3 million or 5.8 percentage points of the sales increase in the year under review. They were as follows in the affected market regions: market region Germany € 0.3 million; market region Central Europe € 50.2 million; market region CIS/Eastern Europe € 8.7 million; market region Asia & Pacific € 47.1 million.

Individual portfolio adjustments were as follows:

Group sales in € million over 5 years



Scheme for calculating the Group's adjusted sales growth

Previous year 2012		Reporting year 2013
STADA Group sales € 1,837.5 million	— +10% —>	STADA Group sales € 2,014.4 million
⁄. Sales of engineering companies		⁄. Sales branded product portfolio in Central Europe
⁄. Sales to Pymepharco		⁄. Sales of the French company LERO
⁄. Sales of the Italian branded product portfolio		⁄. Sales of Ingavirin® for Ukraine
		⁄. Sales of Tranexam® for Russia and Ukraine
		⁄. Sales of the branded product package focused on gynecology for Ukraine
		⁄. Sales of the pharmaceutical wholesaling and commercial business of Spirig
		⁄. Sales of Thornton & Ross
		⁄. Sales due to the consolidation of STADA Vietnam as subsidiary
		⁄. Sales due to the consolidation of STADA Import/Export International
		⁄. Sales due to the consolidation of Pymepharco, Vietnam, as subsidiary
		± Sales change by applying the same, i.e. the previous year's exchange rates for both financial years
Base value for adjusted sales growth € 1,835.5 million	— +6% —>	Adjusted STADA Group sales € 1,941.1 million

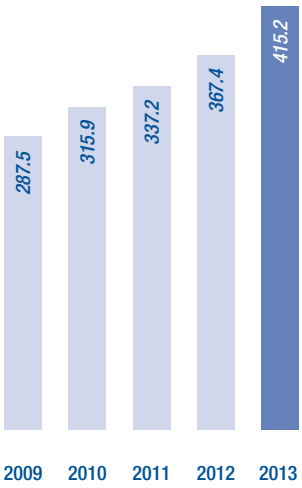
As a result of applying foreign exchange rates from the reporting year compared with the previous year for the translation of local sales contributions into the Group currency euro, STADA recorded a negative currency effect for Group sales in the amount of € 35.0 million or -2.0 percentage points because the development of two of the three most important national currencies for STADA was weaker as compared to the Group currency euro. In this context, the development of the Russian ruble and the pound sterling were weaker. However, the Group's third most important national currency, the Serbian dinar, had a slightly positive currency effect in 2013. The currency relationships in other countries relevant for STADA only had a small influence on the translation of sales in local currencies into the Group currency euro.

To the extent that adjusted sales figures are reported in this Annual Report, this refers to sales adjusted for the portfolio effects described above and currency fluctuations respectively.

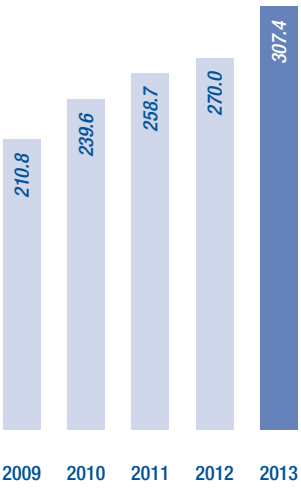
Business Development and Situation | Earnings Situation

Development of Earnings and Costs

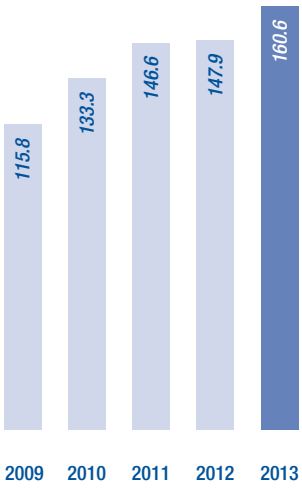
Adjusted EBITDA in € million[1)]



Adjusted EBIT in € million[1)]



Adjusted net income in € million[1)]



Increase in operating performance – increase of all reported key earnings figures

Earnings development in financial year 2013 was characterized by an increase in financial performance as shown by growth in all of the Group's reported key earnings figures and key earnings figures adjusted at the Group level. This development was based, among other things, on effects from business combinations carried out in financial year 2013, as well as on the sale of intangible assets with subsequent back-licensing, which is detailed accordingly below.

Reported operating profit increased by 24% to € 251.5 million (previous year[2)]: € 202.1 million). **Reported EBITDA** increased by 18% to € 383.5 million (previous year[2)]: € 323.7 million). **Reported net income** recorded growth by 40% to € 121.4 million (previous year[2)]: € 86.5 million).

After adjusting the key earnings figures for influences distorting the year-on-year comparison resulting from one-time special effects, **adjusted operating profit** increased by 15% to € 306.3 million (previous year[2)]: € 266.2 million). **Adjusted EBITDA** recorded a plus of 13% to € 415.2 million (previous year[2)]: € 367.4 million) and thereby reached a new record value in STADA Company history. **Net income, adjusted** for one-time special effects and effects from the measurement of derivative financial instruments under financial income and expenses, increased by 9% to € 160.6 million (previous year[2)]: € 147.9 million).

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.). For reasons of the practicability caveat as specified under IAS 8.43 ff., the previous year figures for financial year 2011 and earlier were not adjusted.
2) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

Influence on earnings due to one-time special effects

One-time special effects amounted to a net burden on earnings of € 54.8 million before or € 41.7 million after taxes in the reporting year (previous year: net burden on earnings due to one-time special effects in the amount of € 64.2 million before or € 60.9 million after taxes).

In detail, these were as follows:

- a burden in the amount of € 22.7 million before or € 17.1 million after taxes for value adjustments netted of write-ups on intangible assets after impairment tests
- a burden in the amount of € 21.7 million before or € 17.0 million after taxes for various extraordinary expenses, among others for the integration of the acquired British OTC supplier Thornton & Ross including the corresponding conversion of British sales structures and the realignment of the German branded products business (see "Economic Report– Business Development and Situation – Financial Situation")
- a burden in the amount of € 10.4 million before or € 7.6 million after taxes for expenses in connection with the implementation of the Group-wide cost efficiency program "STADA – build the future" including external consulting services and related follow-up projects in the amount of € 9.1 million before or € 6.7 million after taxes as well as with unscheduled personnel expenses in the amount of € 1.3 million before or € 0.9 million after taxes (see "Basis of the Group – Goals and Strategies")

Influence on earnings due to effects from the measurement of derivative financial instruments under financial income and expenses

Effects from the measurement of derivative financial instruments under financial income and expenses amounted, in financial year 2013, to a net relief on earnings of € 3.4 million before or € 2.5 million after taxes (previous year: net burden on earnings from effects from the measurement of derivative financial instruments under financial income and expenses of € 0.7 million before or € 0.5 million after taxes).

To the extent that adjusted key earning figures are reported in this Annual Report, the earnings adjustments carried out include these effects in total both for the reporting year as well as for the previous year. The deduction of such effects which have an impact on the presentation of STADA's earnings situation and the derived key figures aims at improving the comparability of key figures with previous years. To achieve this, STADA uses adjusted key figures, which, as so called pro forma figures, are not governed by the accounting requirements in accordance with IFRS. As other companies may not calculate the pro forma figures presented by STADA in the same way, STADA's pro forma figures are only comparable with similarly designated disclosures by other companies to a limited extent.

In the charts below, further essential key earnings figures of the STADA Group as well as the resulting margins are each also reported adjusted for the aforementioned one-time special effects or for the aforementioned one-time special effects and effects from the measurement of derivative financial instruments under financial income and expenses for financial year 2013 and for the the previous year to allow for comparison.

Development of the STADA Group's reported key earnings figures

in € million	2013	2012[1]	± %	Margin[2] 2013	Margin[2] 2012[1]
Operating profit	251.5	202.1	+24%	12.5%	11.0%
• Operating segment result Generics	156.7	138.1	+13%	12.7%	11.4%
• Operating segment result Branded Products	161.1	123.7	+30%	22.7%	20.7%
EBITDA[3]	383.5	323.7	+18%	19.0%	17.6%
EBIT[4]	252.7	205.9	+23%	12.5%	11.2%
EBT[5]	189.4	135.6	+40%	9.4%	7.4%
Net income	121.4	86.5	+40%	6.0%	4.7%
Earnings per share in €	2.04	1.46	+40%		
Diluted earnings per share in €	2.00	1.44	+39%		

Development of the STADA Group's adjusted[6] key earnings figures

in € million	*2013*	*2012[1]*	*± %*	*Margin[2] 2013*	*Margin[2] 2012[1]*
Operating profit, adjusted	*306.3*	*266.2*	*+15%*	*15.2%*	*14.5%*
• *Operating segment result Generics, adjusted*	*167.9*	*171.7*	*-2%*	*13.6%*	*14.1%*
• *Operating segment result Branded Products, adjusted*	*174.4*	*143.5*	*+22%*	*24.6%*	*24.1%*
EBITDA[3], adjusted	*415.2*	*367.4*	*+13%*	*20.6%*	*20.0%*
• *EBITDA Generics, adjusted*	*214.3*	*217.1*	*-1%*	*17.3%*	*17.9%*
• *EBITDA Branded Products, adjusted*	*225.1*	*189.0*	*+19%*	*31.8%*	*31.7%*
EBIT[4], adjusted	*307.4*	*270.0*	*+14%*	*15.2%*	*14.7%*
EBT[5], adjusted	*240.8*	*200.5*	*+20%*	*11.9%*	*10.9%*
Net income, adjusted	*160.6*	*147.9*	*+9%*	*8.0%*	*8.0%*
Earnings per share in €, adjusted	*2.70*	*2.50*	*+8%*		
Diluted earnings per share in €, adjusted	*2.65*	*2.47*	*+7%*		

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).
2) Related to relevant Group sales.
3) Earnings before interest, taxes, depreciation and amortization.
4) Earnings before interest and taxes.
5) Earnings before taxes.
6) Adjusted for one-time special effects and from the measurement of derivative financial instruments under financial income and expenses.

Income statement as well as cost development

The consolidated income statement is presented in the chart below – both for the reporting year and for the previous year, each under consideration of the effects to be adjusted, which are accordingly presented for financial year 2013 in detail under the items Influence on earnings due to one-time special effects and Influence on earnings due to effects from the measurement of derivative financial instruments under financial income and expenses.

Income statement (abridged) in € 000s	2013 without deduction of effects to be adjusted	2013 effects to be adjusted	*2013 after deduction of effects to be adjusted*	2012[1] without deduction of effects to be adjusted	2012 effects to be adjusted	*2012[1] after deduction of effects to be adjusted*
Sales	2,014,411	1,800	*2,016,211*	1,837,544	303	*1,837,847*
Cost of sales	1,030,152	1,174	*1,028,978*	931,721	3,251	*928,470*
Gross profit	**984,259**	**2,974**	***987,233***	**905,823**	**3,554**	***909,377***
Selling expenses	488,772	2,351	*486,421*	444,669	747	*443,922*
General and administrative expenses	160,005	3,448	*156,557*	157,945	1,672	*156,273*
Research and development expenses	55,700	123	*55,577*	52,188	84	*52,104*
Other income	53,644	-546	*53,098*	30,252	-6,842	*23,410*
Other expenses	72,813	37,369	*35,444*	48,240	33,948	*14,292*
Expenses in connection with the "STADA – build the future" project	9,064	9,064	-	30,983	30,983	-
Operating profit	**251,549**	**54,783**	***306,332***	**202,050**	**64,146**	***266,196***
Result from associated companies	771	-	*771*	1,448	-	*1,448*
Investment income	340	-	*340*	2,365	-	*2,365*
Earnings before interest and taxes (EBIT)	**252,660**	**54,783**	***307,443***	**205,863**	**64,146**	***270,009***
Financial income	6,845	-3,381	*3,464*	3,935	-988	*2,947*
Financial expenses	70,079	-	*70,079*	74,201	1,735	*72,466*
Earnings before taxes (EBT)	**189,426**	**51,402**	***240,828***	**135,597**	**64,893**	***200,490***
Income taxes	66,615	-12,203	*78,818*	48,609	-3,486	*52,095*
Earnings after taxes	**122,811**	**39,199**	***162,010***	**86,988**	**61,407**	***148,395***
Result distributable to non-controlling interests	1,385	-	*1,385*	516	-	*516*
Result distributable to shareholders of STADA Arzneimittel AG (net income)	**121,426**	**39,199**	***160,625***	**86,472**	**61,407**	***147,879***
Earnings per share in €	2.04		*2.70*	1.46		*2.50*
Earnings per share in € (diluted)	2.00		*2.65*	1.44		*2.47*
EBIT	**252,660**	**54,783**	***307,443***	**205,863**	**64,146**	***270,009***
Balance from depreciation and amortization/write-ups on intangible assets (including goodwill), property, plant and equipment and financial assets	130,833	-23,071	*107,762*	117,880	-20,478	*97,402*
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**383,493**	**31,712**	***415,205***	**323,743**	**43,668**	***367,411***

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

Cost of sales amounted to € 1,030.2 million in the reporting year (previous year[1]: € 931.7 million). **Gross profit**, i.e. sales after deducting cost of sales, was thus € 984.3 million (previous year[1]: € 905.8 million).

Cost of sales in financial year 2013 included impairment, depreciation and amortization in the total amount of € 86.8 million (previous year: € 77.8 million); of this, € 78.1 million (previous year: € 69.0 million) relate to amortization on such intangible assets, the ownership of which represents a necessary condition for the marketing of the products manufactured – in particular drug approvals.

The **cost of sales ratio**, i.e. the share of cost of sales in overall sales, was 51.1% in 2013 (previous year[1]: 50.7%). The sales-related **gross margin**, which is reciprocal to the cost of sales ratio, decreased to 48.9% in the reporting period (previous year[1]: 49.3%). This development demonstrates that the gross margin is burdened at the Group level due to an increased volume business as a result of tenders for discount agreements that were won (see "Earnings Situation – Development of Segments – Information by Region – Germany") and that this could not be compensated by increased margins in other products and/or other markets or by increased efficiency.

The Executive Board generally expects the cost of sales ratio and the gross margin to remain under constant pressure as a result of the price erosion associated with the business model of STADA. Furthermore, both of these items will also remain burdened by the expected increase in volume business in future. STADA generally counters the permanent margin pressure in the individual market regions through continuous cost optimization in the Group.

Selling expenses, which at STADA are predominantly composed of costs for sales force and sales department employees, as well as product-related marketing expenditure, increased in the reporting year to € 488.8 million (previous year[1]: € 444.7 million). The selling expenses ratio amounted to 24.3% (previous year[1]: 24.2%).

General and administrative expenses for financial year 2013 were € 160.0 million (previous year[1]: € 157.9 million) and were thus equal to 7.9% of Group sales (previous year[1]: 8.6%).

Research and development expenses were € 55.7 million in 2013 (previous year: € 52.2 million). The sales-related ratio of research and development expenses amounted to 2.8% (previous year: 2.8%).

STADA's reported development costs include the non-capitalizable development costs which are primarily made up of costs associated with regulatory requirements and the optimization of existing products. Payments in connection with the development of new products are, in contrast, usually capitalized by STADA (see "Notes to the Consolidated Financial Statements – 15.").[2] For this reason they are not included in this cost item.

Other income grew in the reporting year to € 53.6 million (previous year: € 30.3 million). The increase was particularly attributable to income in connection with business combinations recorded in financial year 2013. Here, in the context of the control achieved over the Vietnamese pharmaceutical companies Pymepharco and STADA Vietnam and the related change of the status of these companies, proceeds in the total amount of € 22.5 million resulted from the revaluation of the previously held shares. In opposition, an expense from the release of the respective currency translation reserve in the framework of the transitional accounting for these two companies in the total amount of € 2.4 million was incurred, which is included in the other expenses, so that the overall effect of the remeasurement of Pymepharco as well as of STADA Vietnam amounts to € 20.1 million. In connection with the acquisition of the British OTC supplier Thornton & Ross, furthermore, negative goodwill in the amount of € 14.4 million was recognized from the purchase price allocation for this business combination, which is recognized in profit or loss as of the acquisition date in accordance with IFRS 3.

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).
2) In financial year 2013, development expenses for new products in the amount of € 18.8 million (previous year: € 14.5 million) were capitalized.

Other income in financial year 2013 also included, among other things, earnings from one-time special effects based on earnings from write-ups on intangible assets.

Other expenses increased to € 72.8 million in the reporting period (previous year: € 48.2 million). The increase was primarily attributable to net currency translation expenses in the amount of € 16.6 million. In financial year 2012, net currency translation income of € 1.5 million was incurred, which was reported under other income. Furthermore, other expenses were recorded in financial year 2013 for impairments of non-current assets, which STADA reported as a one-time special effect.

Within remaining other expenses, personnel expenses in the amount of € 9.4 million (previous year: € 3.2 million) are recognized.

Expenses in connection with the "STADA – build the future" project amounted to € 9.1 million in the reporting year (previous year: € 31.0 million) and were reported as one-time special effects.

The **financial result**, which is made up of financial income and financial expenses, was € -62.1 million in financial year 2013 (previous year[1)]: € -66.5 million). The interest expense in the amount of € 70.1 million (previous year[1)]: € 72.4 million) represented the largest single operational item. Furthermore, the financial result in 2013 also included effects from the measurement of derivative financial instruments that amounted to a net relief on earnings of € 3.4 million (previous year: burden on earnings of € 0.7 million).

In the reporting year, the Group refinanced itself at interest rates of between 0.8% p.a. and 13.8% p.a. (previous year: between 0.5% p.a. and 19.7% p.a.). On the balance sheet date of December 31, 2013, the weighted average interest rate for non-current financial liabilities was approx. 3.5% p.a. (previous year: approx. 4.2% p.a.) and for current financial liabilities approx. 2.1% p.a. (previous year: approx. 4.8% p.a.). For all of the Group's financial liabilities, the weighted average interest amounted to approx. 3.3% p.a. (previous year: approx. 4.3% p.a.).

Income taxes amounted to € 66.6 million in 2013 (previous year[1)]: € 48.6 million). The tax rate was thereby 35.2% (previous year[1)]: 35.8%).

In reporting year 2013, as in the previous year, the Group's tax rate was burdened by the tax rules with regard to operating expenditures for interest expenses at corporate bodies effective in Germany. This so-called interest barrier provides that the net interest cost of a corporate body is only deductible up to an amount of 30% of the EBITDA stated for tax purposes in Germany. This led in 2013 to the non-deductibility of net interest costs in the amount of approx. € 25.2 million (previous year: approx. € 30.7 million) as well as to a corresponding additional tax burden of approx. € 6.1 million (previous year: approx. € 7.4 million).

In order to reduce the negative effect of this interest barrier, STADA took necessary measures in the second half of 2013 which led to the implementation of the tax optimization program – resolved by the Executive Board with effect as of July 1, 2013 – which resulted in tax improvements.

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

Business Development and Situation | Earnings Situation

Development of Segments: Information by operating segment

Development of core segments

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

Sales of the two **core segments** Generics and Branded Products increased in financial year 2013 by a total of 7% to € 1,943.4 million (previous year: € 1,809.3 million), so that their contribution amounted to 96.5% (previous year: 98.5%) of Group sales. Sales of the two core segments adjusted for portfolio changes and currency influences increased by 5% (see "Economic Report– Business Development and Situation – Earnings Situation – Sales Development").

Sales of the core segment **Generics** showed an increase of 2% to € 1,234.8 million in 2013 (previous year: € 1,213.1 million). Generics contributed 61.3% to Group sales (previous year: 66.0%). Adjusted, Generics sales increased by 0.4% (see "Economic Report– Business Development and Situation – Earnings Situation – Sales Development").

Top 5 generic active ingredients in products of the STADA Group 2013

Active ingredient	Indication group	Sales 2013 for products of the STADA Group in € million	Change from previous year
Phospholipide	Liver medicine	31.1	+25%
Diclofenac	Antirheumatic drug	24.2	-8%
Tilidine	Opioid	24.0	+16%
Enalapril	ACE inhibitor	23.1	-1%
Omeprazol	Stomach medicine	22.5	-28%
Total		124.9	

In the reporting year, STADA generated sales in the total of € 124.9 million with products containing the Group's top five active pharmaceutical ingredients in terms of sales (previous year: € 127.5 million). These products thereby generated 10.1% of sales in the Generics segment (previous year 10.5%).

In financial year 2013, the liver medicine Phospholipide was the best-selling active pharmaceutical ingredient in the core segment Generics.

The **Branded Products** core segment showed a sales increase of 19% to € 708.5 million in 2013 (previous year: € 596.2 million). Branded Products thus contributed 35.2% to Group sales (previous year: 32.5%). The adjusted sales of the Branded Products segment increased by 13% (see "Economic Report– Business Development and Situation – Earnings Situation – Sales Development").

Top 5 branded products in the Group in 2013

Branded product	Indication group	Sales 2013 in € million	Change from previous year
Apo-Go®	Parkinson medicine	43.5	-6%
Grippostad®	Cold medicine	39.0	+14%
Snup®	Nasal preparation	24.6	+38%
Zaldiar®	Pain medicine	24.5	+62%
Chondroxid®	For the treatment of degenerative joint diseases	23.1	+8%
Total		154.7	

With the top five branded products in the Group in term of sales, STADA achieved sales in the amount of € 154.7 million in financial year 2013 (previous year: € 140.5 million). These products thus had a share of 21.8% of sales in the Branded Products segment (previous year: 23.6%).

With sales in the amount of € 43.5 million (previous year: € 46.3 million) the Parkinson's medicine Apo-Go® was the strongest selling product in the reporting year both within the Branded Products core segment and in the Group as a whole.

Non-core activities to support core segments

Sales in the **Commercial Business** segment, which is not among the core segments, recorded an increase to € 40.5 million in 2013 (previous year: € 18.2 million). This development is based for the most part on the purchase of a pharmaceutical wholesale and commercial business in Switzerland that has been consolidated since March 1, 2013.

Sales reported under the position **Group holdings / other** increased to € 30.6 million in the reporting year (previous year: € 10.0 million). This increase primarily resulted from a sale with subsequent back-licensing, in the context of which intangible assets were sold and licensed back at the same time for further utilization in sales. Proceeds in the amount of € 30.0 million arose from the sale. With this transaction, STADA was able to open up another financing opportunity to diversify the existing financing instruments.

Operating profit by segment

The reported segment profits as well as the reported segment margins of both core segments Generics and Branded Products recorded growth in financial year 2013. **Reported operating profit** in the **Generics segment** increased by 13% to € 156.7 million (previous year[1)]: € 138.1 million). **Reported operating profit** in the **Branded Products segment** grew by 30% to € 161.1 million (previous year[1)]: € 123.7 million). **Reported operating profit margin** of **Generics** was at 12.7% (previous year[1)]: 11.4%). **Reported operating profit margin** of **Branded Products** amounted to 22.7% (previous year[1)]: 20.7%).

Adjusted operating profit in the **Generics segment** decreased in the reporting year by 2% to € 167.9 million (previous year[1)]: € 171.7 million). **Adjusted operating profit** in the **Branded Products segment** increased by 22% to € 174.4 million (previous year[1)]: € 143.5 million). The **adjusted operating profit margin** for **Generics** in 2013 was thus at 13.6% (previous year[1)]: 14.1%) and the **adjusted operating profit margin** for **Branded Products** at 24.6% (previous year[1)]: 24.1%).

The **reported operating profit** in the **Commercial Business segment** increased to € 1.3 million in financial year 2013 (previous year: € 0.2 million).

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

Business Development and Situation | Earnings Situation

Development of Segments: Information by market region

Development of the market regions

In the operating segments, differentiation is carried out by market regions. In this context, in the individual market regions, all relevant net sales according to segment to third parties generated by consolidated Group companies are reported. The STADA Group is composed of four market regions in total: Germany, Central Europe, CIS / Eastern Europe and Asia & Pacific.

When looking to the reported sales of individual market regions, it should generally be taken into consideration that they are allocated to the market region in which the sales company that generated the sales is located. Accordingly, sales of the individual market regions include both the sales of the respective sales companies generated within the country they are located in, as well as the export sales they generate.

Sales in 2013 by segments, market regions and markets in € million

in € million	Generics	Branded products	Commercial business	Reconciliation Group holdings / other	Total sales 2013	Share in Group sales 2013	Total sales previous year	± %[1]	*±% adjusted*
Germany	**300.5**	**123.0**	**0.0**	**30.6**	**454.1**	**22.6%**	**470.0**	**-3.4%**	***-3.4%***
• Germany	278.9	110.7	0.0	30.6	420.2	20.9%	442.0	-4.9%	*-4.9%*
• Export sales of the market region Germany	21.6	12.3	0.0	0.0	33.9	1.7%	28.0	+21.1%	*+20.2%*
Central Europe	**596.8**	**231.1**	**30.8**	**0.0**	**858.7**	**42.6%**	**816.0**	**+5.2%**	***-0.3%***
• Italy	143.6	25.9	0.0	0.0	169.5	8.4%	154.0	+10.1%	*+10.1%*
• Belgium	140.1	7.6	0.0	0.0	147.7	7.3%	141.8	+4.2%	*+4.1%*
• Spain	97.2	10.5	0.0	0.0	107.7	5.3%	108.7	-0.9%	*-1.0%*
• France	84.3	10.7	0.0	0.0	95.0	4.7%	92.2	+3.0%	*+1.9%*
• United Kingdom	10.9	68.2	0.0	0.0	79.1	3.9%	54.8	+44.3%	*+1.9%*
• Switzerland	21.1	11.6	18.6	0.0	51.3	2.5%	34.0	+50.9%	*-1.9%*
• The Netherlands	34.0	3.6	0.0	0.0	37.6	1.9%	44.3	-15.1%	*-14.7%*
• Ireland	15.3	7.3	0.4	0.0	23.0	1.1%	20.9	+10.0%	*+8.5%*
• Poland	0.9	19.4	0.0	0.0	20.3	1.0%	22.0	-7.7%	*-8.7%*
• Denmark	5.4	2.5	11.8	0.0	19.7	1.0%	23.0	-14.3%	*-15.1%*
• Other / rest of Central Europe	43.4	42.9	0.0	0.0	86.3	4.3%	95.0	-9.2%	*-11.7%*
• Export sales of the market region Central Europe	0.6	20.9	0.0	0.0	21.5	1.1%	25.3	-15%	*-13.9%*
CIS / Eastern Europe	**296.4**	**331.1**	**1.7**	**0.0**	**629.2**	**31.2%**	**526.5**	**+19.5%**	***+23.4%***
• Russia	166.5	252.3	0.0	0.0	418.8	20.8%	343.0	+22.1%	*+27.9%*
• Serbia	71.8	13.8	0.4	0.0	86.0	4.3%	80.9	+6.3%	*+7.3%*
• Ukraine	9.4	27.3	0.0	0.0	36.7	1.8%	30.5	+20.3%	*+13.6%*
• Kazakhstan	3.1	18.2	0.0	0.0	21.3	1.1%	15.5	+37.4%	*+44.2%*
• Bosnia-Herzegovina	12.9	1.0	0.0	0.0	13.9	0.7%	13.3	+4.5%	*+4.9%*
• Other / rest of CIS / Eastern Europe	22.6	18.3	1.3	0.0	42.2	2.1%	34.2	+23.4%	*+26.1%*
• Export sales of the market region CIS / Eastern Europe	10.1	0.2	0.0	0.0	10.3	0.5%	9.1	+13.2%	*+12.1%*
Asia & Pacific	**41.1**	**23.3**	**8.0**	**0.0**	**72.4**	**3.6%**	**25.0**	**>100%**	***+4.2%***
• Vietnam	35.7	20.7	6.1	0.0	62.5	3.1%	14.6	>100%	*+12.1%*
• China	1.7	1.0	0.0	0.0	2.7	0.1%	3.6	-25.0%	*-27.4%*
• The Philippines	0.9	0.0	1.7	0.0	2.6	0.1%	2.1	+23.8%	*+27.4%*
• Thailand	1.4	1.0	0.1	0.0	2.5	0.1%	2.5	0.0%	*+3.6%*
• Other / rest of Asia & Pacific	1.2	0.6	0.1	0.0	1.9	0.1%	2.2	-13.6%	*-23.3%*
• Export sales of the market region Asia & Pacific	0.2	0.0	0.0	0.0	0.2	0.0%	0.0	-	-

1) Calculated in € million.

The following describes the development of STADA's four market regions Germany, Central Europe, CIS / Eastern Europe and Asia & Pacific in financial year 2013. Furthermore, within these market regions, the development of the most important countries according to sales within these market regions is also described.

Market Region Germany

In the **market region Germany**, sales in financial year 2013 decreased by 3% to € 454.1 million (previous year: € 470.0 million). This resulted from a sales decrease in the German generics market, which is primarily based on now fully expired portfolio agreements as well as a deliberate partial renouncement of sales from discount agreements for the benefit of operating profitability. In opposition, a positive effect in the amount of € 30.0 million resulted in connection with a sale of intangible assets with subsequent back-licensing for further utilization in sales, which, however, only partially compensated the sales decrease and is reported outside the operating segments under "Group holdings / other". Overall, this market region thus contributed 22.6% to Group sales (previous year: 25.6%). Of the sales generated by market region Germany, € 33.9 million was attributable to export sales (previous year: € 28.0 million). Adjusted sales in this market region decreased by 3%.

Sales generated in **Germany**, i.e. sales excluding export sales of the market region Germany and excluding sales of other market regions in Germany, decreased by 5% to € 420.2 million in the year under review (previous year: € 442.0 million).

This sales decrease experienced in the German market overall continues to be attributable to the difficult local framework conditions for generics characterized by the intensive competition in tenders for discount agreements from public health insurance organizations. Also contributing to this were previously mentioned now fully expired portfolio agreements as well as the deliberate partial renouncement of sales from discount agreements for the benefit of operating profitability. As a result, sales in the German Generics segment in the reporting year decreased by 16% to € 278.9 million (previous year: € 330.5 million). Sales generated in Germany with generics in financial year 2013 accounted for 66% of the total sales achieved in the German market (previous year: 75%). The market share of generics sold in German pharmacies in 2013 was at the level of 2012 by volume with approx. 13.5%[1)] (previous year: approx. 13.3%[1)]). Despite the development in financial year 2013 in the Generics segment, the STADA Group remains the clear number 3[1)] in the German generics market.

Sales of generics in Germany are generated with various sales companies. Sales of the largest German sales company, ALIUD PHARMA, decreased in financial year 2013 by 19% to € 148.6 million (previous year: 182.8 million). Sales achieved by German generics sales company STADApharm recorded a decrease of 11% to € 98.7 million (previous year: € 111.3 million). Sales of the generics sales company cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, a special supplier for the indication areas oncology and nephrology, declined by 5% to € 33.3 million (previous year: € 35.3 million).

Sales achieved with branded products in Germany in 2013 recorded a slight increase by 1% to € 110.7 million (previous year: € 110.1 million). Overall, sales achieved in the German market with branded products had a share of 26% in sales generated in Germany in the reporting year (previous year: 25%).

Sales of branded products in Germany are primarily generated with two sales companies. The sales of STADA GmbH, Bad Vilbel, increased in 2013 by 2% to € 101.9 million (previous year: € 100.2 million). Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg, recorded a sales decrease of 18% to € 8.7 million (previous year: € 10.5 million).

1) Data from IMS Health on pharmacy sales to customers (source: IMS/Pharmascope national).

In financial year 2013, STADA's important branded products continued to be counted as market leaders in their corresponding market segments in the German pharmacy market. An example of this is the cold medicine Grippostad® C, the biggest German STADA branded product with local sales in 2013 of € 36.7 million (previous year: € 32.6 million) and a market share of approx. 32.8% in the market for flu drugs[1).2)]

In the fourth quarter of 2013, STADA announced the optimization of the German sales activities and the foundation of STADAvita GmbH.[3)] Subsequently, the new STADA subsidiary took over from the beginning of 2014 the sales of preventative branded products, such as nutritional supplements – like Magnetrans® – and plant-based products, as well as blood glucose tests for diabetes. STADA GmbH remains responsible for curative, non-prescription branded products such as Grippostad® and Mobilat®, as well as the sun protection line Ladival®. STADApharm GmbH, on the other hand, will concentrate on prescription generics in future. The sales brand Hemopharm that was also previously active in the branded products area will no longer appear following the reorganization of sales in Germany as the sales of the corresponding products will be taken over by STADAvita. The restructuring was primarily carried out for two reasons. For one, all branded products will now be sold under the strong brand name of "STADA". Additionally, costs will be reduced as a result of the adjustment of portfolio overlaps and the realization of synergies in the marketing area. Other Group sales companies that are also active in Germany will remain unaffected by the realignment.

For financial year 2014, the Executive Board expects sales in the market region Germany to be below the level of the previous year with operating profitability under Group average.

Market region Central Europe

In the **market region Central Europe**, sales in financial year 2013 increased by 5% to € 858.7 million (previous year: € 816.0 million). Sales generated in this market region had a share of 42.6% of Group sales (previous year: 44.4%). Of the sales generated by the market region Central Europe, € 21.5 million was attributable to export sales (previous year: € 25.3 million). Adjusted Group sales in this market region decreased slightly by 0.3%.

For financial year 2014, the Executive Board expects an increase in sales with operating profitability at Group average for the market region Central Europe.

The sales in Italy, the United Kingdom, Switzerland and Ireland developed particularly well in the market region Central Europe in 2013. After regulatory intervention in 2012, sales in Belgium and Spain increasingly stabilized in the course of the reporting year. The development of business in the five largest markets according to sales within this market region is described below.

Sales in **Italy** recorded growth of 10% to € 169.5 million (previous year: € 154.0 million) in financial year 2013. The two segments Generics and Branded Products showed opposing developments.

Sales generated in the Italian market with generics increased – in particular as a result of regulations introduced over the course of financial year 2012 to stimulate generics – by 20% to € 143.6 million (previous year: € 119.8 million). Generics contributed 85% to local sales (previous year: 78%). With a market share of approx. 14.7% (previous year: approx. 14.7%), STADA occupied position 5 in the Italian generics market in financial year 2013.[4)]

1) Excluding anti-infective agents.
2) Data from IMS Health on pharmacy sales to customers (source: IMS/Pharmascope national).
3) See the Company's press release of October 1, 2013.
4) STADA estimate based on IMS Health data at ex-factory prices.

Sales achieved in the Italian market with branded products declined as expected by 24% to € 25.9 million (previous year: € 34.2 million). This decline was, among other things, due to the sale of a portfolio in the third quarter of 2012, the products of which are being gradually transferred to the acquirer. Branded products had a share in sales of 15% in Italy (previous year: 22%).

In **Belgium**, sales rose in the reporting year by 4% to € 147.7 million (previous year: € 141.8 million). Whereas sales in the Belgian market decreased by 13% in the first quarter of 2013 and then grew by 14% in the second quarter, they increased by 14% in the third quarter and by 6% in the fourth quarter.

Sales generated in the Belgian market with generics increased by 4% to € 140.1 million (previous year: € 134.8 million). Generics contributed 95% to local sales (previous year: 95%). With a market share of approx. 49.9% (previous year: approx. 48.5%), STADA remained the clear market leader in the Belgian generics market in 2013.[1)]

Sales with branded products in Belgium grew by 8% to € 7.6 million (previous year: € 7.0 million). Branded products contributed 5% to sales in Belgium (previous year: 5%).

In the first quarter of 2013, STADA's Belgian subsidiary, S.A. Eurogenerics N.V., and the pharmaceutical company Omega Pharma N.V. signed a new contract for the distribution of its generics to pharmacies and wholesalers in Belgium.[2)] As compared to the previous conditions, Eurogenerics expects annual cost reductions in the higher single-digit million euro area over the period of the contract. In addition, customers in Belgium have since benefited from considerably improved service as a result of more intense utilization of the Omega Pharma sales team. The contract has a minimum term of five years.

In **Spain**, sales declined slightly in the reporting year by 1% to € 107.7 million (previous year: € 108.7 million). Whereas sales in the Spanish market in the first quarter of 2013 decreased by 24%, they showed a plus of 4% in the second quarter and grew by 13% in the third quarter and by 14% in the fourth quarter. Overall, the development of business in Spain is evaluated as good in consideration of the economic circumstances which remained difficult in 2013.

Sales of generics reported in the Spanish market declined by 3% to € 97.2 million (previous year: € 100.5 million). This is due to the deliberate termination of the Spanish hospital business in 2012, increasingly intense price competition as well as market-curbing, local regulations that were newly introduced in 2012. The share of generics in Spanish sales was at 90% (previous year: 92%). With a market share of approx. 9.3% (previous year: approx. 9.9%), STADA occupied position 4 in the Spanish generics market in the reporting year.[1)]

Sales generated with branded products in Spain recorded growth of 28% to € 10.5 million (previous year: € 8.2 million). Branded products contributed 10% to local sales (previous year: 8%).

In **France**, the Group recorded a sales increase of 3% to € 95.0 million in financial year 2013 (previous year: € 92.2 million)

Despite a decrease of sales prices as of the second quarter of 2013, sales achieved with generics in the French market increased by 2% to € 84.3 million (previous year: € 82.7 million) as a consequence of regulations to promote generics that took effect in the second half of 2012 and the associated significant growth in volume. The share of generics in local sales was at 89% (previous year: 90%). With a market share of approx. 3.6% (previous year: 3.9%), STADA occupied position 7 in the French generics market in financial year 2013.[1)]

Sales generated in France with branded products recorded growth of 13% to € 10.7 million (previous year: € 9.5 million). This positive development was primarily based on the purchase of the French company LERO carried out in the first quarter of 2012. Branded products contributed 11% to sales in France (previous year: 10%)

1) STADA estimate based on IMS Health data at ex-factory prices.
2) See the Company's press release of January 31, 2013.

Sales generated in the **United Kingdom**, applying the exchange rates of the previous year, recorded growth of 49%. In euro, sales increased by 44% to € 79.1million due to a negative currency effect of the pound sterling (previous year: € 54.8 million). In particular, the consolidation of the British OTC supplier Thornton & Ross contributed to this pleasing development (see "Economic Report – Business Development and Situation – Financial Situation").

Sales achieved with branded products increased by 50% to € 68.2 million (previous year: € 45.3 million). Branded products contributed 86% to sales achieved in the United Kingdom (previous year: 83%). Sales of generics, where STADA continues to be a niche provider of selected generics in the United Kingdom with only a few active pharmaceutical ingredients, grew despite increased competition by 15% to € 10.9 million (previous year: € 9.5 million). Generics contributed 14% to local sales (previous year: 17%).

In the fourth quarter of 2013, a restructuring under company law was implemented in the United Kingdom, transferring the shares in the two local sales companies Genus Pharmaceuticals Ltd. and Britannia Pharmaceuticals Ltd. to STADA UK Holding Ltd. This measure is linked to a fundamental restructuring of sales responsibilities and the stronger pooling of competencies for the overall product portfolio of the British companies effective as of January 1, 2014.

Market region CIS / Eastern Europe

Sales in the **market region CIS / Eastern Europe**[1] recorded substantial growth in financial year 2013 of 19% to € 629.2 million (previous year: € 526.5 million). Sales of the market region contributed 31.2% to Group sales (previous year: 28.7%). Of the sales generated by the market region CIS / Eastern Europe, € 10.3 million was achieved with export sales (previous year: € 9.1 million). Adjusted Group sales in this market region increased by 23%.

For financial year 2014, the Executive Board expects growth in sales in the market region CIS / Eastern Europe. Operating profitability adjusted for negative currency effects is expected to be above Group average.

The development of the two largest markets according to sales within this market region, Russia and Serbia, is described in detail below.

Russia recorded a strong sales increase in 2013 of 30% applying the exchange rates of the previous year. In euro, sales grew significantly by 22% to € 418.8 million despite a negative currency effect of the Russian ruble (previous year: € 343.0 million).

Overall in the reporting year, STADA achieved a market share of approx. 4.7% in the Russian pharmaceutical market (previous year: approx. 4.5%), thus taking position 4 among Russian pharmaceutical companies.[2]

Sales generated in the Russian market with generics increased by 10% to € 166.5 million (previous year: € 150.8 million). Generics contributed 40% to sales achieved in Russia (previous year: 44%).

Sales of branded products also saw substantial growth rising by a strong 32% to € 252.3 million (previous year: € 191.7 million). Branded products had a share in sales of 60% in Russia (previous year: 56%).

The demand structure in the Russian market continues to be characterized by self-pay patients with whom, directly or indirectly via wholesalers, approx. 91% of Russian sales are generated. In 2013, only approx. 5% of Russian sales were recorded in the context of the state program for the reimbursement of selected medicines for individual population groups (DLO Program). In addition, approx. 4% of sales were generated directly or indirectly with other state clients, in particular via tenders.

1) So-called CEE countries (Central and Eastern Europe) including Russia.
2) STADA estimate based on IMS Health data at ex-factory prices.

The sales and earnings contributions of Russian business activities will continue to be affected by development of the currency relation of the Russian ruble to the euro in the future.

In order to further strengthen the Russian business activities in the area of branded products for self-medication, which is especially strategically important for STADA, the Russian subsidiary OAO Nizhpharm, Nizhny Novgorod, signed a framework agreement in 2013 for the purchase of the branded product portfolio Aqualor®[1)] (see "Economic Report – Business Development and Situation – Financial Situation").

In **Serbia**, sales grew by 6% in the reporting year applying the exchange rates of the previous year. In euro, sales also increased by 6% to € 86.0 million with a slightly positive currency effect of the Serbian dinar (previous year: € 80.9 million). Despite the low comparable basis in the corresponding period of the previous year as a result of the conversion of the local distribution model for improved controlling of cash flows and a correlated, expected sales decrease, the sales rise achieved in the Serbian market in financial year 2013 was attributable to increased demand.

Sales generated in Serbia with generics increased by 7% to € 71.8 million (previous year: € 67.0 million). Generics contributed 83% to sales in Serbia (previous year: 83%). With a market share of approx. 36.7% (previous year: approx. 36.3%), STADA remained the market leader in the Serbian in 2013.[2)]

Sales generated in the Serbian market with branded products increased substantially by 19% to € 13.8 million (previous year: € 11.6 million). Branded products had a share in sales of 16% in Serbia (previous year: 14%).

STADA believes that its own operating business in the Serbian market is fundamentally stable and offers further potential for growth. In addition to the development of the liquidity situation of the wholesalers and distribution partners in Serbia, sales and earnings contributions in Serbia will continue to be significantly dependent on the currency relationship of the Serbian dinar to the euro also in the future.

Market region Asia & Pacific

Sales in the **market region Asia & Pacific** recorded substantial growth in the reporting year of 190% to € 72.4 million (previous year: € 25.0 million). Sales of the market region contributed 3.6% to Group sales (previous year: 1.3%). The growth in the market region Asia & Pacific was primarily attributable to the sales increase in the Vietnamese market as a result of the consolidation of Pymepharco and STADA Vietnam as subsidiaries (see "Economic Report – Business Development and Situation – Financial Situation"). Adjusted Group sales in this market region increased by 4%.

For financial year 2014, the Executive Board expects another sales increase in the market region Asia & Pacific with operating profitability above Group average.

1) See Company's ad hoc release of October 18, 2013 and the Company's ad hoc update of February 28, 2014.
2) STADA estimate based on IMS Health data at ex-factory prices.

Business Development and Situation | Financial Situation

Stable financial situation

The STADA Group has a stable financial position in the view of the Executive Board. Apart from some items of the cash flow statement, this is also displayed by various key figures such as those shown in the liquidity analysis in this chapter.

Basic principles and goals of financial management at STADA

STADA pursues a conservative financial policy characterized by long-term secured financing instruments and forward-looking monitoring of financial risks. The goal of this is to be able to provide sufficient liquidity for the operating business at any point in time.

STADA expresses this forward-looking monitoring by defining an internal key figure that reflects the existing dynamic debt capacity, which states that the net debt to adjusted EBITDA ratio should not exceed 3. Temporary results in excess of this, which can stem from certain acquisitions, for example, are to be brought back down to below the determined limit within 12 to 18 months.

The financial management also covers further financial risks such as currency and interest price risks. In this area, the objective is pursued of reducing risks that arise by way of natural hedges or derivative financial instruments. Derivative financial instruments are neither held nor issued for speculation purposes.

On principle, only those financial risks are hedged which have significant consequences on the Group's cash flow. Please see the Risk Report for more details on the management of the individual financial risks.

In the context of its Group-wide financing strategy, the Group focuses on a generally high level of financial flexibility. In order to achieve this flexibility, STADA relies both on various financing instruments as well as a diversified investor structure. The Group's profile of maturity dates reflects a wide spread with a high share of middle and long-term financial instruments.

The Group covers its need for financing with a combination of cash flow from operating activities and the borrowing of funds on the short, middle and long-term, as well as factoring programs. There is also the opportunity of cash inflow from exercising outstanding warrants 2000/2015.

Furthermore, STADA has credit lines available as a liquidity reserve.

Successful placement of a second corporate bond

In the second quarter of 2013, STADA successfully issued a second corporate bond in the capital market with a volume of € 350 million.[1)] The bond has a term of five years and a fixed interest rate of 2.25% p.a. The issue price amounted to 99.417%. The denomination is € 1,000. The order book was oversubscribed by more than three times. The bond was placed both with institutional investors and private investors in more than seven countries. The proceeds from the issue serve general financing purposes.

1) See the Company's press release of May 29, 2013.

In addition to this bond, the long-term refinancing of the Group as of December 31, 2013 was provided for by a five-year corporate bond in the amount of € 350 million that was placed in 2010 with an interest rate of 4.00% p.a. and long-term promissory notes with maturities in the area of 2014–2017 in the amount of € 436.5 million. STADA generally has a balanced maturity dates profile and a stable financing structure based on instruments with staggered maturities.

Financial liabilities exist in a currency other than the Group's functional currency primarily at Group companies within market regions CIS / Eastern Europe and Asia & Pacific.

In financial year 2013, the Group refinanced itself at interest rates of between 0.8% p.a. and 13.8% p.a. (previous year: between 0.5% p.a. and 19.7% p.a.). On the balance sheet date of December 31, 2013, the weighted average interest rate for non-current financial liabilities was approx. 3.5% p.a. (December 31, 2012: approx. 4.2% p.a.) and for current financial liabilities approx. 2.1% p.a. (December 31, 2012: approx. 4.8% p.a.). For all of the Group's financial liabilities the weighted average interest rate amounted to approx. 3.3% p.a. (previous year: approx. 4.3% p.a.).

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

Remaining maturities of financial liabilities due to banks as of Dec. 31, 2013 in € million	< 1 year	1 – 3 years	3 – 5 years	> 5 years	Total	thereof as of Dec. 31, 2013 > 1 year in %
Promissory notes	98.0	238.5	100.0	-	436.5	78%
Bond	-	350.0	350.0	-	700.0	100%
Amounts due to banks	194.5	36.3	65.8	0.0	296.6	34%
Total	292.5	624.8	515.8	0.0	1,433.1	80%

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

Liquidity analysis

In financial year 2013, the Group's liquidity was ensured at all times. Significant sources of liquidity in the reporting year were attained from cash inflows from operating activities as well as the borrowing of funds on the short, middle and long-term, as well as cash inflow from factoring and exercising outstanding warrants 2000/2015. Cash inflows from operating activities are influenced by the profitability of business activities and by net working capital, and, among other things, by receivables. In addition to two corporate bonds, long-term credit lines and various promissory notes, STADA maintains a liquidity reserve in the form of cash supplemented by short-term credit lines. The short-term credit lines bilaterally agreed with various banks each have a term of 12 months and currently amount to over € 500 million.

Cash flow analysis

Cash flow statement (abridged) in € 000s	2013	2012
Cash flow from operating activities	205,416	212,656
Cash flow from investing activities	-312,371	-468,414
Free cash flow	**-106,955**	**-255,758**
Cash flow from financing activities	147,300	30,567
Non-cash changes in cash and cash equivalents	-6,912	-2,819
Cash flow	**33,433**	**-228,010**

Cash flow from operating activities amounted to € 205.4 million in 2013 (previous year: € 212.7 million). The change of € 7.3 million compared to the previous year was primarily due to the significantly higher cash-effective decrease of other financial assets as well as the higher cash-effective increase of trade accounts receivable. In opposition, there was a substantially lower cash-effective increase in inventories as compared to the previous year period as well as a higher cash-effective increase in trade accounts payable, which could not fully compensate for the decrease in cash flow from operating activities, however.

Cash flow from investing activities in the reporting year amounted to € -312.4 million (previous year: € -468.4 million). In financial year 2013, the cash flow from investing activities was, as in the previous year, especially affected by high payments for investments in business combinations in accordance with IFRS 3. The payments for investments in business combinations in the reporting year primarily relate to the purchase price payments made for the acquisition of the British OTC supplier Thornton & Ross as well as the final purchase price payments for the additional shares and the control achieved over the Vietnamese pharmaceutical company Pymepharco and for the pharmaceutical wholesaling and commercial business acquired from Spirig Pharma, in each case following the deduction of acquired cash and cash equivalents. In the previous year, payments for investments in business combinations according to IFRS 3 primarily related to the acquisition of the Grünenthal branded product portfolio including the related sales companies as well as the purchase of the generics business of Spirig Pharma including the respective sales structures.

For **acquisitions** – for both the acquisition of consolidated companies and business combinations according to IFRS 3 as well as for product purchases, i.e. for significant investments in intangible assets for the short-term expansion of the product portfolio (generally in the reporting year) – STADA spent a total of € 243.5 million in 2013 (previous year: € 410.7 million).

As a result of **disposals**, cash flow from investing activities recorded an inflow of cash and cash equivalents in the total amount of € 5.4 million in financial year 2013 (previous year: € 14.0 million).

Investments in other intangible assets, i.e. investments in intangible assets in the context of the ongoing operating business and therefore without consideration of acquisition and disposal projects, in the amount of € 39.5 million in the reporting year (previous year: € 37.9 million) comprised payments for the mid and long-term expansion of the product portfolio in the course of the acquisition of approvals or approval dossiers.

Payments for **investments in property, plant and equipment** amounted to € 34.0 million in financial year 2013 (previous year: € 30.3 million).

Property, plant and equipment investments in the reporting year comprised investments in production facilities and production sites in the total amount of € 18.4 million (previous year: € 12.6 million) (see "Basis of the Group – Procurement, Production and Quality Management").

Payments for **investments in financial assets** were at € 0.7 million in financial year 2013 (previous year: € 3.5 million).

Cash flow from financing activities amounted to € 147.3 million in the reporting year, whereas STADA recorded cash flow from financing activities in the amount of € 30.6 million in the previous year.

This development was primarily a result of the bond placed by STADA in the second quarter of 2013. In opposition, the repayment of financial liabilities increased as compared to the previous year. In addition, in the context of the conversion of STADA warrants to shares, the Group received an inflow from a capital increase in the amount of € 18.3 million in 2013 (previous year: € 6.0 million) (see "Notes to the Consolidated Financial Statements – 35.").

Free cash flow, i.e. cash flow from current business activities plus cash flow from investing activities, amounted to € -107.0 million in 2013 (previous year: € -255.8 million). **Free cash flow adjusted** for payments for significant acquisitions and proceeds from significant disposals amounted to € 134.9 million in the reporting year (previous year: € 149.6 million).

In total, cash flow for financial year 2013, net of all inflows and outflows of cash and cash equivalents, amounted to € 33.4 million (previous year: € -228.0 million).

Investments

The Group's investments amounted to € 365.1 million in the reporting year (previous year: € 401.0 million). Here, investments in property, plant and equipment totaled € 78.8 million (previous year: € 30.3 million). In relation to sales, the share of investments in property, plant and equipment was 3.9% in the reporting year (previous year: 1.6% of sales). Investments in intangible assets amounted to € 285.4 million (previous year: € 367.1 million), of which € 228.5 million was used for business combinations according to IFRS 3 (previous year: € 252.7 million). In the reporting year, 22% of the total investment volume was thereby attributable to property, plant and equipment (previous year: 8%) and 78% to intangible assets (previous year: 91%).

In the fourth quarter of 2013, the Russian subsidiary STADA, OAO Nizhpharm, signed a framework agreement for the purchase of the branded product portfolio Aqualor®.[1)] The purchase price for the Aqualor® product package amounts to a total of € 131 million in cash. The closing of the contract, and therefore the consolidation of Aqualor® product sales, was completed as planned in the first quarter of the current financial year. For the financing of the acquisition, STADA used cash on hand and existing free credit lines.

Active acquisition policy with promising purchases

In general, the Executive Board continues to pursue an active acquisition policy to complement the Group's organic growth with further external growth impulses. This focuses on the regional expansion of business activities concentrating on high-growth emerging markets. The Group also focuses on the expansion and internationalization of the core segments, in particular branded products as they are generally characterized by better margins and less regulatory interventions than generics.

1) See the Company's ad hoc release of October 18, 2013 and ad hoc update of February 28, 2014.

Despite the active acquisition policy, strict benchmarks were still applied in the Group in 2013 which concern profitability and appropriateness of the purchase price. For larger 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 too high.

The STADA Group made further value-enhancing purchases in the context of its active acquisition policy.

Acquisition of British OTC supplier Thornton & Ross

In the third quarter of 2013, the British STADA subsidiary STADA UK Holdings purchased the British OTC supplier Thornton & Ross after STADA and the owners had already announced exclusive contract negotiations on the issue.[1)] The purchase price amounted to approx. GBP 221 million (approx. € 259 million with the exchange rate valid the day the ad hoc update was published). This corresponds to approx. GBP 193 million (approx. € 226 million with the exchange rate valid the day the ad hoc update was published) on a so-called cash and debt-free basis. Thornton & Ross has a number of well-known prescription-free branded products for a wide variety of indications – among other things, cold, pain and dermatology. In financial year 2012/2013 (April 1, 2012 – March 31, 2013), Thornton & Ross generated sales of GBP 66.233 million (applying the exchange rate from the date the ad hoc release was published approx. € 76.66 million) and thereby approx. 11% more than in the previous year – for the most part through the pharmacy and drugstore distribution channels in the United Kingdom. The EBITDA margin in 2012/2013 was above the average for the STADA Group. As the number 5 in the British OTC market and at the same time the fastest growing company within the top 10 in the British pharmaceutical market at the time of acquisition, the company has a EU-GMP-certified production site and had 439 employees at the time of the takeover. Sales have been consolidated in the STADA Group as of September 1, 2013. The transaction has also made a positive contribution to net income since that date.

Signing of contract for the purchase of the Russian branded product portfolio Aqualor®

In the fourth quarter of 2013, the Russian subsidiary of STADA, OAO Nizhpharm, signed a framework agreement for the purchase of the branded product portfolio Aqualor®.[2)] The purchase price for the Aqualor® product package amounts to a total of € 131 million in cash. The product package comprises ten prescription-free (OTC) product presentations based on seawater in the form of sprays and drops with the local regulatory status of medical devices for the treatment of sinusitis (infection of the paranasal sinus) and sore throat. In 2012, net sales generated with these Aqualor® products in Russia amounted to approximately € 28 million. In 2012 the Aqualor® product portfolio reported an EBITDA margin which is significantly above the average of the branded products in the STADA Group. The purchase does not include any production facilities or the transfer of personnel. The portfolio is mainly being sold by Butterwood Holdings Limited, a company located in Cyprus, and ZAO Pharmamed, a Russian pharmaceutical company located in Moscow. The closing of the contract, and therefore the consolidation of Aqualor® product sales, was completed as planned in the first quarter of the current financial year.

Control achieved over Pymepharco in Vietnam

STADA has controlled the Vietnamese pharmaceutical company Pymepharco since 2013. Its business activities focus on the production and sale of pharmaceutical products as well as import activities for the Vietnamese health and pharmaceutical market via additional indirect investments and legal arrangements. Accordingly, Pymepharco, which was previously treated as an associated company, is consolidated in the STADA Group as a subsidiary adjusting for minority interests. STADA therefore intends to benefit even more from the local growth opportunities in the future with this step.

1) See the Company's ad hoc release of August 6, 2013 and ad hoc update of August 16, 2013.
2) See the Company's ad hoc release of October 18, 2013 and ad hoc update of February 28, 2014.

Control achieved over STADA Vietnam in Vietnam

In the reporting year, furthermore, STADA achieved control in Vietnam of STADA Vietnam, whose business activities comprise the production and sales of pharmaceutical products. The consolidation, taking minority interests into account, of STADA Vietnam as a subsidiary – and not as a joint venture as in the past – further strengthened STADA's position in the growth market of Vietnam.

Acquisition of the pharmaceutical wholesale and commercial business of Spirig Pharma

STADA concluded a contract through Spirig HealthCare in the third quarter of 2012 for the acquisition of the pharmaceutical wholesale and commercial business of Spirig Pharma. The acquisition was completed in the first quarter of 2013.

Continuation of STADA's active acquisition policy

STADA continued the active acquisition policy in the current financial year 2014 as well. Further details can be found in the Supplementary Report.

Business Development and Situation | Assets Situation

Development of the Balance Sheet

Balance sheet (abridged) Assets	Dec. 31, 2013 in € 000s	Dec. 31, 2013 in %	Dec. 31, 2012[1)] in € 000s	Dec. 31, 2012[1)] in %	Jan. 1, 2012[1)] in € 000s	Jan. 1, 2012[1)] in %
Non-current assets	**2,059,989**	**60.4%**	**1,802,176**	**60.4%**	**1,532,815**	**54.7%**
Intangible assets	1,641,623	48.1%	1,417,083	47.5%	1,147,181	41.0%
Property, plant and equipment	318,428	9.3%	273,822	9.2%	299,480	10.7%
Other assets	99,938	3.0%	111,271	3.7%	86,154	3.0%
Current assets	**1,353,193**	**39.6%**	**1,180,645**	**39.6%**	**1,267,081**	**45.3%**
Inventories	524,374	15.4%	475,311	15.9%	399,125	14.3%
Trade accounts receivable	591,678	17.3%	492,143	16.5%	446,214	15.9%
Other assets	110,978	3.2%	120,461	4.1%	101,002	3.6%
Cash and cash equivalents	126,163	3.7%	92,730	3.1%	320,740	11.5%
Total assets	**3,413,182**	**100%**	**2,982,821**	**100%**	**2,799,896**	**100%**

Equity and liabilities	Dec. 31, 2013 in € 000s	Dec. 31, 2013 in %	Dec. 31, 2012[1)] in € 000s	Dec. 31, 2012[1)] in %	Jan. 1, 2012[1)] in € 000s	Jan. 1, 2012[1)] in %
Equity	**1,010,099**	**29.6%**	**910,317**	**30.5%**	**863,912**	**30.9%**
Long-term borrowed capital	**1,358,414**	**39.8%**	**1,102,911**	**37.0%**	**1,255,006**	**44.8%**
Other non-current provisions	51,478	1.5%	50,486	1.7%	35,119	1.3%
Financial liabilities	1,140,571	33.4%	941,572	31.6%	1,124,829	40.2%
Other liabilities	166,365	4.9%	110,853	3.7%	95,058	3.3%
Short-term borrowed capital	**1,044,669**	**30.6%**	**969,593**	**32.5%**	**680,978**	**24.3%**
Other provisions	17,536	0.5%	10,538	0.4%	11,835	0.4%
Financial liabilities	292,484	8.6%	328,519	11.0%	96,229	3.4%
Trade accounts payable	331,661	9.7%	268,973	9.0%	241,561	8.6%
Other liabilities	402,988	11.8%	361,563	12.1%	331,353	11.9%
Total equity and liabilities	**3,413,182**	**100%**	**2,982,821**	**100%**	**2,799,896**	**100%**

From the Executive Board's perspective, the Group's asset situation continues to be stable. This is reflected in various derived key figures as a supplement to the items reported in the balance sheet.

Net debt amounted to € 1,306.8 million as of December 31, 2013 (December 31, 2012: € 1,177.3 million).

The **net debt to adjusted EBITDA ratio** was 3.1 in the reporting year (previous year[1)]: 3.2).

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

As of December 31, 2012, the **equity-to-assets ratio** was 29.6% (December 31, 2012[1)]: 30.5%) and was thereby satisfactory in the opinion of the Executive Board.

The **balance sheet total** increased as of December 31, 2013 to € 3,413.2 million (December 31, 2012[1)]: € 2,982.8 million). The increase was primarily attributable to additions of assets from business combinations, in particular for intangible assets.

The **intangible assets** recorded an increase to a total of € 1,641.6 million as of December 31, 2013 (December 31, 2012: € 1,417.1 million). The amount of this balance sheet item is based on the Group's long-term active expansion policy with corresponding investments in the acquisition of companies and products including brands and licenses as well as in the area of product development for the acquisition of dossiers and approvals.

As of December 31, 2013, intangible assets included € 458.0 million (December 31, 2012: € 455.8 million) goodwill including the additions from the purchase price allocations. Furthermore, there were additions to the other intangible assets from business combinations – not considering amortization in the reporting year – in the amount of € 293.9 million, which correspond to the fair values determined in the context of the purchase price allocations. Thereof, € 29.1 million was attributable to the control achieved over the Vietnamese pharmaceutical company Pymepharco and € 239.2 million to the acquisition of the British OTC supplier Thornton & Ross as well as € 24.8 million attributable to the control achieved over STADA Vietnam. In addition in 2013, development costs in the amount of € 20.7 million (December 31, 2012: € 17.3 million) were capitalized as internally created intangible assets (see "Notes to the Consolidated Financial Statements – 25.").

The increase in **property, plant and equipment** as of December 31, 2013 to € 318.4 million (December 31, 2012: € 273.8 million) was particularly attributable to the control achieved over the Vietnamese company Pymepharco and STADA Vietnam as well as the purchase of the British OTC supplier Thornton & Ross.

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

The financial assets decreased to € 9.0 million as of December 31, 2013 (December 31, 2012: € 12.5 million) and primarily included shares classified as available for sale in affiliated companies and other investments. STADA still does not currently intend to sell any of these financial assets available for sale.

Shares in associated companies decreased as compared to December 31, 2012 by € 25.9 million to € 9.0 million (December 31, 2012: € 34.9 million). This change was primarily attributable to the control achieved of the subsidiary Pymepharco, which was previously included in the consolidated financial statements as an associated company and has been consolidated as a subsidiary as of 2013.

Other financial assets in the amount of € 77.9 million (previous year: € 52.3 million) include loan receivables and purchase price receivables. The unchanged largest item under other financial assets is the loan from STADA Arzneimittel AG granted to BIOCEUTICALS Arzneimittel AG which was utilized as of the balance sheet date in the amount of € 15.6 million (December 31, 2012: € 13.8 million).

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

The increase in **inventories** as of December 31, 2013 to € 524.4 million (December 31, 2012: € 475.3 million) was primarily a result of the consolidation of the two Vietnamese subsidiaries Pymepharco and STADA Vietnam as well as of the British OTC supplier Thornton & Ross.

In specific situations STADA puts – following the principle of market proximity (see "Basis of the Group – Sales and Marketing") – certain range considerations deliberately aside in favor of possible operating opportunities. In individual cases this can lead to value adjustments for inventories which burden earnings, if the utilization of opportunities cannot be realized as expected. Total burdens in the amount of € 29.9 million as of December 31, 2013 were incurred due to value adjustments in inventories netted with reversals (previous year: € 31.1 million).

Trade accounts receivable increased as of the balance sheet date to € 591.7 million (December 31, 2012: € 492.1 million). This was primarily attributable to the consolidation of the two Vietnamese subsidiaries Pymepharco and STADA Vietnam, as well as of the British OTC supplier Thornton & Ross. The difficult macroeconomic framework conditions in certain local markets as a result of the ongoing financial and economic crisis had no substantial negative influence on the due-date oriented receivables.

If the opportunity to attain a better market position arises, the Group accepts, if necessary, higher current trade receivables in selected market situations. In the scope of its receivables management, STADA pays thorough attention to the liquidity of customers as a rule. Defaults can, however, never be entirely ruled out (see "Risk Report").

Cash and cash equivalents, which include cash and call deposits as well as short-term financial investments, increased as of December 31, 2013 to € 126.2 million (December 31, 2012: € 92.7 million). This development was primarily due to effects related to the balance sheet date. Further details on the development of cash and cash equivalents can be found in the consolidated cash flow statement.

Equity increased as of December 31, 2013 to € 1,010.1 million (December 31, 2012[1)]: € 910.3 million). Here it must be taken into account that the Group recorded proceeds from capital increases from the conversion of STADA warrants in the amount of € 18.3 million in the reporting year (previous year: € 6.0 million) (see "STADA Share").

Other provisions within equity decreased as of December 31, 2013 to € -241.5 million (December 31, 2012[1)]: € -184.5 million). This was primarily due to the negative development of the Russian ruble to euro, which reduced equity from the foreign currency translation reserve.

Other non-current provisions included provisions for pensions created in accordance with actuarial principles and other long-term provisions in the form of anniversary provisions (see "Notes to the Consolidated Financial Statements – 36."). This item increased slightly to € 51.5 million (December 31, 2012[1)]: € 50.5 million).

Financial liabilities amounted to € 1,433.1 million as of December 31, 2013 (December 31, 2012: € 1,270.1 million). The item includes, in particular, promissory notes with a nominal value in the amount of € 436.5 million (December 31, 2012: € 794.5 million) and two bonds with a nominal value in the amount of € 350.0 million each (December 31, 2012: one bond of € 350.0 million). The increase in financial liabilities primarily resulted from the bond placed in the second quarter of 2013 with a volume of € 350.0 million.

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

Trade accounts payable grew to € 331.7 million as of December 31, 2013 (December 31, 2012: € 269.0 million). The increase was predominantly based on balance-sheet date effects and the derivable cash flows. In addition, there was an increase in the context of the consolidation of the two Vietnamese subsidiaries Pymepharco and STADA Vietnam, as well as of the British OTC supplier Thornton & Ross.

Remaining liabilities include, among other things, deferred tax liabilities and other financial liabilities.

Deferred tax liabilities increased as of December 31, 2013 to € 150.4 million (December 31, 2012[1)]: € 82.8 million). The increase was primarily attributable to the control achieved over the Vietnamese companies Pymepharco and STADA Vietnam, as well as the acquisition of the British OTC supplier Thornton & Ross and the purchase price allocation carried out in accordance with IFRS 3.

Other financial liabilities in the amount of € 274.1 million (December 31, 2012: € 246.5 million) include, among other things, finance lease liabilities and liabilities from derivative financial instruments. The finance lease liabilities amounted to € 8.5 million on the balance sheet date (December 31, 2012: € 10.8 million). The liabilities from derivative financial instruments amounted to € 5.6 million on the balance sheet date (December 31, 2012: € 11.6 million), and resulted from the negative market values of derivatives measured at fair value with an effect on income, which are partly used as hedging instruments.

The increase in other financial liabilities to € 274.1 million as of December 31, 2013 (December 31, 2012: € 246.5 million) was primarily a result of increased liabilities due to discount agreements.

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

Business Development and Situation |
General statements of the Executive Board on business development in 2013

In financial year 2013, the STADA Group recorded a positive business development in line with the expectations of the Executive Board and reflected the outlook of the Executive Board published at the beginning of the year – except for the development of the adjusted EBITDA of the Generics core segment.

Group sales increased – primarily due to substantial sales growth in the market region CIS / Eastern Europe – by 10% to € 2,014.4 million in the reporting year (previous year: € 1,837.5 million). When effects on sales attributable to changes in the Group portfolio and currency effects are deducted, Group sales grew by 6% in 2013. The weakening of the Russian ruble primarily contributed to a negative currency effect within sales.

In financial year 2013, STADA continued to pursue an active acquisition policy to further accelerate the Group's organic growth with external growth impulses; especially significant here was the acquisition of the British OTC supplier Thornton & Ross and the control achieved over the Vietnamese pharmaceutical companies Pymepharco and STADA Vietnam.

Earnings development in financial year 2013 was characterized by an increase in financial performance as shown by growth in all of the reported key earnings figures and the key earnings figures adjusted at the Group level. Here the growth in the core segment Branded Products was largely attributable to the acquisition of the British OTC supplier Thornton & Ross in the third quarter of 2013. In addition, positive effects on the earnings development of both core segments resulted from the control achieved over the Vietnamese pharmaceutical companies Pymepharco and STADA Vietnam.

After adjusting the key earnings figures for influences distorting the year-on-year comparison resulting from one-time special effects, operating profit increased by 15% to € 306.3 million in financial year 2013 as compared to the previous year. Adjusted EBITDA recorded a plus of 13% to € 415.2 million as compared to the previous year and thereby reached a new record value in STADA Company history. Net income, adjusted for one-time special effects and effects from the measurement of derivative financial instruments under financial income and expenses, increased as compared to the previous year by 9% to € 160.6 million.

Overall, the result achieved in financial year 2013 is based on the Group's sustainable business model focused on market regions with long-term growth potential.

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 13, 2013, the principles of the remuneration system for the Executive Board, Supervisory Board and Advisory Board of STADA Arzneimittel AG as of the balance sheet date and includes 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

The goal of the Executive Board remuneration system approved by the STADA Annual General Meeting on June 16, 2011 is to allow the members of the Executive Board to participate appropriately in the sustainable development of the Company according to their personal tasks and performance, the overall performance of the Executive Board as well as successes in the alignment of the economic and financial situation of the Company under consideration of the competitive environment.

Overall, the remuneration of the Executive Board in the framework of this remuneration system is performance oriented and assessed in a way that is competitive in domestic and international comparison and offers incentives for committed and successful performance in a dynamic environment.

The remuneration of the Executive Board in the framework of this remuneration system is made up of remuneration not related to performance and a performance related remuneration. Stock option plans and other comparable components with a 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 remuneration structure, individual contractual commitments are still fundamentally possible for individual Executive Board members, in accordance with the German Act on the Apropriateness of Executive Board Remuneration (VorstAG), regarding additional non-performance related remuneration components, e.g. pension commitments or commitments in case of termination of activity.

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

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

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

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

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

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

Executive Board remuneration for financial year 2013

The **remuneration** of the individual members of the Executive Board who were active for the Company in financial year 2013 is as follows:

- Hartmut Retzlaff: € 2,437,479.73 (thereof € 2,029,929.73 non-performance related including € 29,929.73 other remuneration and € 407,550.00 performance related[1]) (previous year: € 2,382,155.10, thereof € 2,034,200.77 non-performance related including € 34,200.77 other remuneration and € 347,954.33 performance related[1])

- Helmut Kraft: € 1,170,504.04 (thereof € 784,179.04 non-performance related including € 34,179.04 other remuneration and € 386,325.00 performance related[1]) (previous year: € 1,161,954.33, thereof € 811,295.15 non-performance related including € 61,295.15 other remuneration and € 350,659.18 performance related[1])

- Dr. Axel Müller[2]: € 685,867.01 (thereof € 461,894.41 non-performance related including € 13,949.20 other remuneration and € 223,972.60 performance related[1]) (previous year: € 1,128,525.03, thereof € 777,865.85 non-performance related including € 27,865.85 other remuneration and € 350,659.18 performance related[1])

- Dr. Matthias Wiedenfels[3]: € 766,159.73 (thereof € 516,159.73 non-performance related including € 21,594.51 other remuneration and € 250,000.00 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) In financial year 2013, the Chief Production and Development Officer, Dr. Axel Müller, left the Executive Board (see the Company's ad hoc release from August 7, 2013).
3) For the period since joining the Company on May 3, 2013 to December 31, 2013.

In addition to the above-listed remuneration, the Executive Board received performance related **advances**[1] in the total amount of € 1,206,250.00 (previous year: € 1,306,250.00) in financial year 2013; thereof € 806,250.00 was attributable to Hartmut Retzlaff (previous year: € 806,250.00), € 300,000.00 to Helmut Kraft (previous year: € 250,000.00), and € 0.00 to Dr. Axel Müller (previous year: € 250,000.00) and € 100,000.00 to Dr. Matthias Wiedenfels (previous year: € 0.00).

Due to his contract of service still valid in the reporting year, Dr. Axel Müller, the Executive Board member that stepped down in the reporting year, received remuneration in the amount of € 461,333.41 (thereof € 310,306.01 non-performance related including € 8,251.22 other remuneration and € 151,027.40 performance related).

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. 67% non-performance related and approx. 33% 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 Executive Board contract of the Chairman of the Executive Board includes an annual pension set at a fixed annual amount, whereby after the provision commences, the monthly pension payment is adjusted on July 1 of every year by the percentage of the increase in the current level of pension in the German statutory pension scheme in comparison to the previous year. Payments from the pension commitments generally begin on request as pension payments after completion of the Executive Board contract, valid from September 1, 2011 to August 31, 2016, to the extent that it is not renewed or as disability pension if employment ends before this due to an occupational disability. The service cost in accordance with IFRS for the creation of provisions for benefit claims earned in financial year 2013 was € 940,000.00. The present value of the pension commitments, in accordance with IFRS, is € 35,276,645.

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

In the context of the departure of Executive Board member Dr. Axel Müller in the reporting year, continued payment of planned remuneration until the end of the employment contract was agreed. These remuneration expenses until the end of the contract of service amounted to € 1,151,115.72 (thereof € 753,615.72 non-performance related including € 3,615.72 other remuneration and € 397,500.00 performance related) as well as € 1,140,083.33 performance related long-term special remuneration.

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.

Other commitments

The Executive Board contract of the Chairman of the Executive Board includes the proviso that, in the case of illness or accident, the Company will continue to pay the salary of the Chairman of the Executive Board, whereby the amount of the continued payment, in the first year after the occurrence of either case, corresponds to the fixed annual salary and the variable remuneration and, in the second or third year, to the fixed annual salary.

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

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

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

To the Company's knowledge, third parties outside the Group have neither promised nor granted benefits to Executive Board members in financial year 2013 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 governed by Section 18 of STADA Arzneimittel AG's Articles of Incorporation. Section 18 of the Articles of Incorporation of February 4, 2013 applies for the reporting year, according to which, in addition to reimbursement of expenses in the past financial year; Supervisory Board members shall receive

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

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

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

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

On June 5, 2013, the Annual General Meeting approved the newly revised remuneration of the Supervisory Board and Section 18 of the Articles of Incorporation. According to this, the members of the Supervisory Board receive remuneration based on the long-term success of the Company, in addition to the annual fixed remuneration, starting from the beginning of financial year 2014.

Remuneration of the Supervisory Board in financial year 2013

The remuneration of the individual members of the Supervisory Board who were active for the Company in financial year 2013 are as follows:

- Dr. Martin Abend € 275,400.00 (thereof € 105,000.00 fixed and € 170,400.00 variable) (previous year: € 227,000.00, thereof € 105,000.00 non-performance related and € 122,000.00 performance related)
- Manfred Krüger € 173,600.00 (thereof € 60,000.00 non-performance related and € 113,600.00 performance related) (previous year: € 141,300.00, thereof € 60,000.00 non-performance related and € 81,300.00 performance related)
- Dr. Eckhard Brüggemann € 81,800.00 (thereof € 25,000.00 non-performance related and € 56,800.00 performance related) (previous year: € 65,600.00, thereof € 25,000.00 non-performance related and € 40,600.00 performance related)
- Heike Ebert € 81,800.00 (thereof € 25,000.00 non-performance related and € 56,800.00 performance related) (previous year: € 65,600.00, thereof € 25,000.00 non-performance related and € 40,600.00 performance related)
- Dr. K. F. Arnold Hertzsch € 81,800.00 (thereof € 25,000.00 non-performance related and € 56,800.00 performance related) (previous year: € 65,600.00, thereof € 25,000.00 non-performance related and € 40,600.00 performance related)
- Dieter Koch € 91,800.00 (thereof € 35,000.00 non-performance related and € 56,800.00 performance related) (previous year: € 75,600.00, thereof € 35,000.00 non-performance related and € 40,600.00 performance related)
- Constantin Meyer € 81,800.00 (thereof € 25,000.00 non-performance related and € 56,800.00 performance related) (previous year: € 65,600.00, thereof € 25,000.00 non-performance related and € 40,600.00 performance related)
- Carl Ferdinand Oetker € 101,800.00 (thereof € 45,000.00 non-performance related and € 56,800.00 performance related) (previous year: € 85,600.00, thereof € 45,000.00 non-performance related and € 40,600.00 performance related)
- Karin Schöpper € 91,800.00 (thereof € 35,000.00 non-performance related and € 56,800.00 performance related) (previous year: € 75,600.00, thereof € 35,000.00 non-performance related and € 40,600.00 performance related)

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

Remuneration of the Advisory Board

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

SUPPLEMENTARY REPORT

This Supplementary Report includes those events that occurred between the end of financial year 2013 and the date of the signing of the Group Management Report and the consolidated financial statements for 2013 and which have a significant, or possibly significant effect on the assets, financial and earnings position of the STADA Group.

These were as follows:

- In the first quarter of 2014, STADA was able to secure promissory notes in the total amount of € 200 million with a term of five years. A fixed interest rate of 2.30% thereby applies for € 124 million. A variable interest rate of currently 1.51% applies for € 76 million.

- In the first quarter of 2014, the insolvency administrator of Velefarm Holding and Velefarm VFB has taken legal action in Belgrade's commercial court against Hemofarm A.D., a subsidiary of STADA Arzneimittel AG, and Velefarm Prolek, a company of the Velefarm group.[1)] In the lawsuit, the insolvency administrator demands that certain agreements and statements from the years 2010 and 2011 reached between Hemofarm and the Serbian wholesale group Velefarm with regard to the insolvent assets of Velefarm Holding and Velefarm VFB be declared invalid and demands repayments to the insolvent assets. In the statement of claim, these amounts are quantified with approx. € 54.2 million (in local currency). However, it has to be taken into consideration that Hemofarm as creditor of the insolvent assets would retrieve a quota of the insolvent assets in a significant amount. Hemofarm and STADA believe that the lawsuit is unfounded.

- In the first quarter of 2014 – following the fulfillment of extensive completion conditions, in particular in the areas of product documentation and supply chain – the contract was completed as planned for the purchase of the Russian branded product portfolio Aqualor®.[2)] Aqualor® product sales have been consolidated in the STADA Group since March 1, 2014.

1) See the Company's ad hoc release of February 14, 2014.
2) See the Company's ad hoc release of October 18, 2013 and ad hoc update of February 28, 2014.

OPPORTUNITIES REPORT

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 to recognize and seize new growth potential and to secure and expand upon existing opportunities for growth.

STADA's strategic success factors create the basis for utilizing growth potentials that arise and thereby for securing sustainable Group success. They primarily include strong product development, an international sales structure, an active acquisition policy including long-standing integration management, a functionally, centrally organized group that is organized by market region for sales and has short decision-making processes, efficient cost management and employees that are efficient and dedicated.

Important strategic success factors of the STADA Group

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 market regions and 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 opportunities, such as a Group-wide portfolio management system for identifying potential new products that are relevant to the Group.

Based on the product pipeline, which remains well-filled, STADA will continue to constantly expand the existing 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 market regions. In the context of a "time and cheap to market" strategy, STADA generally pursues the goal of launching new products not only at the earliest point in time, but also at the best possible cost of sales.

The international sales structure with four market regions is designed 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 of the market regions. In consideration of being able to optimally utilize the respective growth opportunities in the individual market regions, STADA will continue to expand the global sales network in the future as well.

In the context of the active acquisition policy, the Executive Board intends to further expand the Group's business activities. This will focus on selected markets in the respective market regions, predominately high-growth emerging markets, as well as on the expansion and internationalization of both core segments Generics and Branded Products. Against the backdrop of increasing pressure to reduce costs, to which the individual national health care systems are exposed, the Executive Board particularly sees further growth opportunities in branded products as they are generally characterized by better margins and are subject to less regulatory intervention.

With a view to future growth, great importance will continue to be placed on functional reporting structures with short decision-making channels and strong regional market presence at the same time. This particularly applies 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, a possible decrease of operating margins, in order to achieve a better market position or a higher market share. The goal for this approach, however, is that the business activities in the relevant market of a market region are profitable or become so within a foreseeable time.

In consideration of earnings in the Group, efficient cost management will continue to be of great importance. One focus in the context of continuous cost optimization will remain cost of sales and all the associated costs, as it clearly represents the Group's largest cost item. STADA therefore has opportunities to reduce cost of sales by increasing the participation of suppliers in the market risk and from the greater utilization of suppliers in low-cost countries.

In the past financial year, STADA concluded or commenced the remaining measures of reorganization in terms of the centralized control of Group companies in the context of the Group-wide cost efficiency program "STADA – build the future", scheduled for the period of 2010 to the end of 2013, which aimed at strengthening mid and long-term earnings potential. Opportunities have resulted from the establishment of a culture of continuous cost optimization that came as a result of the implementation of the Group-wide cost-efficiency program.

Another substantial opportunity for STADA can be found in the employees who will continue in future to have a significant share in the ongoing success of the Group with their extensive expertise, their great experience and their strong commitment.

RISK REPORT

The management of risks is a permanent task of entrepreneurial activities. For this reason, STADA's Executive Board implemented an ongoing risk management system that is integrated into the value-based management and existing organizational structure of the Group and that is based upon a globally recognized framework concept, the "Enterprise Risk Management – Integrated Framework" (2004) developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The risk management system is therefore an integral component of business processes and company decisions.

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

Risk management

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

The fundamental components of the Group-wide risk management system are:

1. The Risk Management department, which is vertically and horizontally integrated in the Company and is responsible for planning and further development of the risk management system (including the Group-wide establishment of the risk management software R2C – Risk to Chance), as well as the methods and procedures used to identify and assess risks and supporting the local risk confidants.

2. The local risk confidants who identify and assess risks (including measures) and document and update them in the risk management system (bottom-up communication); they are integrated in all corporate units and subsidiaries throughout the Group.

3. Written and oral queries (top-down communication) sent to the responsible risk confidants by the Risk Management department on current topics and the risk situation in the individual areas of the Group.

4. The Company-specific risk management guide, which defines the risk management process and the risk management system.

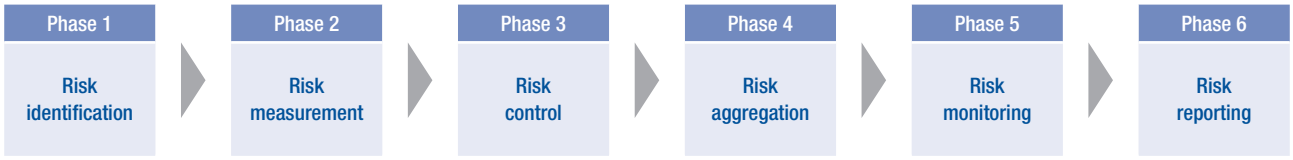
5. Risk reporting at Group and individual-company level.

STADA's Group-wide risk management covers STADA Arzneimittel AG and companies in which STADA holds a stake of at least 50% even if they are not consolidated. Insofar as recognizable risks to the Group arise at subsidiaries in which STADA holds a stake of less than 50%, these risks are also recorded in the Group's risk management system.

The risk management system only records risks, not opportunities.

Risk management process

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



Phase 1: Risk identification

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

Phase 2: Risk measurement

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

Phase 3: Risk control

In the "risk control" phase, the risk confidants, individually or in cooperation with the Risk Management department, identify potential measures of risk avoidance, reduction, transfer and/or compensation. The measures identified can relate to the cause (preventative) as well as to the effect (reactive). In some cases, the acceptance of a risk can be approved as a measure. In an additional step, each identified measure

is subjected to a plausibility test by the Risk Management department. Any inconsistencies uncovered by the plausibility test are resolved by the Risk Management department and the responsible risk confidant in cooperation.

Phase 4: Risk aggregation

In the "risk aggregation" phase, risks with identical causes are aggregated for the sake of increased transparency by the Risk Management department following their analysis of risk causes. The risk descriptions and probability of risks grouped into one aggregate item are analyzed and mutual compatibility ensured.

Phase 5: Risk monitoring

In the "risk monitoring phase", the development of risks, as well as the implementation and effectiveness of the identified measures, is continuously monitored by the risk confidants, who are supported by the respective risk managers. For individual, potentially high-risk business processes, the Group's risk management accompanies the operational implementation, also in an observational role.

Phase 6: Risk reporting

In the "risk reporting phase", the Risk Management department prepares quarterly, recipient-oriented risk reports based on the risks identified, where separate reports are prepared for the Executive Board, the Vice Presidents and the managing directors. The risk report for the Executive Board is passed on to the Supervisory Board unchanged. Essential risks indicated in the recipient-oriented report are jointly discussed by the Executive Board and the Supervisory Board and if required, measures to counter risks are addressed. Any new significant risks that appear between reports within the scope of the risk management system are immediately provided via ad-hoc reporting to the Executive Board and, if necessary, the Supervisory Board.

The risk management system run by STADA is regularly reviewed and evaluated by STADA's auditor and Internal Auditing. The auditor has confirmed that STADA's risk management system conforms to the legal requirements.

Significant features of the internal control and risk management system as relates to the Group accounting process

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

The consolidated financial statements are prepared on the basis of Group uniform accounting guidelines laid down by the Corporate Accounting 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.

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

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.

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

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

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

Period of assessment

The period of assessment for this Risk Report is generally 24 months 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 risk assessment period, which can add to the risks stated in the following.

Evaluation of risk categories

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

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

Probability			Description
0% <	Probability	≤ 1%	marginal
1% <	Probability	≤ 2%	very low
2% <	Probability	≤ 10%	low
10% <	Probability	≤ 30%	noticeable
30% <	Probability	≤ 50%	reasonable
50% <	Probability	≤ 70%	probable
70% <	Probability		high

Impact			Description
€ 0 ≤	Impact	≤ € 500,000	noticeable
€ 500,000 <	Impact	≤ € 1,500,000	moderate
€ 1,500,000 <	Impact	≤ € 3,300,000	significant
€ 3,300,000 <	Impact		serious

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

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

Environmental and industry risks

STADA is active in the health care and pharmaceuticals market in market regions and market segments which are characterized, among other things, by high price sensitivity, continued margin pressure, intense competition and continuously changing regulatory framework conditions. Of primary importance to STADA are risks related to changes in market conditions on the basis of intense competition or related to changes to structures and mechanisms outside of STADA's influence in the individual national markets of the respective market regions or market segments. Particular attention in this regard is paid to the STADA core segments of Generics and Branded Products.

Some competitors, as a result of their financial 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 of the respective market regions or foregoing substantial sales and accepting value adjustment and destruction of inventories that are no longer required. The loss of these sales may lead to a 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 individual markets of respective market regions and/or for selected products or product groups, for example in market regions with major growth potential for sales and/or earnings or with strategic and/or operating necessity to maintain or expand its own market position. These losses may also be higher than anticipated as a result of competition, customer behavior or government regulation.

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

STADA places this in the "moderate" risk category.

Corporate strategy risks

STADA's corporate strategy is mainly focused on growth and internationalization in the health care and pharmaceutical market in the core segments Generics and Branded Products. With regard to costs and risks, STADA generally does not conduct any own research on, or marketing of new active pharmaceutical ingredients, but rather focuses on the development and marketing of products with active ingredients – generally active pharmaceutical ingredients – which are free from commercial property rights, particularly patents.

STADA's growth strategy is linked to the risk that STADA might encounter difficulties in connection with certain operational and/or financial requirements, which cannot, or not to a sufficient extent, operatively be met. In the event that 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. Furthermore, acquired companies and/or products may not generate the results anticipated in the market. Furthermore, there could be unexpected difficulties in introducing acquired products into new markets or in maintaining their existing market positions. Any of the above-mentioned issues can particularly lead to the impairment of assets.

The implementation of a fundamentally growth-oriented corporate strategy requires significant outside financing. In financing ongoing business activities and, in particular, the intended future expansion, there is an inherent risk that 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 region to region or country to country and are subject to change, to the relevant specific market environment, as well as outside of the euro area to the different currency.

It may be difficult for STADA to enforce its own claims under the law of a country where STADA undertakes business at affordable costs and without any materially adverse effects on business in this country. If, contrary to expectations, it turns out that this is not the case in a country where STADA undertakes business, this can have materially adverse effects for the business activity in this country, but also for the Group as a whole in the case of internationally linked business processes.

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

Moreover, there is the risk that conditions which are relevant for 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, market regions and market segments on which a company strategically focuses develop differently to expectations. Even if STADA undertakes all efforts to carefully analyze these expectations in advance, relying thereby also partly on external data and evaluations, assessment errors by STADA, due, for example, to insufficient data available, unexpected regulatory or competitive influences, new technological developments or changed social and macro and/or micro economic trends cannot be ruled out, which may be associated with substantial, primarily adverse effects for the Group or individual Group companies.

STADA places this in the "low" risk category.

Regulatory risks

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

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

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

Fundamentally, the risk exists for all products in the health care market, but for pharmaceutical products in particular, of exclusion or reduction of cost reimbursement as a result of regulatory intervention under the respective national 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 could become necessary to adjust the business model.

STADA places this in the "moderate" risk category.

Product portfolio risks

The continuous expansion of the product portfolio plays an essential role for the competitive position and business success at STADA. Associated with this is the risk that due to unexpected events and/or the faulty implementation of activities preparing market entry – such as product development and approval – products to be added to STADA's product portfolio are, contrary to plans, not or belatedly or only at higher development and/or production costs than originally assumed launched on the market. Reasons for this can include additional requirements of approval authorities, direct government price controls or additional approvals for reimbursement via the relevant national social security system. The risks of development and approval processes for new products are continuously identified and evaluated.

In addition, meticulous observance of relevant legislation is extremely important for the development and approval of every individual product. For generics, this also particularly applies to a great extent to the observance of commercial property rights (such as patents, SPCs and "data exclusivity"). If individual legislative requirements are violated, the result may be a delay or even prevention of the launch of a new product due to legal steps taken by competitors or rejection by the approval authorities. To the extent that STADA has offered products by assuming legal clearance and in the course of court decisions it turns out that this assumption was wrong, there is the risk that STADA has to take launched products at significant costs off the market, adjust the value of and destroy inventories which had existed already and those taken back as well as meet significant damage claim payments if, for example, commercial property rights were infringed.

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

STADA places this in the "low" risk category.

Legal risks

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

STADA's business activity, in particular in the core segment Generics, is associated with an elevated risk of legal disputes regarding commercial property rights (especially patents and SPCs) as well as allegations of violations of company or trade confidentiality and such disputes may be initiated by third parties with respect to STADA or by STADA with respect to third parties. Such events could result in

considerable costs, in particular when such proceedings occur in the USA. Moreover, they could result in significant damage claims and/or a temporary or permanent ban on the marketing of particular products.

If there is a serious risk of future claims, STADA creates product-specific provisions considered to be commensurate with potential damage claims, which amounted to a total volume of € 0.6 million for the Group as of December 31, 2013 (December 31, 2012: € 1.0 million). In principle, STADA cannot guarantee that the provisions made will be sufficient for individual instances or in total.

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

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

In addition, there is a legal risk resulting from the legal action that the insolvency administrator of Velefarm Holding and Velefarm VFB has taken in Belgrade's commercial court against Hemofarm A.D., a subsidiary of STADA Arzneimittel AG, and Velefarm Prolek, a company of the Velefarm group in the first quarter of 2014.[1)] In the lawsuit, the insolvency administrator demands that certain agreements and statements from the years 2010 and 2011 reached between Hemofarm and the Serbian wholesale group Velefarm with regard to the insolvent assets of Velefarm Holding and Velefarm VFB be declared invalid and demands repayments to the insolvent assets. In September 2010, Hemofarm, Velefarm Holding and Velefarm VFB signed a restructuring plan regarding Velefarm Holding and Velefarm VFB`s receivables held by Hemofarm. The intention of this restructuring plan was to put Velefarm in a position to gradually repay the still outstanding trade receivables held by Hemofarm over a period of several years (see ad hoc release of September 28, 2010). The insolvency procedures of Velefarm Holding and Velefarm VFB were initiated in the year 2012 and the same insolvency administrator was appointed as representative of both companies. In the lawsuit, the insolvency administrator claims that by completing this restructuring plan and accessory agreements and actions, Hemofarm disadvantages other creditors of Velefarm Holding and Velefarm VFB. In addition, the insolvency administrator demands repayment of all advantages received to the insolvent assets of Velefarm Holding and Velefarm VFB plus interests and costs for legal proceedings. In the statement of claim, these amounts are quantified with approx. € 54.2 million (in local currency). However, it has to be taken into consideration that Hemofarm as creditor of the insolvent assets would retrieve a quota of the insolvent assets in a significant amount. Hemofarm and STADA believe that the lawsuit is unfounded. The conditions for the prejudicial treatment of creditors are not met in the present case. The restructuring plan between Hemofarm, Velefarm Holding and Velefarm VFB was implemented by Hemofarm in compliance with all legal provisions and served for the restructuring of the Velefarm group and not the prejudicial treatment of other creditors. In particular, the implementation of the restructuring plan meant that Hemofarm, as one of the Velefarm group's largest creditors, would have to make substantial write-offs. In reaching this assessment, Hemofarm is among others relying on an expert opinion from a well-known local law office and will defend itself against this lawsuit through all judicial authorities.

STADA places this in the "moderate" risk category.

1) See the Company's ad hoc release of February 14, 2014.

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 production faults and breakdowns as a result of this or external influence. This could have a materially adverse effect on costs, competitiveness, supply availability and the associated expectations regarding units sold, sales and earnings as well as the image with clients.

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

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

External suppliers, contract manufacturers, sales licensees and other contractors have been integrated into STADA's business processes to a considerable extent, particularly in the areas of 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, STADA had specifically licensed German pharmacies to undertake the final packaging of partially packed products delivered by STADA in their own pharmacies. This license currently applies to two branded products. When third parties are incorporated into the Company's business processes, the risk arises that individual business or cooperation partners may not comply properly or at all with their obligations or that they may terminate their agreements with the Company, resulting in material adverse effects for STADA. Moreover, STADA could become liable for infringements on the part of business or cooperation partners.

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

STADA places this in the “moderate” risk category.

Human resources risks

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

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

STADA places this in the “low” risk category.

Risks in relation to information technology

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 complex and high-performing 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.

Furthermore, it cannot be ruled out that electronic data could become subject to unauthorized access, misuse or loss despite extensive backup and security measures. Were this to occur, it would also have substantial 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 Group companies in a materially adverse manner.

STADA places this in the "low" risk category.

Economic risks

STADA's business success is also generally dependent on economic influences because an economic downturn can regularly intensify the already prevalent cost pressure in national health care systems and thereby potentially significantly increase the speed and extent of regional regulatory measures to contain costs. As a result, there are for STADA adverse characteristics such as state-required price reductions, 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 market regions containing countries without a comprehensive state health care system, such as Russia in the market region CIS / Eastern Europe.

Another material risk for STADA lies in the area of corporate finance. Parameters in this area significantly influencing 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 regionally in market regions 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 debtors. Thus, the fundamental, partly also cyclical commercial risk of debtor default is associated with this. STADA therefore strives to maintain business relations only with business partners of impeccable financial standing and in addition, partly uses suitable measures to safeguard itself against default risk, such as guarantees, loan insurances or the transfer of assets. However, it cannot be ruled out that these measures are insufficient and non-payments of individual debtors, and therefore burdens from one-time special effects, arise to a significant extent. In addition, there is the risk that in a difficult economic environment, national health care systems delay or fail to make payments to STADA or business partners of STADA and that, as a result, directly or indirectly increased default risks arise.

Another risk lies in the value of the assets in the consolidated balance sheet, in particular goodwill and other intangible assets. They are subject to thorough and detailed reviews. 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 market regions or individual countries of a market region, a relevant impairment may occur.

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

STADA places this in the “low” risk category.

Financial risks

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

The basic principles of financial policy and of financial risk management are determined or confirmed at least once annually by the Executive Board in the context of the budget process. Furthermore, all transactions above a certain limit determined to be relevant by the Executive Board must first be approved by the Executive Board. The Executive Board is also regularly informed of the nature, scope and amount of current risks. With a view to assets, liabilities and planned transactions, these risks relate in particular to changes in exchange rates and interest rates. It is the objective of financial risk management to limit these market risks of ongoing operative and finance-related activities. For this purpose, depending on the assessment of the financial risk, selected derivative and non-derivative hedging instruments are used. However, on principle only financial risks are hedged which have significant consequences on the Group’s cash flow.

Liquidity risks result if STADA does not hold sufficient liquidity. They may result, for example, from the loss of existing cash items, lack of availability of credit, reduced access to financing markets or fluctuation in the operational development of business. The goal of STADA’s liquidity management is to ensure solvency all times as well as the financial flexibility of the STADA Group by way of maintaining a sufficient supply of liquidity reserves and having free credit lines. STADA finances itself with short-term and long-term borrowings from banks, promissory notes, bonds and factoring. Furthermore, STADA has solid operating cash flow as well as further bilateral credit contracts with various banks (credit lines), which can be utilized as needed.

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

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

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

In addition to natural hedges, STADA generally employs different financial derivatives to hedge assets, liabilities and anticipated future cash flows denominated in foreign currency. In the reporting year 2013, STADA made particular use of foreign-exchange futures contracts and interest/currency swaps among other things. The maturity dates of futures contracts are thereby selected to match the Company's anticipated cash flows. These contracts are currently valid for up to four years.

In the context of consolidated financial statements, on the other hand, exchange rate fluctuations lead to an accounting effect as a result of the conversion of a balance sheet item as well as the conversion of earnings and expenses of international Group companies with a different functional currency than euro (translation risk). In this connection, the current political conflict between Ukraine and the Russian Federation could indirectly have a negative influence on the earnings situation and exchange rates. The appreciation of the euro as compared to the other currencies is generally negative and depreciation is generally positive. Currency risks primarily stem from business transactions in the following currencies: Russian ruble, pound sterling, Serbian dinar, Swiss franc and the Vietnamese dong. This risk is not hedged.

It cannot be ruled out, however, that hedging strategies against currency risks turn out to be insufficient, wrong or suboptimal.

STADA is primarily exposed to interest rate risks from financial assets and liabilities in the euro area and Russia.

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

In financial year 2013, 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.

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

In addition, STADA may be exposed to a default risk in its operating business or as a result of financing activities if contracting parties fail to meet their obligations.

To avoid default risks in financing activities respective credit management processes are in place and such transactions are generally only concluded with counterparties of impeccable financial standing.

Risks of default exist as a result of the supply of goods and services. In addition, there is the risk that in a difficult economic and financial environment, national health care systems delay or fail to make payments to STADA or business partners of STADA and that, as a result, directly or indirectly increased default risks arise.

STADA therefore strives to maintain business relations only with business partners of impeccable financial standing and in addition, partly uses suitable measures to safeguard itself against default risk, such as guarantees, letters of credit, credit insurance or the transfer of assets. However, it cannot be ruled out that these measures are insufficient and non-payments of individual debtors, and therefore burdens from one-time special effects, arise to a significant extent. Past due receivables in the operating area are continuously monitored and potential default risks are anticipated through the creation of valuation adjustments.

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

As described in the chapters “Product Development” and “Procurement, Production and Quality Management”, STADA takes advantage of an international network and carries out strategic Group functions centrally through STADA Arzneimittel AG. Thus an overarching tax transfer pricing model for the billing of the corresponding intercompany services is of increasing importance. Possible risks of non-recognition of these transfer prices for tax purposes are limited by the introduction of appropriate communication methods and an overarching definition of transfer pricing in the form of a Group guideline.

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.

STADA places this in the “moderate” risk category.

Other risks

STADA is in possession of a number of trade and business secrets that must be treated with confidentiality. STADA makes use of confidentiality agreements with employees, external alliance partners, 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 market regions or markets are subject to additional general business risks such as unexpected disruptions in infrastructure, strikes, accidents, natural disasters, sabotage, criminal activities, terrorism, war and other unforeseeable materially adverse influences. STADA protects itself against such risks to the extent possible and financially reasonable through appropriate insurance policies. However, it cannot be ruled out that these insurances are insufficient.

Should STADA no longer fulfill the necessary criteria according to IFRS 10 (“Consolidated Financial Statements”) for control, and thereby for consolidation, of subsidiaries due to particular capital constraints or other measures – such as may come as a result of political or military conflict – STADA would have to deconsolidate these companies. The resulting effects depend on the significance of the affected companies for STADA and could result in materially adverse effects for the Group.

STADA places this in the “low” risk category.

Summary evaluation of risk

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

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

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

TAKEOVER-RELEVANT INFORMATION

In accordance with Section 315 (4) HGB, STADA is obligated to disclose the following information in the Annual Report:

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

As of December 31, 2013, share capital consisted of 60,442,500 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) the possibility of a deviation pursuant to Section 179 (2) AktG shall be passed by a simple majority of the votes cast and, insofar as a majority of the share capital is represented at the time the resolution is passed, with a simple majority of the capital present insofar as this is legally permissible. In case of a tie, a motion shall be deemed denied.

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

Authorizations of the Executive Board to issue or buy back shares

The Executive Board was authorized by the Annual Shareholders' Meeting on June 5, 2013 to raise new authorized capital. The resolution authorizes the Executive Board, with the approval of the Supervisory Board, to increase the share capital of the Company on one or more occasions by June 4, 2018, by up to € 77,134,304.00 through the issue of up to 29,667,040 registered shares with restricted transferability against contributions in cash and/or in kind. The Executive Board is authorized, with the approval of the Supervisory Board, to determine the content of the share rights, the individual details of the capital increase as well as the conditions of the share issue in particular the issue price. The Executive Board has not made use of this authorization to date.

On June 5, 2013, furthermore, the Annual General Meeting authorized the Executive Board, on one or more occasions until June 4, 2018, to issue bearer and/or registered bonds with warrants and/or convertible bonds, participation rights and/or participating bonds (or a combination of these instruments) (collectively "bonds") in an aggregate nominal amount of up to € 1,000,000,000.00 with or without limiting the term, and to grant the holders or creditors of the bonds with warrants and/or convertible bonds a proportionate amount of the share capital of up to € 69,188,340.00 for a total of up to 26,610,900 of the Company's registered shares with restricted transferability in accordance with the more detailed provisions of the terms of the bonds. For the purposes of servicing these bonds, the Annual General Meeting on June 5, 2013 conditionally increased the share capital by up to € 69,188,340.00 by issuing up to 26,610,900 registered shares with restricted transferability and carrying a dividend right as of the beginning of the financial year in which they are issued. The Executive Board, with approval of the Supervisory Board, is authorized to determine the further details of implementation of the conditional capital increase (Conditional Capital 2013). The Executive Board has not made use of this authorization to date.

The share capital of the Company was conditionally increased as of December 31, 2013 by up to € 5,064,072.00 by issuing up to 1,947,720 registered shares with restricted transferability (Conditional Capital 2004/I). The conditional capital increase will be effected only insofar as the holders of warrants exercise their option rights.

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

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

Proven business model with sustainable growth potential

STADA's business model has been characterized by constancy and sustainability for years. In light of the overall successful development of the Group, the Executive Board sees no fundamental need to adjust the strategic orientation in future. The business activities, therefore, will continue to focus on products with off-patent active ingredients in selected segments of the pharmaceutical market. The core segments in this regard will remain Generics and Branded Products.

In the Executive Board's assessment, the Group activities thereby also remain focused on markets with long-term growth potential in future. In consideration that these can vary depending on economic, regulatory and competitive framework conditions in the individual market regions from year to year, the sales and earnings development of the Group will continue to be influenced by various and, in part, opposing factors in financial year 2014. For further details on the expectations of the Executive Board as relates to the opportunities and risks in the individual market regions in which the Group is active, please refer to the segment reporting (see "Economic Report – Business Development and Situation – Earnings Situation – Development of Segments – Information by Market Region").

In principle, a slowdown or temporary decline in growth cannot be ruled out if difficult framework conditions accumulate. With a view to the strategic success factors, the Executive Board sees the opportunity, however, to be able to generate further growth in the future.

Overall economic outlook

For 2014, the IMF expects a moderate increase in economic activity with a rise in global economic growth in the amount of 3.7%.[1)] Estimates show economic development for emerging markets at 5.1% with growth of 7.5% in China.[1)] IMF forecasts growth of 2.2% for advanced economies.[1)] Underlying these forecasts, the USA is expected to expand by 2.8% whereas economic development in EU countries is expected to rise by 1.0%.[1)] According to estimates, GDP will grow by 1.6% in Germany and 0,9% in France.[1)] GDP in Spain and Italy is expected to increase by 0.6% in both cases.[1)] Looking to the Euro zone, the Governing Council of the European Central Bank continues to expect general economic recovery. Supported by an accommodating monetary policy, the economy is anticipated to benefit from a gradual upswing in domestic and foreign demand.[2)] Moreover, the general improvement in the financial markets as well as the progress in balancing budgets appear to increasingly shine through to the real economy.[2)] Inflation is low, among other things, thanks to falling energy costs, thus having positive effects on real incomes.[2)] Nevertheless, Euro zone unemployment remains high, and the changes that need to be made to both public and private budgets will continue to burden economic development.[2)]

The STADA Executive Board continuously monitors worldwide economic developments – with a consistent view to the resulting opportunities and risks for the Group. From today's perspective, the Executive Board sees no reason to question STADA's fundamental business model.

1) Source: International Monetary Fund: World Economic Outlook Update from January 21, 2014.
2) Source: ECB: Monthly Bulletin of December 2013.

Industry specific outlook

In the Executive Board's assessment, numerous national health and, in particular, pharmaceutical markets will continue to be characterized in the future by high growth opportunities that are relatively independent of economic activity and based both on general as well as generics-specific stimulus. The former includes stimulus via global population increase, an aging society in industrialized nations and further medical progress. The latter involves an increasing drive to reduce costs in individual national health care systems as well as ongoing patent expirations. In view of the continually rising demand in the health care market and the fact that drugs continue to offer a relatively high level of efficiency as compared to other forms of treatment, further growth is also expected for the international pharmaceutical market in future. According to forecasts, sales in the global pharmaceutical market will increase by 5% to 7% per year until 2018.[1)]

In the view of the Executive Board, the Generics segment, in particular, has 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 health care markets. In addition, the potential available for generics competition is constantly being expanded due to the expiration of patents or other commercial property rights.

This estimation is also confirmed by the forecasts of IMS, a leading international pharmaceutical market research institute, which expects the annual growth rate for the global generics market to be as high as 10.0%[2)] until 2018. It should be taken into account, however, that the actual growth rates of reported market sales could be substantially lower than figures recorded by the market research institutions in the markets where significant discounts must be granted, because the institutions generally record gross sales before discounts.

Looking to the sales volume for active pharmaceutical ingredients becoming available for generics competition between 2014 and 2017 in the largest pharmaceutical markets by sales in Europe – Germany, France, Italy, the United Kingdom and Spain within the two STADA market regions Germany and Central Europe – which, according to market research figures, amounts to more than € 11.1 billion, the STADA Executive Board continues to expect further growth potentials in the EU generics market.[3)]

This assumption is supported by estimates from IMS Health as well, according to which average annual generics growth in the EU will amount to 4.5%[4)] from 2013 to 2015. For selected markets in Eastern Europe[5)] of the market regions Central Europe and CIS/Eastern Europe, IMS Health[6)] expects annual average generics growth of 8.7% until 2018. According to estimates from IMS Health, generics growth in Russia from 2014 to 2018 will amount to 10.6% on average.[6)]

Challenges and risks

In addition to the growth opportunities above, the Group is also confronted with operating challenges and risks that are presented under the segment reporting and the regional development in individual markets of the respective market regions as a well as in the Risk Report, among other locations. Many of these challenges and risks are based, in the view of the Executive Board, on structures and mechanisms of the market segments and market regions upon which the Group has no influence. In light of the fact that these are, however, to large extent inseparably linked to the structural growth opportunities, it will remain impossible to avoid them in future in order to utilizes these growth opportunities (see "Basis of the Group – Business Model" and "Risk Report").

1) IMS Market Prognosis, September 2013; IMS Market Prognosis Global, September 2013; IMS Syndicated Analytics Service (September) 2013; prepared for STADA March 2014.
2) IMS Market Prognosis, September 2013; IMS Market Prognosis Global, September 2013; IMS Syndicated Analytics Service (September) 2013; prepared for STADA March 2014. The market data on Generics fluctuates – in some cases substantially – due to differing market definitions from source to source.
3) STADA estimate of sales volumes in 2013 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 2017, based on data provided by various international market research institutes. STADA's expectations as to the date of availability of active pharmaceutical ingredients for Generics competition are continuously being reviewed from a legal perspective and may in the future significantly differ from today's expectations (as of: March 1, 2014) 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.
4) IMS Market Prognosis, September 2013; IMS Market Prognosis Global, September 2013; IMS Syndicated Analytics Service (September) 2013; prepared for STADA March 2014.
5) Russia, Serbia, Ukraine, Kazakhstan, Bosnia-Herzegovina.
6) IMS MIDAS (September) 2013; IMS Syndicated Analytics: Forecasting Premium Support Service prepared for STADA, March 2014.

The business model of STADA is generally oriented toward the health care market with demand that is relatively independent of the economy. Therefore, the global economic conditions generally have less of a direct influence on the business development of the Group than the respective regulatory environment in the individual markets of the four market regions in which the Group is active. Despite this, the Group will continue to have to deal with specific consequences of economic effects in the future in addition to the general challenges and risks associated with the business model (see "Risk Report").

Overall, the Executive Board, from today's perspective, does not see any apparent challenges or risks that would jeopardize the existence of the Group.

Basis of the prognosis

The outlook for financial year 2014 takes account of the events known when this Annual Report was prepared that could have an effect on the business development of the STADA Group; it is also generally supported by the aforementioned details on the overall economic outlook and, in particular, the industry-specific outlook.

Furthermore, the following assumptions were made for the outlook:

- Predominately unchanged market regulations in the most important markets of the respective market regions
- Optimization of procurement prices for primary materials
- The continued possibility to immediately launch products upon patent expiration
- Largely unchanged tax situation in the countries where STADA Group companies are located or operate

Summarizing outlook

STADA's business model is generally geared towards markets with long-term growth potential in the health care and pharmaceutical markets. Linked to this, however, are also inseparable 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 markets of the respective market regions in the future. The latter applies primarily to the increasing volume of business activities in the Generics core segment characterized by tenders.

In addition, the Group will continue to have to deal with non-operational influence factors in future. Relevant Group currency relations, in particular of the Serbian dinar, Russian ruble and the pound sterling to the euro, will also affect the Group's future development in financial year 2014. Furthermore, STADA will have to deal with residual effects of the global economic and financial crisis. Against this backdrop, the Group certainly continues to prepare itself, within the realm of possibility, for specific potential risks in this regard, such as a significantly increased default risk of business partners, subsidies to crisis-prone competitors that distort competition or strong volatility in interest rate levels and currency relations that are relevant for the Group. In view of the residual effects of the global financial and economic crisis, resulting burdens 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.

On the whole, the sales and earnings development of the Group will continue in future to be characterized both by growth-stimulating and challenging framework conditions in the individual markets of the respective STADA market regions. In the overall assessment of opposing influence factors, however, the positive prospects are expected to prevail.

Against the backdrop of the strong devaluation of the Russian ruble and the Ukrainian hryvnia, as well as the uncertainties regarding the future business development in the context of the current CIS crisis, the Executive Board no longer expects to completely achieve the outlook for 2014 as published in the context of a long-term prognosis in 2010[1)]. STADA does, however, expect slight growth in Group sales, adjusted EBITDA and adjusted net income. The core segment Generics is expected to generate slight growth in sales as compared to financial year 2013. Substantial sales growth is expected for the core segment Branded Products. The core segment Generics is expected to generate an adjusted EBITDA slightly above that of financial year 2013. The adjusted EBITDA of the core segment Branded Products is expected to grow significantly. The Executive Board aims for a net debt to adjusted EBITDA ratio of 3 in 2014.

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

STADA Consolidated Financial Statements

2 0 1

3

CONSOLIDATED INCOME STATEMENT

Consolidated Income Statement for the period from Jan. 1 to Dec. 31 in € 000s	2013	Previous year[1)]	Note
Sales	2,014,411	1,837,544	11.
Cost of sales	1,030,152	931,721	12.
Gross profit	**984,259**	**905,823**	
Selling expenses	488,772	444,669	13.
General and administrative expenses	160,005	157,945	14.
Research and development expenses	55,700	52,188	15.
Other income	53,644	30,252	16.
Other expenses	72,813	48,240	17.
Expenses in connection with the "STADA – build the future" project	9,064	30,983	18.
Operating profit	**251,549**	**202,050**	
Result from associated companies	771	1,448	
Investment income	340	2,365	
Financial income	6,845	3,935	
Financial expenses	70,079	74,201	
Financial result	**-62,123**	**-66,453**	19.
Earnings before taxes	**189,426**	**135,597**	
Income taxes	66,615	48,609	20.
Earnings after taxes	**122,811**	**86,988**	
thereof			
• distributable to shareholders of STADA Arzneimittel AG (net income)	121,426	86,472	
• distributable to non-controlling interests	1,385	516	21.
Earnings per share in € (basic)	2.04	1.46	22.
Earnings per share in € (diluted)	2.00	1.44	22.

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income in € 000s	2013	Previous year[1)]	Note
Earnings after taxes	**122,811**	**86,988**	
Items to be recycled to the income statement in future:			
Currency translation gains and losses	**-61,366**	**-12,590**	35.
thereof			
• income taxes	779	441	
Gains and losses on available-for-sale financial assets	**-1**	**-8**	46.
thereof			
• income taxes	0	2	
Gains and losses on hedging instruments (cash flow hedges)	**2,349**	**-1,294**	46.
thereof			
• income taxes	-899	480	
Items not to be recycled to the income statement in future:			
Revaluation of net debt from defined benefit plans	**1,900**	**-9,072**	36.
thereof			
• income taxes	-820	2,864	
Other comprehensive income	**-57,118**	**-22,964**	
Consolidated comprehensive income	**65,693**	**64,024**	
thereof			
• distributable to shareholders of STADA Arzneimittel AG	66,329	63,069	
• distributable to non-controlling shareholders	-636	955	

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet as of Dec. 31 in € 000s Assets	Dec. 31, 2013	Dec. 31, 2012[1)]	Jan. 01, 2012[1)]	Note
Non-current assets	**2,059,989**	**1,802,176**	**1,532,815**	
Intangible assets	1,641,623	1,417,083	1,147,181	25.
Property, plant and equipment	318,428	273,822	299,480	26.
Financial assets	8,991	12,463	10,082	27.
Investments in associates	8,974	34,885	34,003	28.
Other financial assets	27,785	16,160	12,147	30.
Other assets	3,570	1,677	1,839	31.
Deferred tax assets	50,618	46,086	28,083	20.
Current assets	**1,353,193**	**1,180,645**	**1,267,081**	
Inventories	524,374	475,311	399,125	32.
Trade accounts receivable	591,678	492,143	446,214	29.
Income tax receivables	24,836	31,209	21,310	20.
Other financial assets	50,096	36,137	33,858	30.
Other assets	34,475	51,039	45,730	31.
Non-current assets and disposal groups held for sale	1,571	2,076	104	33.
Cash and cash equivalents	126,163	92,730	320,740	34.
Total assets	**3,413,182**	**2,982,821**	**2,799,896**	

Equity and liabilities	Dec. 31, 2013	Dec. 31, 2012[1)]	Jan. 01, 2012[1)]	Note
Equity	**1,010,099**	**910,317**	**863,912**	35.
Share capital	157,151	154,264	153,312	
Capital reserve	487,843	472,459	467,403	
Retained earnings including net income	552,663	458,924	405,647	
Other provisions	-241,497	-184,467	-170,830	
Treasury shares	-1,542	-1,572	-1,621	
Equity attributable to shareholders of the parent	**954,618**	**899,608**	**853,911**	
Shares relating to non-controlling shareholders	55,481	10,709	10,001	
Non-current borrowed capital	**1,358,414**	**1,102,911**	**1,255,006**	
Other non-current provisions	51,478	50,486	35,119	36.
Financial liabilities	1,140,571	941,572	1,124,829	37.
Other financial liabilities	12,988	24,528	26,003	39.
Other liabilities	2,937	3,561	5,609	40.
Deferred tax liabilities	150,440	82,764	63,446	20.
Current borrowed capital	**1,044,669**	**969,593**	**680,978**	
Other provisions	17,536	10,538	11,835	41.
Financial liabilities	292,484	328,519	96,229	37.
Trade accounts payable	331,661	268,973	241,561	38.
Income tax liabilities	30,569	25,759	18,311	20.
Other financial liabilities	261,067	221,943	226,383	39.
Other liabilities	111,352	113,861	86,659	40.
Total equity and liabilities	**3,413,182**	**2,982,821**	**2,799,896**	

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

CONSOLIDATED CASH FLOW STATEMENT

Consolidated Cash Flow Statement in € 000s	Dec. 31, 2013	Dec. 31, 2012[1)]	Note
Net income	122,811	86,988	
Depreciation and amortization net of write-ups of non-current assets	130,833	117,880	24.
Income taxes	66,615	48,609	20.
Interest income and expenses	66,615	69,488	19.
Result from associated companies	-771	-1,448	19.
Result from the disposals of non-current assets	521	-191	17.
Changes in other non-current provisions	936	272	36.
Currency translation income and expenses	16,585	-1,505	16.
Other non-cash expenses and gains	182,284	233,095	19.
Gross cash flow	**586,429**	**553,188**	
Changes in inventories	-54,612	-105,358	32.
Changes in trade accounts receivable	-73,242	-49,178	29.
Changes in trade accounts payable	47,633	22,074	38.
Changes in other net assets, unless attributable to investing or financing activities	-168,086	-91,450	
Interest and dividends received	6,391	8,457	
Interest paid	-65,928	-68,604	
Income tax paid	-73,169	-56,473	
Cash flow from operating activities	**205,416**	**212,656**	42.
Payments for investments in			
• intangible assets	-52,976	-115,312	25.
• property, plant and equipment	-33,990	-30,252	26.
• financial assets	-709	-3,504	27.
• shares in associated companies	-	-	
• business combinations according to IFRS 3	-230,068	-333,299	8./42.
Proceeds from the disposal of			
• intangible assets	3,417	2,716	25.
• property, plant and equipment	1,500	6,340	26.
• financial assets	455	528	27.
• shares in consolidated companies	-	4,369	
Cash flow from investing activities	**-312,371**	**-468,414**	42.
Borrowing of funds	932,971	466,697	37.
Settlement of financial liabilities	-774,332	-420,158	37.
Dividend distribution	-31,177	-22,080	35.
Capital increase from share options	18,264	6,020	35.
Changes in non-controlling interests	1,537	51	35.
Changes in treasury shares	37	37	35.
Cash flow from financing activities	**147,300**	**30,567**	42.
Changes in cash and cash equivalents	**40,345**	**-225,191**	
Changes in cash and cash equivalents due to Group composition	-123	157	
Changes in cash and cash equivalents due to exchange rates	-6,789	-2,976	
Net change in cash and cash equivalents	**33,433**	**-228,010**	
Balance at beginning of the period	**92,730**	**320,740**	
Balance at end of the period	**126,163**	**92,730**	

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Consolidated Statement of Changes in Shareholders' Equity in € 000s

2013	Number of shares	Share capital	Capital reserve
Balance as of Dec. 31, 2013	**60,442,500**	**157,151**	**487,843**
Dividend distribution			
Capital increase from share options	1,110,240	2,887	15,377
Changes in treasury shares			7
Changes in retained earnings			
Changes in non-controlling interests			
Changes in the scope of consolidation			
Other income			
Net income			
Balance as of Jan. 1, 2013[1)]	**59,332,260**	**154,264**	**472,459**

Previous year

Balance as of Dec. 31, 2012[1)]	**59,332,260**	**154,264**	**472,459**
Dividend distribution			
Capital increase from share options	365,900	952	5,068
Changes in treasury shares			-12
Changes in retained earnings			
Changes in non-controlling interests			
Changes in the scope of consolidation			
Other income[1)]			
Net income[1)]			
Balance as of Jan. 1, 2012[1)] adjusted	**58,966,360**	**153,312**	**467,403**
Adjustment in accordance with a change in methodology and amended standard IAS 19[1)]			
Balance as of Jan. 1, 2012	**58,966,360**	**153,312**	**467,403**

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

Retained earnings including net income	Provisions for currency translation	Provisions available for sale	Provisions for cash flow hedges	Treasury shares	Equity attributable to shareholders of the parent	Shares relating to non-controlling shareholders	Group equity
552,663	**-238,046**	**35**	**-3,486**	**-1,542**	**954,618**	**55,481**	**1,010,099**
-29,620					**-29,620**	-1,557	**-31,177**
					18,264	-	**18,264**
				30	**37**		**37**
					-		**-**
					-	46,965	**46,965**
					-		**-**
1,933	-59,374	-5	2,349		**-55,097**	-2,021	**-57,118**
121,426					**121,426**	1,385	**122,811**
458,924	**-178,672**	**40**	**-5,835**	**-1,572**	**899,608**	**10,709**	**910,317**
458,924	**-178,672**	**40**	**-5,835**	**-1,572**	**899,608**	**10,709**	**910,317**
-21,782					**-21,782**	-298	**-22,080**
					6,020	-	**6,020**
				49	**37**	-	**37**
					-	-	**-**
					-	51	**51**
-2,341	694				**-1,647**	-	**-1,647**
-9,072	-13,030	-7	-1,294		**-23,403**	439	**-22,964**
86,472					**86,472**	516	**86,988**
405,647	**-166,336**	**47**	**-4,541**	**-1,621**	**853,911**	**10,001**	**863,912**
1					**1**		**1**
405,646	**-166,336**	**47**	**-4,541**	**-1,621**	**853,910**	**10,001**	**863,911**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
General Information

1. Corporate information

STADA Arzneimittel Aktiengesellschaft (STADA Arzneimittel AG) as parent company of the STADA Group (hereafter referred to as "STADA"), based in Stadastrasse 2–18, 61118 Bad Vilbel, is an internationally oriented company based in Germany, which is active worldwide in the health care and pharmaceuticals market, especially in the core segments of Generics and Branded Products.

The consolidated financial statements of STADA Arzneimittel AG for financial year 2013 were approved for publication by the Executive Board on March 24, 2014.

2. Basis of preparation

The consolidated financial statements prepared for STADA Arzneimittel AG as parent company as of December 31, 2013, were prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Committee (IFRIC), as applicable in the European Union (EU), as well as in accordance with the supplementary provisions pursuant to Section 315a (1) of the German Commercial Code (HGB).

The financial year corresponds to the calendar year. The individual financial statements of the companies included in the scope of consolidation are prepared as of the same date as the consolidated financial statements.

The structure of the consolidated income statement follows the cost-of-sales method, according to which expenses incurred in generating sales are divided into functional areas. In the statement of comprehensive income, use was made of the option to present this separately from the consolidated income statement. The balance sheet classification distinguishes between non-current and current assets and liabilities, some of which are presented in detail in the notes according to their maturities.

The consolidated financial statements are prepared in euro. Unless otherwise indicated, figures in the notes are shown in euro thousands (€ 000s). Rounding is thus necessary, although this of course is not significant in its nature.

3. Consequences of new or amended standards and interpretations

In financial year 2013, STADA observed and, if relevant applied the following pronouncements or amendments to pronouncements published by the IASB and endorsed by the EU which were first applicable in financial year 2013, which had no or no significant effect on the presentation of STADA's business, financial, earnings situation or cash flow:

- **IFRS 1 "First-time Adoption of IFRS":**
  The amendment introduces a new exception of general retrospective application of IFRS by first-time adopters in relation to government loans. As STADA already prepares the consolidated financial statements according to IFRS, revised versions of the standard or amendments to it are not relevant.
- **IFRS 7 "Financial Instruments: Disclosures":**
  The amendment relates to expanded disclosures in the reporting of netting agreements. Comprehensive disclosures are also intended for those netting rights that do not lead to offsetting according to IFRS.

- **IFRS 13 "Fair Value Measurement":**
  The new standard contains a definition of fair value, provides a framework for the measurement of fair value in a single IFRS and contains, moreover, regulations on disclosures of fair value measurement. IFRS 13 thus seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorizes the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.
- **IAS 1 "Presentation of Financial Statements":**
  The amendment relates to the reporting of items in other comprehensive income within the statement of comprehensive income. According to the amendment, items reported under other comprehensive income are to be divided into two categories dependent on whether or not they will be recognized in the income statement (recycling) in the future.
- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine":**
  The new interpretation deals with the question of the recognition and measurement of the costs of stripping at a surface mine that fall due during the production phase.

- **Amendments in the context of the Annual Improvement Project 2009–2011:**
  IFRS 1 "First-time Adoption of IFRS": The amendment includes clarifications that relate to a possible repeat application of IFRS 1, subject to certain conditions, as well as the application of the regulations of IAS 23. As STADA already prepares the consolidated financial statements according to IFRS, revised versions of the standard or amendments to it are not relevant.
  IAS 1 "Presentation of Financial Statements": The amendment includes a clarification on comparative information required to be disclosed when providing a third balance sheet either voluntarily or as required.
  IAS 16 "Property, Plant and Equipment": The amendment includes a clarification relating to the classification of spare parts and servicing equipment as property, plant and equipment or inventory.
  IAS 32 "Financial Instruments: Presentation": The amendment includes a clarification that tax effects of dividend distributions and transaction costs from the issue or buyback of equity instruments are to be recognized in accordance with IAS 12.
  IAS 34 "Interim Financial Reporting": The amendment clarifies that the disclosure of segment assets and liabilities shall only be required if they are regularly reported to the Chief Operating Decision Maker and there has been a material change in these since the last annual financial statements.

The amended standard IAS 19 (revised 2011) "Employee Benefits" was to be applied starting from the beginning of financial year 2013 and, in particular, had effects on STADA's consolidated financial statements as described below. As compared to the previous regulation the formerly optional corridor method for recognizing actuarial gains and losses was eliminated. Actuarial gains and losses shall hereafter only be recognized under other comprehensive income. In accordance with the new regulation, income from the return on plan assets shall now be exclusively recognized in the amount of the discount rate and thus a net interest on the net liabilities or net assets is introduced. Past service cost shall be recognized directly in profit or loss. Furthermore, the amended IAS 19 requires more extensive notes. In consideration that STADA already directly recognized actuarial gains and losses under other comprehensive income in previous periods, this did not result in any changes for STADA's consolidated financial statements. For STADA, the remaining amendments primarily resulted in the immediate recognition of past service costs, a different calculation and a different recognition of income from the return on plan assets as well as additional notes. The new regulations additionally resulted in a different treatment of additional compensation in the context of partial retirement (Altersteilzeit) agreements.

With the initial application of the amended standard IAS 19 as of January 1, 2013, other non-current provisions decreased by € 0.1 million and other liabilities decreased by € 0.04 million which was credited to equity. In financial year 2013, pension costs increased by approx.

€ 0.4 million – in relation to defined benefit plans that already existed as of December 31,2012 – as compared to the previous version of IAS 19. Personnel expenses for partial retirement agreements increased by € 0.04 million in financial year 2013 with the application of the amended standard IAS 19.

In financial year 2013, furthermore, there was a change in methodology for the valuation of the defined benefit obligation of a defined benefit plan in Germany (see Note 4.).

In the context of the retrospective adjustments carried out in accordance with the change in methodology and the amended standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1, balance sheet items changed as of December 31, 2012 as follows: Other non-current provisions increased by € 2.61 million to € 50.49 million. Other current and non-current liabilities decreased overall by € 0.04 million to € 117.42 million. Equity decreased – relating to retained earnings including net income as well as other provisions – overall by € 1.86 million to € 910.32 million. Deferred tax assets increased by € 0.79 million to € 46.09 million. Deferred tax liabilities increased by € 0.07 million to € 82.76 million.

Due to the retrospective adjustments, the following changes resulted for the income statement in financial year 2012:

Consolidated Income Statement for the period from Jan. 1 to Dec. 31 in € 000s	2012	Adjustment in accordance to a change in methodology and amended standard IAS 19	2012 adjusted
Sales	1,837,544	-	1,837,544
Cost of sales	931,724	-3	931,721
Gross profit	**905,820**	**3**	**905,823**
Selling expenses	444,678	-9	444,669
General and administrative expenses	157,835	110	157,945
Research and development expenses	52,188	-	52,188
Other income	30,252	-	30,252
Other expenses	48,240	-	48,240
Expenses in connection with the “STADA – build the future” project	30,983	-	30,983
Operating profit	**202,148**	**-98**	**202,050**
Result from associated companies	1,448	-	1,448
Investment income	2,365	-	2,365
Financial income	5,427	-1,492	3,935
Financial expenses	75,815	-1,614	74,201
Financial result	**-66,575**	**122**	**-66,453**
Earnings before taxes	**135,573**	**24**	**135,597**
Income taxes	48,607	2	48,609
Earnings after taxes	**86,966**	**22**	**86,988**
thereof			
• distributable to shareholders of STADA Arzneimittel AG (net income)	86,450	22	86,472
• distributable to non-controlling shareholders	516	-	516
Earnings per share in € (basic)	1.46	-	1.46
Earnings per share in € (diluted)	1.44	-	1.44

In May 2011, the IASB adopted the new standards IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities". IFRS 10 replaces the consolidation requirements of the former IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" and introduces a uniform consolidation model for all subsidiaries. IFRS 11 governs the accounting for joint operations and joint ventures and thus replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". The former option to proportionately consolidate joint ventures is eliminated in favor of mandatory application of the equity method. In the context of IFRS 12, disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities are combined, expanded and replaced. The new regulations, which were adopted in European law in 2012, are applicable in the EU to financial years beginning on or after January 1, 2014. In June 2012, IASB published transition guidance adopted into European law in April 2013 (amendments to IFRS 10, IFRS 11 and IFRS 12) for the standards adopted in May 2011 of IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities". In the context of these amendments, the transition guidance in IFRS 10 was clarified and additional simplification was ensured in all three standards. The significant change here results from IFRS 11 "Joint Arrangements". The joint ventures included in the consolidated financial statements, which have been proportionately consolidated to date, are to be accounted for using the equity method as of financial year 2014, as well as retrospectively in the context of adjusting previous year figures. The proportionate share of assets and liabilities of these companies will thereby no longer be included in the consolidated balance sheet and the proportionate share of aggregated earnings of these units will be disclosed under one item within the income statement, whereas a disclosure is now to be made under the relevant income and expense items in accordance with currently valid regulations. As a result of changing the status of the company STADA Vietnam, which was previously consolidated as a joint venture, and as a result of the deconsolidation of STADA Import/Export, there were no longer any joint ventures within STADA's scope of consolidation as of December 31, 2013. As a result, no effects are expected for STADA in financial year 2014 as a result of this changed accounting policy. For financial year 2013, a significant effect of this change on the business, financial and earnings position – on the basis of the income statements of the respective companies as of the date of changed status or deconsolidation – would have resulted in a reduction of external sales by approx. € 11 million as well as a reduction in the operating profit of approx. € 3 million. However, no effects on net income would be expected from this changed accounting policy for joint ventures as the proportionate profit from joint ventures is to be reported under one item in the financial result in accordance with the new standard.

In addition, STADA did not apply a number of further pronouncements and amendments to pronouncements that were adopted by the IASB, the application of which, however, was not mandatory in financial year 2013. From today's perspective no significant effects on the consolidated financial statements are expected from the future application of the further standards and interpretations not yet applied.

4. Changes in accounting policies

With the exception of the changed accounting policies listed in Note 3, there were no changes to accounting policies resulting from new pronouncements or amendments to pronouncements by the IASB with significant consequences for the presentation of STADA's business, financial and earnings situation or cash flow in financial year 2013.

In financial year 2013, the method of evaluating a defined benefit obligation of a defined benefit plan in Germany was changed and affects two assumptions. As compared to the previous collective method, more relevant information is provided in the financial statements by way of applying individualized parameters for the widow's share in the retirement that is attributable to the plan participant's wife within the pension obligation. Furthermore, the age of retirement for plan participants has been adapted to the current situation. In accordance with IAS 8, the previous year figures have been retrospectively adjusted accordingly.

Without the change in methodology, in financial year 2013 personnel expenses in the functional area of administrative expenses would have been € 0.04 million lower, interest expenses € 0.1 million lower, income taxes € 0.04 million higher and net income thereby € 0.1 million higher in total. Income from the revaluation of net debt from defined benefit plans, which are recognized directly in equity, would have been € 0.3 million lower in financial year 2013. The consolidated comprehensive income would have thereby been € 0.2 million lower in the financial year. In the balance sheet of December 31, 2013, without the change in methodology, other non-current provisions would have been € 2.4 million lower, deferred tax assets € 0.6 million lower and retained earnings including net income would have been € 1.8 million higher.

In financial year 2013, furthermore, STADA made a reporting change within equity. For reasons of concentration of information, retained earnings and net income including profit brought forward will now be reported in one item retained earnings including net income. The prior-year figures were adjusted accordingly for the purpose of comparability. Overall, this change in reporting has no effects on equity beyond the combination of items previously reported separately.

5. Scope of Consolidation

All significant subsidiaries, joint ventures and associated companies are included in the consolidated financial statements. Subsidiaries are companies that are directly or indirectly controlled by STADA and are therefore fully consolidated. Control exists if STADA Arzneimittel AG or its subsidiaries are in a position to determine the financial and operating policies of this company for derivation of a commercial benefit. This is generally the case with a share of voting rights of more than 50%. Subsidiaries and special purpose entities are also fully consolidated in the case of a share in voting rights of 50% or less, if consideration of the substance of the business relationship indicates that the special purpose entity is controlled by STADA according to IAS 27 and SIC-12.

A joint venture exists if STADA as well as one or more partner companies have contractually fixed joint control of this joint venture. As a result of changing the status of the company STADA Vietnam, which was previously consolidated as a joint venture, and as a result of the deconsolidation of STADA Import/Export, there were no longer any joint ventures within STADA's scope of consolidation as of December 31, 2013.

Associated companies are companies over which STADA can have significant influence and are not subsidiaries or joint ventures. They are included in the consolidated financial statements in accordance with the equity method. Subsidiaries, joint ventures and associated companies, whose influence, both individually and as a whole, on the business, financial and earnings situation of the STADA Group is insignificant, are not consolidated or accounted for using the equity method. Investments in these companies are accounted for either at fair value or at amortized cost under financial assets. Accumulated, the sales of these companies make up less than 1% of total Group sales.

There were the following changes in the scope of consolidation regarding the number of subsidiaries, joint ventures and associated companies included in financial year 2013:

Number of companies in the scope of consolidation	Germany	outside	Total
January 1, 2013	11	59	70
Acquisitions	1	10	11
Disposals	-	4	4
December 31, 2013	12	65	77

Changes in the scope of consolidation as of December 31, 2013 as compared to December 31, 2012 resulted from the following listed mergers under company law:

- In Austria, the subsidiary STADA GmbH, Vienna, Austria, which had been consolidated since January 2012, was merged with the subsidiary STADA Arzneimittel Gesellschaft m.b.H., Vienna, Austria, which was also already consolidated.
- In the Czech Republic, the subsidiary STADA s.r.o., Roztoky, Czech Republic, which had been consolidated since February 2012, was merged with the subsidiary STADA PHARMA CZ, s.r.o., Prague, Czech Republic, which was also already consolidated.

These mergers did not have any effect on the Group's business, financial and earnings situation.

Furthermore, the Vietnamese subsidiary Pymepharco which was previously included in the consolidated financial statements of STADA as an associate was included in the scope of consolidation. Control of the subsidiary was achieved on January 1, 2013.

Since financial year 2013 the company Well Light Investment Joint Stock Company has also been consolidated as a subsidiary. STADA holds a share of 49% of this company. Taking into account additional contractual obligations STADA exerts a controlling influence on the company.

Furthermore, after being founded the subsidiary STADA Import/Export International Limited has been consolidated since April 1, 2013 in STADA's consolidated financial statements.

In addition, the Irish subsidiary SFS International Limited, Clonmel, Ireland, was deconsolidated as of June 30, 2013. This did not have any significant effect on the Group's business, financial and earnings situation.

In the third quarter of the reporting year, the subsidiary STADA UK Holdings Ltd. was founded and included in STADA's consolidated financial statements as of August 1, 2013.

In the third quarter of 2013, furthermore, the acquisition of the British OTC supplier Thornton & Ross was completed in accordance with corporate law. The initial consolidation as subsidiaries of the companies acquired occurred on September 1, 2013.

In addition, the Romanian subsidiary STADA M&D S.R.L., headquartered in Bucharest, was founded in the third quarter of 2013 and included in STADA's consolidated financial statements since September.

In the fourth quarter of the reporting period, the newly founded Serbian subsidiary STADA IT Solutions d.o.o., based in Belgrade, and the German subsidiary STADAvita GmbH, based in Bad Homburg, were included in STADA's consolidated financial statements. Furthermore, the subsidiary STADA Import/Export Ltd., based in Tortola, British Virgin Islands, was deconsolidated as of November 30, 2013.

As in the previous year, the aforementioned chart includes BIOCEUTICALS Arzneimittel AG, which is included in the consolidated financial statements as an associated company according to the equity method. STADA holds 15.86% of the shares in this company. The significant influence is therefore not directly due to the shareholding but instead is related in particular to the identity of part of the management personnel between BIOCEUTICALS Arzneimittel AG and STADA Arzneimittel AG. Details on the relationship between BIOCEUTICALS Arzneimittel AG and STADA are included in the Notes on related party disclosures (Note 48.2.).

As in the previous year, the aforementioned chart also includes both French companies Pharm Ortho Pedic SAS and AELIA SAS, pursuant to shareholdings of 25.0% and 20.0% acquired by STADA, which are included in the consolidated financial statements as associated companies in accordance with the equity method. The aggregate assets and liabilities, revenue and profit or loss for the period attributable to these three associated companies are shown below:

in € million	2013	2012
Assets	37.9	68.7
Liabilities	28.9	51.7
Revenue	37.4	80.1
Result for the period	**7.6**	**7.6**

The decrease in this aggregated key figure primarily resulted from the control achieved over the subsidiary Pymepharco, which was previously included in the consolidated financial statements as an associated company and has been consolidated as a subsidiary since 2013.

The investments included in the consolidated financial statements as subsidiaries, joint ventures and associated companies as well as all non-consolidated and other investments are listed below.

Direct investments of STADA Arzneimittel AG:

Name of the company, registered office	Share in capital	Form of consolidation
BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel, Germany	100%	subsidiary
BIOCEUTICALS Arzneimittel AG, Bad Vilbel, Germany	15.86%	associated company
Ciclum Farma, Unipessoal, LDA, Paco de Arcos, Portugal	100%	subsidiary
Crinos S.p.A., Milan, Italy	96.77%	subsidiary
EG Labo - Laboratoires Eurogenerics SAS, Boulogne-Billancourt, France	100%	subsidiary
EG S.p.A., Milan, Italy	98.87%	subsidiary
Grunenthal Ukraine LLC., Kiev, Ukraine[1)]	100%	not included
Laboratorio STADA, S.L., Barcelona, Spain	100%	subsidiary
Mobilat Produktions GmbH, Pfaffenhofen, Germany	100%	subsidiary
OAO Nizhpharm, Nizhny Novgorod, Russia	100%	subsidiary
OOO Hemofarm, Obninsk, Russia	10%	subsidiary
OOO STADA Marketing, Nizhny Novgorod, Russia	10%	subsidiary
Oy STADA Pharma Ab, Helsinki, Finland	100%	subsidiary
STADA Arzneimittel Gesellschaft m.b.H., Vienna, Austria	100%	subsidiary
STADA d.o.o., Ljubljana, Slovenia (previously Grünenthal d.o.o., Ljubljana, Slovenia)	100%	subsidiary
STADA d.o.o., Mostar, Bosnia-Herzegovina (previously Grünenthal d.o.o., Mostar, Bosnia-Herzegovina)	100%	not included
STADA d.o.o., Zagreb, Croatia (previously Grünenthal d.o.o., Zagreb, Croatia)	100%	subsidiary
STADA Egypt Ltd., Cairo, Egypt (previously Germa Pharm Ltd., Cairo, Egypt)	75%	not included
STADA (Shanghai) Enterprise Management Consulting Co. Ltd., Shanghai, China	100%	not included
STADA GmbH, Bad Vilbel, Germany	100%	subsidiary
STADA LUX S.à R.L., Luxembourg, Luxembourg	100%	not included
STADA PHARMA CZ, s.r.o., Prague, Czech Republic	100%	subsidiary
STADA Pharma International GmbH, Bad Vilbel, Germany	100%	subsidiary
STADA Pharma Services India Private Limited, Mumbai, India	85%	not included
STADA PHARMA Slovakia s.r.o., Bratislava, Slovakia	100%	subsidiary
STADA Pharmaceuticals (Asia) Ltd., Hong Kong, China	100%	subsidiary
STADA Pharmaceuticals Australia Pty Ltd, Sydney, Australia	100%	not included
STADA Poland Sp. z o.o., Piaseczno, Poland (previously Grünenthal Sp. z o.o., Piaseczno, Poland)	100%	subsidiary
STADA Service Holding B.V., Etten-Leur, The Netherlands	100%	subsidiary
STADApharm AS, Oslo, Norway	100%	not included
STADApharm GmbH, Bad Vilbel, Germany	100%	subsidiary
STADA UK Holdings Ltd., Newbury, United Kingdom	100%	subsidiary

1) Currently in the process of liquidation.

Indirect investments of STADA Arzneimittel AG through EG Labo - Laboratoires Eurogenerics SAS:

Name of the company, registered office	Share in capital	Form of consolidation
AELIA SAS, Saint Brieuc, France	20%	associated company
Laboratoires d'études et de recherches en oligo éléments thérapie SA, Boulogne-Billancourt, France	100%	subsidiary
Pharm Ortho Pedic SAS, Pellouailles Les Vignes, France	25%	associated company

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd.:

Name of the company, registered office	Share in capital	Form of consolidation
Clonmel Healthcare Limited, Clonmel, Ireland	100%	subsidiary
Pegach AG, Egerkingen, Switzerland	100%	subsidiary
Sundrops Limited, Huddersfield, United Kingdom	100%	subsidiary
Thornton & Ross Limited, Huddersfield, United Kingdom	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and Thornton & Ross Ltd.:

Name of the company, registered office	Share in capital	Form of consolidation
LCM Limited, Huddersfield, United Kingdom	100%	subsidiary
Thornton & Ross Ireland Limited, Dublin, Ireland	100%	subsidiary
Zeroderma Limited, Huddersfield, United Kingdom	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through BEPHA Beteiligungsgesellschaft für Pharmawerte mbH:

Name of the company, registered office	Share in capital	Form of consolidation
ALIUD PHARMA GmbH, Laichingen, Germany	100%	subsidiary
cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Bad Vilbel, Germany	100%	subsidiary
Crinos S.p.A., Milan, Italy	3.23%	subsidiary
Croma Medic, Inc., Manila, The Philippines	100%	subsidiary
EG S.p.A., Milan, Italy	1.13%	subsidiary
Grippostad GmbH, Bad Vilbel, Germany	100%	not included
IIP Institut für Industrielle Pharmazie Forschungs- und Entwicklungsgesellschaft mbH, Aschaffenburg, Germany	25%	not included
PharmaCoDane ApS, Herlev, Denmark	100%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium	0.01%	subsidiary
S.A. Neocare N.V., Brussels, Belgium	4.63%	subsidiary
STADA CEE GmbH, Bad Homburg, Germany	100%	subsidiary
STADA Egypt Ltd., Cairo, Egypt (previously Germa Pharm Ltd., Cairo, Egypt)	25%	not included
STADA Pharma Services India Private Limited, Mumbai, India	15%	not included
STADA (Thailand) Company, Ltd., Bangkok, Thailand	60%	subsidiary
STADAvita GmbH, Bad Homburg, Germany	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through BEPHA Beteiligungsgesellschaft für Pharmawerte mbH and PharmaCoDane ApS:

Name of the company, registered office	Share in capital	Form of consolidation
STADApharm AB, Malmö, Sweden[1)]	100%	not included

Indirect investments of STADA Arzneimittel AG through STADA GmbH:

Name of the company, registered office	Share in capital	Form of consolidation
STADA Medical GmbH, Bad Vilbel, Germany	100%	subsidiary

1) Currently in the process of liquidation.

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V.:

Name of the company, registered office	Share in capital	Form of consolidation
Centrafarm Nederland B.V., Etten-Leur, The Netherlands	100%	subsidiary
Hemofarm A.D., Vrsac, Serbia	100%	subsidiary
Pymepharco Joint Stock Company, Tuy Hoa, Vietnam	49%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium	99.99%	subsidiary
S.A. Neocare N.V., Brussels, Belgium	95.37%	subsidiary
STADA MENA DWC-LLC, Dubai, United Arab Emirates[1)]	100%	not included

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. and Centrafarm Nederland B.V.:

Name of the company, registered office	Share in capital	Form of consolidation
Centrafarm Services B.V., Etten-Leur, The Netherlands	100%	subsidiary
Healthypharm B.V., Etten-Leur, The Netherlands	100%	subsidiary
HTP Huisapotheek B.V., Etten-Leur, The Netherlands	100%	subsidiary
Neocare B.V., Etten-Leur, The Netherlands	100%	subsidiary
Quatropharma Holding B.V., Etten-Leur, The Netherlands	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V., Centrafarm Nederland B.V. and Quatropharma Holding B.V.:

Name of the company, registered office	Share in capital	Form of consolidation
Centrafarm B.V., Etten-Leur, The Netherlands	100%	subsidiary

1) Currently in the process of being set up.

Indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd.:

Name of the company, registered office	Share in capital	Form of consolidation
CIG (Hong Kong) Limited, Hong Kong, China	70%	not included
STADA Import/Export Ltd., Tortola, British Virgin Islands[1)]	50%	not included
STADA Import/Export International Ltd., Hong Kong, China	51%	subsidiary
STADA Pharmaceuticals (Beijing) Ltd., Beijing, China	83.35%	not included
STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City, Vietnam	50%	subsidiary
STADAPHARMA HEALTHCARE INC., Makati City, The Philippines	40%	not included
Well Light Investment Services JSC, Ho Chi Minh City, Vietnam	49%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd. and Well Light Investment Services JSC:

Name of the company, registered office	Share in capital	Form of consolidation
Pymepharco Joint Stock Company, Tuy Hoa, Vietnam	10%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. and Pymepharco JSC and/or indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd.; through Well Light Investment Services JSC and Pymepharco JSC:

Name of the company, registered office	Share in capital	Form of consolidation
Dak Nong Pharmaceutical JSC, Dak Nong, Vietnam	43%	not included
Phu Yen Export Import Pharmaceutical JSC, Phu Yen, Vietnam	20%	not included
Quang Tri Pharmaceutical JSC, Quang Tri, Vietnam	22.8%	not included

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and Clonmel Healthcare Limited:

Name of the company, registered office	Share in capital	Form of consolidation
CNRD 2009 Ireland Ltd., Dublin, Ireland	50%	not included
Crosspharma Ltd., Belfast, United Kingdom	100%	subsidiary
Genus Pharmaceuticals Holdings Ltd., Newbury, United Kingdom	100%	subsidiary
STADA Financial Investments Limited, Clonmel, Ireland	100%	subsidiary

1) Currently in the process of liquidation.

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd.; Clonmel Healthcare Limited and Genus Pharmaceuticals Holdings Ltd.:

Name of the company, registered office	Share in capital	Form of consolidation
Britannia Pharmaceuticals Ltd., Newbury, United Kingdom	100%	subsidiary
Genus Pharmaceuticals Ltd., Newbury, United Kingdom	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through OAO Nizhpharm:

Name of the company, registered office	Share in capital	Form of consolidation
Hetmak FZCO, Dubai, United Arab Emirates	50%	not included
Nizhpharm-Kazakhstan TOO DO, Almaty, Kazakhstan	100%	subsidiary
Nizhpharm-Ukraine DO, Kiev, Ukraine	100%	subsidiary
OOO Hemofarm, Obninsk, Russia	90%	subsidiary
OOO STADA CIS, Nizhny Novgorod, Russia	100%	subsidiary
OOO STADA Marketing, Nizhny Novgorod, Russia	90%	subsidiary
OOO STADA PharmDevelopment, Nizhny Novgorod, Russia	100%	subsidiary
STADA M&D S.R.L., Bucharest, Romania	100%	subsidiary
UAB STADA-Nizhpharm-Baltija, Vilnius, Lithuania	100%	subsidiary
ZAO Makiz-Pharma, Moscow, Russia	100%	subsidiary
ZAO Skopinpharm, Ryazanskaya obl., Russia	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through OAO Nizhpharm and Hetmak FZCO:

Name of the company, registered office	Share in capital	Form of consolidation
Dialogfarma LLC, Moscow, Russia	100%	not included

Indirect investments of STADA Arzneimittel AG through Ciclum Farma, Unipessoal, LDA:

Name of the company, registered office	Share in capital	Form of consolidation
STADA, LDA, Paco de Arcos, Portugal	98%	not included

Indirect investments of STADA Arzneimittel AG through Laboratorio STADA, S.L.:

Name of the company, registered office	Share in capital	Form of consolidation
STADA Genericos, S.L., Barcelona, Spain	100%	not included
STADA, LDA, Paco de Arcos, Portugal	2%	not included

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. and Hemofarm A.D.:

Name of the company, registered office	Share in capital	Form of consolidation
Hemofarm Arabia Ltd., Damascus, Syria	50%	not included
Hemofarm Banja Luka d.o.o., Banja Luka, Bosnia-Herzegovina	91.50%	subsidiary
Hemofarm Komerc d.o.o., Skopje, Macedonia	99.18%	not included
Hemofarm Sabac d.o.o., Sabac, Serbia	100%	subsidiary
Hemofarm S.a.r.l., Constantine, Algeria	40%	not included
Hemomont d.o.o., Podgorica, Montenegro	71.02%	subsidiary
Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg, Germany	100%	subsidiary
HF Pharmasuisse AG, Chur, Switzerland[1)]	100%	not included
Jinan Hemofarm Pharmaceuticals, Jinan, China	35.50%	not included
STADA Hemofarm d.o.o., Zagreb, Croatia[1)]	100%	not included
STADA HEMOFARM Poland Sp. z o.o., Warsaw, Poland[1)]	100%	not included
STADA HEMOFARM S.R.L., Temisvar, Romania	100%	subsidiary
STADA IT Solutions d.o.o., Belgrade, Serbia	100%	subsidiary
STADA PHARMA Bulgaria EOOD, Sofia, Bulgaria	100%	subsidiary
Velefarm A.D., Belgrade, Serbia	19.65%	not included
Vetfarm A.D., Belgrade, Serbia	15%	not included

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V.; Hemofarm A.D. and Hemopharm GmbH Pharmazeutisches Unternehmen:

Name of the company, registered office	Share in capital	Form of consolidation
PharmaSwyzz Germany GmbH, Bad Homburg, Germany	100%	not included

1) Currently in the process of liquidation.

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and Pegach AG:

Name of the company, registered office	Share in capital	Form of consolidation
Spirig HealthCare AG, Egerkingen, Switzerland	100%	subsidiary

The exemption rule stated in Section 264 (3) of the HGB was applied to ALIUD PHARMA GmbH, BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, STADA GmbH, STADA Medical GmbH, STADA CEE GmbH, STADApharm GmbH, STADAvita GmbH, STADA Pharma International GmbH and Mobilat Produktions GmbH.

6. Principles for the consolidation of subsidiaries, joint ventures and associated companies

According to IFRS, business combinations are to be accounted for using the acquisition method. Assets, liabilities and contingent liabilities from business combinations are generally recognized in full – irrespective of the amount of the shareholding – as of the acquisition date at their fair values. If the acquisition costs of the subsidiary acquired exceed the proportionate newly measured net assets of the acquiree, STADA recognizes the positive difference as goodwill. After critical examination of the premises underlying the purchase price allocation, a negative difference is recognized in income in the period of the acquisition. In a business combination achieved in stages, it is necessary to carry out a revaluation through profit or loss of the shares previously held at the date control was achieved. The shares of non-controlling interests are disclosed in the amount of their share in net assets of the subsidiary.

The acquisition of additional shares from an existing controlling position in a subsidiary is recognized directly in equity in accordance with IAS 27, as it is a transaction between the equity investors.

Subsidiaries are generally included in the consolidated financial statements from the acquisition date to the end of control by the parent company. Receivables and payables, expenses and income, as well as earnings between the companies included in the consolidated financial statements are eliminated, intercompany value adjustments and provisions are released. If these consolidation measures result in deviations between the IFRS carrying amounts and the tax base of assets and liabilities, deferred tax liabilities are recognized.

Joint ventures are consolidated according to the same principles, in accordance with the respective share in these companies.

Shares in associated companies are recognized according to the equity method at acquisition cost on the date when significant influence was established and carried forward from this date in the amount of the proportionate share of earnings in the financial year. A positive difference determined during the purchase price allocation is recognized as goodwill in the carrying amount of the investment in the associated company. A negative difference is recognized in income in the period of the acquisition in the results from associated companies. Profit and loss from transactions with associated companies is recognized in the consolidated financial statements only according to the share of minority interests.

If indications arise from the application of IAS 39 that the carrying amount of the associated company determined using the equity method might be impaired, an impairment test is carried out and, if applicable, an impairment loss in the amount of the difference between the

carrying amount and the recoverable amount is recognized. The recoverable amount is the higher of the fair value less cost to sell and the value in use of the shares in an associated company.

7. Currency translation

The functional currency of STADA Arzneimittel AG is the euro and represents the reporting currency of the Group.

In the separate financial statements of companies included in the consolidated financial statements, foreign currency transactions are translated into the functional currency at the exchange rate applicable at the time of the transactions. On every balance sheet date, monetary items are translated using the closing rate and non-monetary items are translated using the transaction rate. Resulting currency translation differences are recognized in income as exchange gains or losses.

The translation of the companies included in the consolidated financial statements with a functional currency other than the euro into the Group functional currency is carried out using the closing rate method. Assets and liabilities are generally translated using the closing rate, while individual components of equity are translated using the historical rates at their respective dates of inflow from the Group's perspective. The income and expenses of the income statements are translated – and thereby also the resulting translation of the annual results to be entered in equity – using the average exchange rate of the period.

Currency translation differences arising from the use of different exchange rates are recognized directly in equity in the "Provisions for currency translation". These provisions are released and recognized in income if Group companies leave the scope of consolidation.

The exchange rate development of currencies important to STADA to the euro can be seen in the following chart:

Significant currency relations in local currency to € 1	Closing rate on Dec. 31 in local currency			Average rate for the reporting period in local currency		
	2013	2012	±%	2013	2012	±%
Pound sterling	0.83310	0.81540	+2%	0.84974	0.81128	+5%
Russian ruble	45.24887	40.19293	+13%	42.58944	40.04806	+6%
Serbian dinar	114.81056	112.10762	+2%	113.12217	113.63636	0%
US Dollar	1.37671	1.31830	+4%	1.33012	1.29177	+3%

8. Business combinations

In financial year 2013, the following significant business combinations in the sense of IFRS 3 occurred, for which the purchase price allocations are described in more detail below.

Since January 1, 2013, STADA has controlled the Vietnamese pharmaceutical company Pymepharco, whose business activities include the production and sale of pharmaceutical products as well as import activities for the Vietnamese health and pharmaceutical market, via additional indirect investments and legal arrangements. Accordingly, Pymepharco, which was previously treated as an associated company, has been consolidated in the STADA Group as a subsidiary since January 1, 2013 taking into account minority interests.

In the context of the purchase price allocation, goodwill in the amount of € 9.8 million resulted from the business combination and is broken down as follows:

in € million	
Purchase price for 10% of the shares in Pymepharco	7.4
Fair value of shares recognized according to the equity method at the acquisition date	29.0
Proportionate fair values of the assets and liabilities acquired	26.6
Goodwill	**9.8**

An amount of € 2.4 million, which was reported in other income, resulted from the revaluation of shares recognized up to the acquisition date according to the equity method at the time control was achieved. In opposition, there was an expense from the dissolution of the currency translation reserve from transitional accounting in the amount of € 0.4 million, which is included under other expenses. The overall effect of the revaluation of Pymepharco therefore € 2.0 million.

Goodwill here results primarily from a strengthened presence in the market region Asia & Pacific as well as a stronger participation in the growth market Vietnam. The partial goodwill method was used for the recognition of this goodwill in the balance sheet.

The share of non-controlling interests in the acquired company in the context of the purchase price allocation determined at the acquisition date is € 18.4 million. This corresponds to a share of 41% in the net assets of Pymepharco, which results from the fair values of the assets and liabilities as at the acquisition date.

For the assets acquired and liabilities assumed in the context of the business combinations, the following fair values were recognized at the acquisition date:

Fair values in € million	
Intangible assets	30.9
Other non-current assets	13.0
Trade accounts receivable	13.2
Other current assets	15.1
Cash and cash equivalents	0.3
Assets	**72.5**
Deferred tax liabilities	8.8
Other non-current liabilities	0.1
Financial liabilities	9.2
Other current liabilities	9.4
Liabilities	**27.5**

Fair values were determined on the basis of observable market prices. To the extent that market prices could not be determined, income or cost-oriented procedures were used for the evaluation of acquired assets and liabilities assumed.

The gross figure of trade accounts receivable amounted to € 13.5 million, € 0.3 million of which was deemed not recoverable. Trade accounts receivable were recorded at their fair value in the amount of € 13.2 million.

STADA already had very limited supply and service relations with the Vietnamese pharmaceutical company Pymepharco prior to achieving control.

In the third quarter of financial year 2013, furthermore, there was an additional significant business combination in the context of the purchase of the British OTC supplier Thornton & Ross, headquartered in Huddersfield. The initial consolidation as subsidiaries of the companies acquired occurred on September 1, 2013.

The purchase price for the acquisition of the British OTC supplier including the product portfolio, the sales structures, a production facility and the research and development activities amounts to a total of approx. GBP 221 million and was completely paid in cash or cash equivalents. The objectives of the acquisition primarily included the strengthening of the branded products segment in the market region Central Europe as well as the further development of the Group's existing branded products portfolio.

In the context of the purchase price allocation, negative goodwill in the amount of € 14.4 million results from this business combination and is broken down as follows:

in € million	
Purchase price for 100% of the shares of the British OTC supplier approx.	259.1
Fair values of the assets and liabilities acquired approx.	273.5
Negative goodwill	**14.4**

Negative goodwill was recognized under other income through profit or loss. Due to the negative difference in the context of the purchase price allocation, the procedures were once again reviewed that were used to determined the fair values of the identifiable assets and liabilities assumed. In this context, it was ensured that the measurement appropriately reflects consideration of all available information as of the acquisition date. The negative difference primarily results from the revaluation of property, plant and equipment which was not taken into explicit consideration in the context of setting the purchase price by either the buyer or the seller.

For the assets acquired and liabilities assumed in the context of the business combination, the following fair values were recognized at the acquisition date:

Fair values in € million	
Intangible assets	233.6
Property, plant and equipment	28.0
Other non-current assets	1.8
Inventories	15.9
Trade accounts receivable	19.9
Other current assets	1.0
Cash and cash equivalents	35.5
Assets	**335.7**
Deferred tax liabilities	48.8
Other non-current liabilities	0.2
Other current liabilities	13.2
Liabilities	**62.2**

Fair values were determined on the basis of observable market prices. To the extent that market prices could not be determined, income or cost-oriented procedures were used for the evaluation of acquired assets and liabilities assumed.

The gross figure of trade accounts receivable amounted to € 20.4 million, € 0.5 million of which was deemed not recoverable. Trade accounts receivable were recorded at their fair value in the amount of € 19.9 million.

STADA already had very limited supply and service relations with the British OTC supplier Thornton & Ross prior to acquisition.

Another significant business combination in financial year 2013 resulted from the control achieved over the Vietnamese pharmaceutical company STADA Vietnam. STADA has controlled Vietnamese pharmaceutical company STADA Vietnam since the fourth quarter of 2013 as a result of agreements in accordance with corporation law. Accordingly, STADA Vietnam, which was previously treated as a joint venture, has been consolidated in the STADA Group as a subsidiary since the fourth quarter of 2013 adjusting for minority interests.

In the context of the purchase price allocation, goodwill in the amount of approx. € 4.9 million resulted from the business combination and is broken down as follows:

in € million	
Fair value of shares recognized according to IAS 31 at the acquisition date approx.	32.0
Proportionate fair values of the assets and liabilities acquired approx.	27.1
Goodwill	**4.9**

An amount of approx. € 20.1 million, which was reported in other income, resulted from the revaluation of shares recognized up to the acquisition date according to IAS 31 at the time control was achieved. In opposition, there was an expense from the dissolution of the currency translation reserve from transitional accounting int he amount of € 2.0 million, which is included under other expenses. The overall effect of the revaluation of STADA Vietnam therefore approx. € 18.1 million.

Goodwill here results primarily from a strengthened presence in the market region Asia & Pacific as well as a stronger participation in the growth market Vietnam. The partial goodwill method was used for the recognition of this goodwill in the balance sheet.

The share of non-controlling interests in the acquired company in the context of the purchase price allocation determined at the acquisition date is approx. € 27.0 million. This corresponds to a share of 50% in the net assets of STADA Vietnam, which results from the fair values of the assets and liabilities as at the acquisition date.

For the assets acquired and liabilities assumed in the context of the business combination, the following fair values were recognized at the acquisition date:

Fair values in € million	
Intangible assets	25.5
Property, plant and equipment	15.2
Other non-current assets	0.5
Inventories	18.8
Trade accounts receivable	8.8
Other current assets	1.2
Assets	**70.0**
Deferred tax liabilities	5.4
Other non-current liabilities	0.9
Trade accounts payable	4.4
Other financial liabilities	2.8
Other current liabilities	2.4
Liabilities	**15.9**

Fair values were determined on the basis of observable market prices. To the extent that market prices could not be determined, income or cost-oriented procedures were used for the evaluation of acquired assets and liabilities assumed.

The gross figure of trade accounts receivable amounted to € 8.8 million, € 0.03 million of which was deemed not recoverable. Trade accounts receivable were recorded at their fair value in the amount of € 8.8 million.

Prior to achieving control, STADA had supply and service relations, paid under conditions usual in the market, with the Vietnamese pharmaceutical company STADA Vietnam.

In addition, in financial year 2013, the following insignificant business combination in the sense of IFRS 3 was recorded:

STADA concluded a contract through Spirig HealthCare AG in the third quarter of 2012 for the acquisition of the pharmaceutical wholesale and commercial business of Spirig Pharma. The acquisition was completed in the first quarter of 2013. The purchase price was CHF 5.1 million (approx. € 4.2 million). The business has been consolidated in the STADA Group since March 1, 2013.

Sales generated in the market region Central Europe with the British OTC supplier Thornton & Ross since the acquisition date amounted to approximately € 31 million in financial year 2013. The operating profit of this business combination adjusted for the effects of the purchase price allocation (approximately € 3 million) amounted to approximately € 8 million in financial year 2013. If STADA had achieved control of Thornton & Ross on January 1, 2013, sales of approx. € 92 million and operating profit, adjusted for effects from the purchase price allocation (about € 9 million), of approx. € 24 million would have been achieved on linear extrapolation in financial year 2013.

Sales generated in the market region Asia & Pacific with the operations of Pymepharco as of the acquisition date in financial year 2013 amounted to a total of approximately € 43 million. The operating profit of this business combination adjusted for the effects of the purchase price allocation (approximately € 3 million) amounted to approximately € 7 million in financial year 2013.

Sales generated in the market region Asia & Pacific with the operations of STADA Vietnam as of the acquisition date in financial year 2013 amounted to a total of approximately € 5 million. The operating profit of this business combination adjusted for the effects of the purchase price allocation (approximately € 1 million) amounted to approximately € 1 million in financial year 2013. If STADA had achieved control of STADA Vietnam on January 1, 2013, sales of approx. € 16 million and operating profit, adjusted for effects from the purchase price allocation (approximately € 3 million), of approx. € 5 million would have been achieved on linear extrapolation in financial year 2013. The figures above relate to additional sales and earnings contributions that result from the control achieved.

9. Accounting policies

STADA's consolidated financial statements are based on uniform accounting policies. The basis for these are the accounting requirements which are mandatory for all companies included in the consolidated financial statements and which are described in more detail below.

Sales are recognized when goods have been delivered or services rendered, provided that it is reasonably probable that measurable economic benefits will flow to the entity and that the substantial risks and rewards of ownership have been transferred to the buyer. It must also be possible to reliably measure the Company's own costs incurred or to be incurred.

Sales are recognized before taxes and after deduction of revenue reductions (rebates or discounts) at fair value of the consideration received or receivable. Expenses from the creation of provisions for warranties are deducted from sales on the basis of estimated amounts. The estimates are based on experience regarding amounts used in the past. The estimated expense from the creation of provisions is determined as a percentage of sales. Discounts to health insurance organizations are also recognized with a reduction on sales based on the respective contract in force.

Income and expenses from the same transactions are generally recognized in the same period. Expenses related to accruals for future revenue reductions are thus recorded in the period in which the sales are realized.

Cost of sales includes the costs of conversion of the products sold and the purchase price of commercial goods sold or given free of charge. The expense is recognized in the period in which the associated income is realized. In addition, cost of sales also includes costs directly attributable to the commercial goods (e.g. cost of materials and personnel expenses), overhead costs (e.g. depreciation of production equipment and regulatory drug approvals and licenses) as well as value adjustments of excess or obsolete inventories.

Research expenses are costs that are incurred in relation to the research activity of a company that aims to provide new scientific or technical findings. The product portfolio of the STADA Group continues to focus on products that do not require the Group to conduct its own research. Just as in the previous years, no research expenses were thus incurred in financial year 2013.

Development expenses consist of expenses involved initially in the technical implementation of theoretical discoveries in production and production processes and ultimately their commercial implementation.

As a rule, the objective of a development process at STADA is to obtain national or multinational regulatory drug approval. Development costs relative to approvals for new drugs obtained by STADA result in capitalization as intangible assets if all the following preconditions are met:

- It is technically possible to complete the asset (generally, achieve regulatory approval), enabling it to become available for use or sale.
- The intention and ability exist as well as the necessary resources to complete the asset and to use or sell it in the future.
- The intangible asset provides the Group with a future economic benefit.
- It must be possible to reliably calculate the development costs of the intangible asset.

STADA immediately recognizes development costs not eligible for capitalization as expense in the periods in which they are incurred. These include expenses for technical and regulatory maintenance of products sold.

Interest income is reported in the income statement as a component of financial income. In this regard, both interest income and interest expenses for all financial instruments measured at amortized cost as well as interest-bearing financial assets classified as available for sale are recognized on the basis of the effective interest rate.

Dividends received from companies not included in the consolidated financial statements are disclosed within the investment income. This shall be recognized when the shareholder's right to receive payment is established.

Income taxes include actual taxes on income as well as deferred taxes. The tax receivables and liabilities recognized in the balance sheet include demands or liabilities for income taxes in Germany and outside Germany from financial year 2013 as well as from previous years, if applicable. The tax receivables and liabilities are calculated on the basis of tax rates effective as of the balance sheet date or known and already concluded for the future in the countries in which the taxable income is generated.

Deferred taxes are created for temporary differences between the tax base of the assets or liabilities and their valuation rate in the IFRS financial statements as well as for tax loss carryforwards. Deferred tax assets are recognized to the extent that it is probable that a taxable profit will result against which the temporary difference can be utilized. Deferred tax liabilities are recognized for temporary differences taxable in the future. STADA determines deferred taxes on the basis of tax rates applicable at the balance sheet date or those that have

already been resolved and communicated for the future. Deferred tax receivables and liabilities are offset if these relate to the same taxation authority.

The tax expense in the period is recognized in the income statement, provided the changes in value that are recognized directly in equity are not affected. To the extent that there are changes in the tax rate with an effect on deferred taxes, the resulting effects are recognized in the period in which they arise.

Goodwill is not amortized over the period of useful life. Instead, an impairment test is performed at least once per year (impairment-only approach). For this purpose, goodwill is allocated to cash-generating units aggregated into market regions below the segment level, where a cash-generating unit corresponds to a market region within the three operating segments of the STADA Group for the purpose of an impairment test of goodwill.

STADA carries out impairment tests for capitalized goodwill at least once a year. Additional reviews also take place if indications of impairment become apparent. During the impairment test, the carrying amount of each cash-generating unit is compared with its recoverable amount. The carrying amount of a cash-generating unit comprises the carrying amounts of all assets and liabilities attributable to the valuation unit including the carrying amount of goodwill to be tested. If the recoverable amount of a cash-generating unit is lower than the carrying amount, an impairment loss results. The recoverable amount is generally defined as the higher of the fair value less costs to sell, if measurable, and the value in use of the cash-generating unit. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of the expected long-term inflation rate is assumed. Significant assumptions which are taken in order to determine the value in use include assumptions regarding sales development, regulatory conditions, investments, the discount rate as well as the growth rate. These assumptions are taken individually according to the individual situations for every cash-generating unit and are partly based on internally determined assumptions which reflect both past experience and include external market data.

Other intangible assets with determinable useful lives are recognized at cost and amortized on a straight-line basis over the period of their useful life. Amortization shall begin when the asset is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the intended manner. The useful life of regulatory drug approvals, trademarks, licenses, dossiers with data for drug approvals or in preparation of drug approvals, software, concessions, property rights and similar rights is between three and 30 years. If on the balance sheet date, there are indications that these assets are impaired, the recoverable amount of the asset is re-evaluated and impairment losses are recognized according to the difference to the carrying amount. If the reasons for recognizing an impairment loss cease to exist, corresponding write-ups are carried out up to a maximum of the amortized cost.

Intangible assets with indeterminable useful lives are not amortized. In the context of annual impairment tests and additionally in all cases where there are indications of impairment, the recoverable amounts of these assets are compared with their carrying amounts and if necessary, an impairment loss is recognized. For this purpose, the fair value of the asset less costs to sell was determined using the relief from royalty method. At STADA, this affects the umbrella brand Hemofarm capitalized in the context of the acquisition of the Hemofarm

group, as well as the umbrella brand Pymepharco capitalized in the context of achieving control over Pymepharco. Intangible assets that are not yet available for use are also generally put through annual impairment tests. Furthermore, in each reporting period, an audit is carried out to check whether the reasons for recognizing an indefinite useful life continue to exist.

Internal development costs are capitalized in accordance with the criteria in IAS 38. Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs, external services and directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life (generally 20 years).

Property, plant and equipment is reported at cost less depreciation and any impairment losses plus write-ups. Depreciation shall begin when the asset is available for use and is accordingly in the condition necessary for it to be capable of operating. Subsequent acquisition costs are capitalized. Capitalization requires that a future economic benefit will flow to the company and that the cost of the asset can be reliably measured. Expenses for repairs and maintenance which do not represent significant replacement investments are recognized as expenses in the financial year in which they are incurred.

Items of property, plant and equipment are depreciated according to their useful life using the straight-line method. The depreciation period may be up to 50 years in the case of buildings, eight to 20 years in the case of technical facilities and three to 14 years for other plant and office furniture and equipment. The component approach, according to which every significant component of property, plant and equipment with different useful lives, must be depreciated separately, is not applied at STADA due to a lack of relevance. To the extent necessary, impairment losses are recognized pursuant to IAS 36; these are reversed if the reasons for the original recognition of an impairment loss no longer exist.

Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are capitalized as part of the cost of the intangible asset or property, plant and equipment. Other borrowing costs are not capitalized. Where acquisitions are made in a currency other than the respective functional currency, subsequent changes in exchange rates have no impact on the recording of original costs.

Profits and losses from the disposal of intangible assets and property, plant and equipment are determined as the difference between the disposal proceeds and the respective carrying amounts and are recognized netted under the items “Other income” or “Other expenses” in the income statement.

Impairments on other intangible assets and property, plant and equipment exist when the recoverable amount of an asset is lower that its carrying amount. At each balance sheet date, STADA assesses whether indications for impairment are apparent. If this is the case, the asset’s recoverable amount is determined. If certain defined critical values are exceeded, the asset’s recoverable amount is determined. The recoverable amount is the higher of the asset’s fair value less costs to sell and its value in use, where the value in use is calculated with a discounted cash flow method. Under this procedure, future cash flows of intangible assets are discounted at the weighted average cost of capital, which is determined individually for various market regions with specific parameters. Expenses arising from impairments are recognized under “Other expenses”.

For the purpose of impairment tests of other intangible assets and property, plant and equipment, cash-generating units within the STADA Group are defined at the level of individual assets within the reportable segments of Branded Products, Generics and Commercial Business.

If the reasons for an impairment no longer exist, the corresponding write-ups are carried out up to a maximum of the carrying amounts determined at amortized cost. Income from write-ups is reported under the item “Other income”.

Leases are classified either as operating lease or as finance lease, depending on whether the significant risks and rewards of ownership remain with the lessor or with the lessee. The lease is not recognized in the lessee’s balance sheet in case of operating leases. STADA records the lease payments for these leases in the income over the lease term. Assets from finance leasing are, on initial recognition, recognized at the lower of the fair value of the lease and the present value of minimum lease payments, and are depreciated according to their estimated useful lives or shorter contractual period. An amount is reported as lease liability, when, on initial recognition, it corresponds to the lease’s carrying amount and is extinguished and carried forward in subsequent periods with a constant effective interest rate. The interest that is part of the lease installment is recognized as an expense.

In addition, in case of sale and leaseback transactions that represent a finance lease, any excess of sales proceeds over the carrying amount is deferred and recognized in the income statement over the lease term.

The total value of capitalized leases is not of material significance for STADA when compared with the total volume of fixed assets.

Under **financial assets**, STADA recognizes shares in non-consolidated, affiliated companies, other investments as well as held-to-maturity securities. Shares in associated companies and other investments are classified as available-for-sale financial assets and are generally reported at fair value with no effect on income. If no quoted market prices in an active market are available to measure these shares and their fair value therefore cannot be determined reliably, they are measured at amortized cost. If any objective indications of impairment are determined, these are quantified by means of an impairment test and recognized in profit or loss in accordance with IAS 39.

Inventories include such assets that are held for sale in the ordinary course of business (finished goods), that are in the process of production for such sale (work in progress), and that are consumed in the production process or in the rendering of services (materials and supplies). Inventories are measured at the lower of cost and net realizable value. Costs are calculated based on weighted average costs. Costs of sales include both costs that are directly incurred in production and overheads that can be allocated to the production process, including reasonable depreciation on production facilities. Financing costs are not included, but are instead recognized as an expense in the period in which they occur. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Financial assets can be broken down into the following categories in accordance with IAS 39: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Financial assets are accounted for and measured pursuant to IAS 39. Accordingly, financial assets are, as a rule, initially recognized at fair value. In addition, for financial assets which are subsequently measured at amortized cost, transaction costs directly attributable to the acquisition are to be taken into account. Different measurement policies apply for subsequent measurement in accordance with the applicable categories for financial assets pursuant to IAS 39.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are allocated to current assets to the extent that they are due for settlement within twelve months after the balance sheet date. STADA reports loans and receivables under "Trade accounts receivable", "Other financial assets" and "Cash and cash equivalents". They are measured at amortized cost using the effective interest method.

STADA reports receivables from derivatives which, if applicable, may also be part of hedge accounting, as **financial assets at fair value through profit or loss**. Assets in this category are reported under the "Other financial assets" item. They are measured at fair value. If these assets do not have a quoted market price in an active market, fair value is determined with appropriate measurement models. This includes the application of the discounted cash flow methods, which are largely based on input parameters observable in the market. Changes in the fair values are recognized in profit and loss at the time of the increase or decrease in value.

Held-to-maturity financial investments include non-derivative assets with fixed or determinable payments and a fixed term that STADA intends to hold to maturity. They are measured at amortized cost using the effective interest method. STADA reports these assets in financial assets under the item "Other financial assets".

Available-for-sale financial assets are non-derivative assets that are not allocated to any of the above categories. In particular, they comprise, in addition to shares in affiliated companies and other investments included in financial assets, equity securities which are recognized under "Other financial assets". They are measured at fair value, with recognition of changes under "Provisions available for sale" directly in equity. These measurement results are reclassified through profit and loss upon sale or valuation allowance of these assets. There must be objective evidence that there is a significant or continuing decrease in fair value below cost. Usually, published price quotations can be used for determining fair value.

Trade accounts receivable are measured at amortized cost less impairments using the effective interest rate method. Impairments are made in the form of individual impairments and general individual impairments for specific defaults and expected default risks resulting from the insolvency of customers. To quantify the expected default risk, STADA determines the expected future cash flows from receivables grouped by debtor. To this end, the maturity structures of net receivables and experience relating to derecognition of receivables in the past, the creditworthiness of the customers as well as changes in payment conditions are taken into account. In addition, a trade credit insurance that covers part of the loss in case of default is to be taken into consideration for German Group companies. The required impairment thus determined reduces the assets' carrying amounts through recognition of an impairment account.

The loss is recognized in profit and loss under "Other expenses". Bad debts are derecognized against the impairment account. Subsequent cash receipts for receivables already derecognized are presented net of expenses.

Non-current assets and disposal groups held for sale are classified as held for sale, if the related carrying amount will be recovered principally through a sale transaction rather than through continuing use, and if the sale is regarded as highly probable. Measurement of these assets is based on the lower of carrying amount and fair value less costs to sell.

Cash and cash equivalents include cash and call deposits as well as short-term and highly liquid financial investments with a maximum term of 90 days from the purchase date, which can be converted to cash immediately and are subject only to minor price fluctuation risks. They are measured at amortized cost. Cash and cash equivalents are reported in accordance with their definition in IAS 7.

Other assets, which are not based on any contractual rights involving the direct or indirect exchange of cash, are recognized under the item **Other assets**.

STADA maintains defined benefit pension plans in various countries, according to which the amount of pension benefits depends on the employees' pensionable remuneration and the length of their service. The measurement of the obligations was adjusted to the amended requirements of IAS 19 in financial year 2013. **Pension obligations** are measured in accordance with actuarial principles of the projected unit credit method. Accordingly, the amount of pension provisions recognized in the balance sheet corresponds to the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets adjusted for the effect resulting from any effect of limiting the benefit asset. The calculation includes, apart from earned pensions and entitlements, future salary and pension increases as well. For German Group companies, pension obligations are calculated based on the biometric accounting principles of the Heubeck 2005G mortality tables. Outside Germany, country-specific mortality tables are used. Future pension benefits are subject to individual pension agreements. The discount rate shall be based on market yields on high quality corporate bonds with fixed interest rates at the end of the reporting period. In countries where there is no deep market in such corporate bonds, the discount rate is determined on the basis of market yields on government bonds.

The amended standard IAS 19 only permits actuarial gains and losses to be recognized directly in equity. The terminology of the new standard differentiates between gains and losses due to changes in demographic and financial assumptions as well as due to experience-based amendments. They are recognized directly in equity in the period in which they occur ("Other comprehensive income"). The relevant amounts are reported separately in the consolidated statement of comprehensive income. For the calculation of the portion of the interest income on plan assets recognized through profit or loss, the amended standard requires the application of the discount rate underlying the obligation. The remainder of the actual interest income is to be recognized directly in equity under other comprehensive income. The current service cost is recorded in staff costs of the individual functional areas. All past service cost that arises in the financial year shall be recognized immediately through profit or loss.

Various Group companies additionally grant their employees defined contribution plans. Here, Group companies pay defined contributions to independent institutions due to legal or contractual requirements or on a voluntary basis; liabilities beyond this do not exist. Contributions to be paid for defined contribution plans are recognized as expense in the respective period in the relevant functional areas.

The **other non-current provisions** contain anniversary provisions as other long-term employee benefits. Anniversary provisions are recognized according to the principles of IAS 19 for other long-term employee benefits. As opposed to pension provisions, actuarial gains and losses are not recognized without an effect on the income statement. Such potential gains and losses are immediately recognized as income or expenditure in the relevant functional area.

Other provisions are made by STADA if there are current legal or constructive obligations to third parties arising from past events and probably can lead to an outflow of resources embodying economic benefits that can be reliably determined. An outflow of resources embodying economic benefits is considered as probable if it is more likely than not. Other provisions are recognized in an amount that, taking into account all recognizable risks, offers the best possible estimate of expenditures necessary to fulfill the obligations. Any existing reimbursement claims by third parties are not netted with other provisions. Expenses from the creation of provisions are allocated to functional costs according to where they arise. If changes in estimates result in a reduction of the obligation, the other provisions are reversed on a pro rata basis and recognized in profit and loss under the item where the original expense was recognized.

STADA reports all other provisions as current liabilities, because a settlement date within twelve months of the balance date is expected. The amounts recognized are not discounted. Liabilities incurred due to outstanding accounts or obligations vis-à-vis personnel and tax authorities, as well as other liabilities are not recorded as provisions, but under “Trade accounts payable” or “Other liabilities”.

Differentiated from provisions, there are **contingent liabilities** for possible obligations based on past events but which will not become manifest until the occurrence of one or more uncertain future events, which are not under STADA’s control. In addition, there are also contingent liabilities for current obligations, for which however the associated outflow of resources is not considered probable or the amount of the obligation cannot be adequately estimated. In accordance with IAS 37, such contingent liabilities are not recognized.

Financial liabilities are measured on initial recognition at fair value plus transaction costs directly attributable to the acquisition. For financial liabilities that subsequently continue to be measured at fair value, any transaction costs are recognized as an expense in the period in which they occur. This relates to the accounting of derivative financial instruments with negative market values that are not part of an effective hedging relationship and allocated to the category “at fair value through profit or loss” in accordance with IAS 39. STADA reports these liabilities in the “Other financial liabilities” item. Here, those derivative financial instruments are also included which serve to hedge interest rate and currency risks resulting from operating activities, financial transactions and investments, and which are also measured at fair value in accordance with the regulations of IAS 39 on hedge accounting. Unless market prices are available, fair value is determined with measurement models based on discounted cash flow models.

Derivative financial instruments exist at STADA in the context of derivatives measured at fair value with an effect on income as well as in the context of derivative hedging instruments. In each case, depending on whether the market value of the derivatives is positive or negative, they are recognized under the item “Other financial assets” or “Other financial liabilities” (see accounting policies for financial assets and financial liabilities). Cash flow hedges, fair value hedges and hedges of net investments in a foreign operation can generally be recognized as derivative hedging instruments in the context of hedge accounting in accordance with IAS 39.

At STADA, cash flow hedges are used to hedge against fluctuations of cash flows associated with a recognized asset or a recognized liability or a highly probable planned transaction. Changes in the fair value of these hedging instruments are recognized in the amount of the effective part of the hedging relationship directly in equity under “Provisions for cash flow hedges”. A transfer to the income statement takes place in the period when the underlying hedged item becomes effective. The ineffective part of the changes in value is, however, recognized directly in the income statement.

In the context of fair value hedges, the risk of a change in fair value of recognized assets or recognized liabilities or fixed off balance liabilities is hedged. Changes in the fair value of these hedging transactions are recorded in profit and loss like changes in the fair value of the underlying hedged items. If the requirements for hedge accounting are no longer met, the carrying amounts of the previously hedged items are adjusted on the basis of their remaining terms. Hedges of net investments in a foreign operation are treated according to the same accounting policies as cash flow hedges.

STADA regularly reviews the effectiveness of the hedging relationships as a prerequisite for hedge accounting pursuant to IAS 39. A hedging transaction is in general considered to be effective, if changes in fair value of the hedging transaction are both prospectively and retrospectively within a range of 80% to 125% of the offsetting changes in fair value of the hedged item.

STADA measures all other financial liabilities, in particular trade accounts payable as well as financial liabilities, at amortized cost using the effective interest method.

STADA has so far not made use of the option to designate financial liabilities on initial recognition as financial liabilities to be recognized at fair value through profit or loss.

Other liabilities, which are not based on any contractual rights involving the direct or indirect exchange of cash, are recognized under the item “Other liabilities”.

10. Estimates, assumptions and discretion in the application of accounting principles

The presentation of the business, financial and earnings situation in the consolidated financial statements is determined by recognition and valuation methods. To a certain extent, STADA makes estimates and assumptions relating to the future that are based on past experience as well as other factors that are considered to be appropriate in the particular circumstances. Although the estimates and assumptions are constantly re-evaluated, estimates derived in this way may differ from actual circumstances. The significant estimates, accounting judgments and related assumptions for the accounting issues concerned are detailed below.

As part of purchase price allocations in business combinations, goodwill is the difference between the acquired net assets valuated according to IFRS 3 and the consideration transferred plus the fair value of the previously held shares and the amount recognized of non-controlling shareholders. Various valuation methods are used for this, which are primarily based on estimates and assumptions.

STADA carries out an impairment test for capitalized goodwill at least once a year. The discounted future cash flows of the cash-generating units aggregated to market regions below the segment level, which are based on certain assumptions, are to be determined for this purpose. The application of the discounted cash flow method thus requires the calculation of an individual interest rate for each cash-generating unit. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years based on approved budgets. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of the expected long-term inflation rate is assumed. The budget values for future financial years, which are subject to some uncertainty due to unforeseeable future legal developments and developments in the health care market, as well as the parameters determined in the context of current market information but also as a best possible estimate mean that the assessment of impairment may differ from actual circumstances, and despite good forecasts in the reporting year an impairment requirement may be necessary in subsequent years.

For items of property plant and equipment and intangible assets, the expected useful lives and associated amortization or depreciation expenses are determined on the basis of the expectations and assessments of management. If the actual useful life is less than the expected useful life, the amount of depreciation or amortization is adjusted accordingly. As part of the determination of impairment losses on fixed assets, estimates relating to the cause, timing and amount of the impairments are also made. Particularly in the context of impairment tests for yet unused approvals, which are recognized as advance payments, the growth rates applied for the present value test as well as the long-term price and cost development of active pharmaceutical ingredients are based on best possible estimates. This also applies to the impairment tests of other intangible assets with indefinite useful lives.

Development costs are capitalized based on the assessment of whether the capitalization requirements of IAS 38 are met. Planning calculations are necessary to determine the future economic benefit, which are by their nature subject to estimates and may therefore deviate from actual circumstances in the future.

STADA makes valuation allowances on receivables in order to anticipate losses expected in relation to insolvency of customers. The maturity structure of the net receivables and past experience in relation to bad debts as well as the customers' creditworthiness are used as the criteria for evaluating the appropriateness of the valuation allowances. This does not, however, exclude the possibility that the actual derecognitions will exceed the expected valuation allowances due to a significant worsening in the financial situation of the customer. Accounting judgments and estimates regarding the assessment of the value of receivables relate particularly to impaired receivables from debtors in CEE countries.

STADA operates in various countries and is obliged to pay respective income taxes in each tax jurisdiction. In order to calculate the income tax provisions and the deferred taxes in the Group, the expected income tax as well as the temporary differences resulting from the different treatment of certain items according to IFRS and their accounting in accordance with tax law are each to be determined on the basis of assumptions. If the final taxation imposed deviates from the assumed values, this has a corresponding effect on actual and deferred taxes and thus on the business, financial and earnings situation of the Group in the respective period. Furthermore, increasing importance within the STADA Group is being alloted to a comprehensive tax transfer pricing model for the payment of intercompany services. Potential risks of non-recognition of these transfer prices for tax purposes is limited by way of the introduction of corresponding agreement procedures and a comprehensive definition of transfer prices in the form of a Group guideline.

When determining the fair values of derivatives and other financial instruments, for which no market price in an active market is available, valuation models based on input parameters observable in the market are applied. The cash flows which are already fixed or calculated by means of the current yield curve using so-called “forward rates” are discounted to the measurement date with the discount factors determined by means of the yield curve valid on the balance sheet date.

The amount of pension obligations from defined benefit plans is calculated using actuarial methods. This procedure is based upon assumptions, among other things, regarding the discount rate, life expectancy and future salary and pension increases. Changes to these assumptions can significantly influence the amount of future pension expenses.

The creation of other provisions is based on the assessment of management regarding the probability and amount of an outflow of resources. STADA creates provisions if there is a present external obligation and a probable outflow of resources, i.e. if it is more likely to occur than not. Provisions in relation to pending legal disputes are created based on how STADA estimates the prospects of success. The determination of provisions for damages is also associated with substantial estimates, which can change due to new information. The same applies for the recognition of the amount of contingent liabilities.

Expenses from the creation of provisions for warranties are considered in sales and charged against income. Estimated values based on past experience are used for this purpose. This means that the actual expenses for warranties may differ from the estimate and sales would accordingly turn out to be higher or lower. The same applies for the consideration of discounts (e.g. discounts to health insurance organizations) prescribed by law and due to other regulatory requirements, which are recognized with a reduction on sales based on the respective underlying contract with an estimated amount in expectation of probable sales.

Notes to the Consolidated Income Statement

11. Sales

STADA's sales primarily result from the supply of products. For information on the reporting of sales, please refer to the details included in Accounting Policies.

In 2013, the increase in sales compared to 2012 was primarily a result of the growth of both core segments as well as good sales development in the market regions Central Europe, CIS / OEastern Europe and Asia & Pacific, which more than compensated for the sales decrease in the market region Germany. In the reporting year, exchange rate effects and portfolio changes had a total influence of € 71.3 million on sales. For information on how sales are broken down according to segments and market regions, please refer to Segment Reporting in Note 43.

12. Cost of sales

Cost of sales is divided into the following items:

in € 000s	2013	2012[1)]
Material expenses	838,698	752,148
Impairment, depreciation and amortization	86,804	77,848
Expenses from inventory write-downs	29,910	31,058
Remaining cost of sales	74,740	70,667
Total	1,030,152	931,721

Impairment, depreciation and amortization includes € 78.1 million (previous year: € 69.0 million) which relate to amortization on intangible assets, the ownership of which represents a necessary condition for the marketing of the products manufactured – in particular drug approvals.

Expenses from inventory write-downs included inventories written down to net realizable value netted with reversals. The reversals amounted to € 7.7 million in financial year 2013.

13. Selling expenses

Selling expenses comprise in addition to the costs for sales departments and sales force also the costs for advertising and marketing activities including samples for doctors. They also include all costs for logistics that occur for completed final products. Discounts in the form of free retail packages, so-called discounts in kind, – if possible under the legal regulations in a national market – are not included. The resulting expenses are recognized as a part of cost of sales.

In the reporting year, marketing expenses in the amount of € 196.8 million (previous year[1)]: € 167.5 million) corresponded to a share of 40% in selling expenses (previous year[1)]: 38%). In addition, selling expenses included depreciation in the amount of € 7.7 million (previous year: € 6.9 million).

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

14. General and administrative expenses

Personnel and material costs of service and administrative units are reported under general and administrative expenses, unless they have been charged to other functional areas as internal services.

In 2013, the general and administrative expenses included depreciation in the amount of € 10.6 million (previous year: € 9.8 million).

General and administrative expenses increased in the reporting year by a total of € 2.1 million.

15. Research and development expenses

For information on the composition of research and development expenses, please refer to the details included in Accounting Policies.

In financial year 2013, research and development expenses increased by € 3.5 million compared to the previous year.

The research and development expenses include depreciation in the amount of € 2.6 million (previous year: € 2.9 million). Development costs for new products in the amount of € 18.8 million (previous year: € 14.5 million) were capitalized in financial year 2013 (see the note on the item “Intangible assets”).

16. Other income

Other income is divided into the following items:

in € 000s	2013	2012
Income in connection with business combinations	36,831	-
Income from write-ups	546	5,449
Income from disposal of non-current assets	-	191
Currency translation gains	-	1,505
Remaining other income	16,267	23,107
Total	53,644	30,252

The income in connection with business combinations relate to the following in financial year 2013: In the context of the control achieved over the Vietnamese pharmaceutical companies Pymepharco and STADA Vietnam and the related purchase price allocations, proceeds in the total amount of € 22.5 million resulted from the revaluation of the previously held shares. In opposition, in the context of the transitional accounting for these two companies, there was an expense from the dissolution of the respective currency translation reserve in the total amount of € 2.4 million, which is included under other expenses, with the result that the overall effect of the revaluation of Pymepharco and STADA Vietnam amounts to € 20.1 million. In connection with the acquisition of the British OTC supplier Thornton & Ross, furthermore, negative goodwill in the amount of € 14.4 million was recognized from the purchase price allocation for this business combination, which shall be recognized in profit or loss as of the acquisition date in accordance with IFRS 3.

Offsetting currency translation income and expenses resulted in a disclosure of expenses in financial year 2013, whereas net currency translation income was recorded in the previous year.

The remaining other income includes such items as income from insurance compensation, compensation claims and other income not directly associated with functional costs, which comprises many insignificant individual items in the Group companies.

17. Other expenses

Other expenses are broken down as follows:

in € 000s	2013	2012
Expenses from valuation allowances on accounts receivable	9,388	7,633
Losses on the disposal of non-current assets	521	-
Currency translation expenses	16,585	-
Impairment losses on non-current assets excluding goodwill	23,617	18,855
Impairment losses on goodwill	-	3,079
Remaining other expenses	22,702	18,673
Total	72,813	48,240

Expenses for valuation allowances on accounts receivable were recognized netted with the corresponding income from their reversal.

Other expenses include impairment losses in the amount of € 23.6 million (previous year: € 21.9 million), which exclusively relate to impairment losses on non-current assets excluding goodwill in the reporting year (previous year: € 3.1 million in impairment losses on goodwill, which related to Ciclum Farma, LDA, in financial year 2012). The impairment losses were considered by STADA as a special effect of financial year 2013.

The item also included net currency translation expenses in the amount of € 16.6 million in the reporting year. In the previous year, net currency translation income in the amount of € 1.5 million was incurred, which STADA reported under other income. Net currency translation expenses include expenses in the amount of € 2.4 million which result – in the context of the transitional accounting due to the control achieved over Pymepharco as well as STADA Vietnam and the deconsolidation of STADA Import/Export – from the reclassification through profit or loss of the currency translation effects, which were previously recognized directly in equity in the currency translation reserve.

Within remaining other expenses, personnel expenses are recognized in the amount of € 9.4 million (previous year: € 3.2 million).

18. Expenses in connection with the "STADA – build the future" project

Expenses in connection with the "STADA – build the future" project, which have been reported as special effects and recorded in the consolidated income statement since financial year 2010, amounted to € 9.1 million in financial year 2013 (previous year: € 31.0 million) and primarily include burdens from external consulting services, related follow-up projects as well as unscheduled personnel expenses in the framework of this project.

In the previous year, the expenses primarily related to the disposal of the Irish production facility STADA Production Ireland Limited, the sale of the two Russian production facilities, OOO Makiz Pharma and OOO Skopin Pharmaceutical Plant, and of the engineering companies that were not part of the Group's core business as well as from external consulting services.

This item also included expenses in the total amount of € 0.7 million in the previous year resulting from the reclassification through profit or loss of the currency translation effects associated with the Russian subsidiaries disposed of in financial year 2012, OOO Makiz Pharma and OOO Skopin Pharmaceutical Plant, as well as the engineering companies and HF Pharmasuisse AG deconsolidated in financial year 2012; the translation effects were previously recognized directly in equity in the currency translation reserve. This item does not include such expenses in financial year 2013.

19. Financial result

The **result from associated companies** in financial year 2013 relates to the companies BIOCEUTICALS Arzneimittel AG, Pharm Ortho Pedic SAS and AELIA SAS, which are accounted for using the equity method. In the previous year, this still affected the Vietnamese company Pymepharco Joint Stock Company, which has been consolidated as a subsidiary since 2013.

Investment income primarily relates to profit distributions from companies not included in the consolidated financial statements.

Financial income and financial expenses are composed of the interest result and other financial income and other financial expenses.

The interest result developed as follows:

in € 000s	2013	2012[1)]
Interest income	3,464	2,947
Interest expenses	70,079	72,435
Interest result	**-66,615**	**-69,488**
thereof: from financial instruments of the valuation categories in accordance with IAS 39:		
• Loans and receivables	3,464	2,947
• Financial assets at fair value through profit and loss	-	-
• Held-to-maturity investments	-	-
• Available-for-sale financial assets	-	-
• Financial liabilities measured at amortized cost	-68,064	-70,642

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

In addition, the interest result in financial year 2013 includes an interest expense from other non-current provisions, which comprises interest income on plan assets as well as interest expenses from pension obligations and other non-current provisions, in the amount of € 2.0 million (previous year[1]: € 1.8 million).

In financial year 2013, the Group refinanced itself at interest rates of between 0.8% p.a. and 13.8% p.a. (previous year: between 0.5% p.a. and 19.7% p.a.). On the balance sheet date of December 31, 2013, the weighted average interest rate for non-current financial liabilities was approx. 3.5% p.a. (previous year: approx. 4.2% p.a.) and for current financial liabilities approx. 2.1% p.a. (previous year: approx. 4.8% p.a.). For all of the Group's financial liabilities the weighted average interest amounted to approx. 3.3% p.a. (previous year: approx. 4.3% p.a.).

Interest payments partially resulting from interest rate swaps designated by STADA as hedging instruments in cash flow hedges are not netted for each swap contract and are recognized as interest income or interest expense in the valuation category of the associated underlying hedged item. For the reporting period, this exclusively concerns financial liabilities which are valued at amortized costs.

Borrowing costs capitalized as part of the cost of qualifying assets amounted to € 0.5 million in financial year 2013 (previous year: € 0.4 million). A capitalization rate of 3.6% for intangible assets (previous year: 3.9%) and 5.1% in the previous year for property, plant and equipment was taken as a basis.

Other financial income and other financial expenses consist of the following:

in € 000s	2013	2012
Other financial income	**3,381**	**988**
thereof:		
• from the measurement of financial instruments	3,381	988
Other financial expenses	**-**	**1,766**
thereof:		
• from the measurement of financial instruments	-	1,736
• from the disposal of financial instruments	-	30

The result from the measurement of financial instruments in the reporting period resulted from interest rate swaps and interest rate / currency swaps measured at fair value through profit or loss. There was a net relief on earnings in the amount of € 3.4 million before or € 2.5 million after taxes. In the previous year, there was a net burden on earnings from the measurement of derivative financial instruments in the amount of € 0.7 million before or € 0.5 million after taxes. The measurement of interest rate hedge transactions thereby depends on the development of the money market interest rate.

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

20. Income Taxes

Actual income taxes in the income statement relate to taxes in Germany and abroad as follows:

in € 000s	2013	2012[1)]
Actual taxation	**66,516**	**53,554**
Germany	314	-4,558
Outside Germany	66,202	58,112
Deferred taxes	**99**	**-4,945**
Germany	-1,984	1,051
Outside Germany	2,083	-5,996

The item income taxes includes taxes on income and earnings paid or owed in the individual countries as well as deferred taxes. Other taxes that cannot be meaningfully attributed to the sales, administration or research and development functions are included in Other expenses.

Actual income taxes can be divided according to timing as follows:

in € 000s	2013	2012
Actual income taxes	**66,516**	**53,554**
Tax expense in the current period	71,389	54,236
Tax expense from previous periods	407	1,204
Tax income from previous periods	5,280	1,886

The deferred taxes are as follows:

in € 000s	2013	2012[1)]
Deferred taxes	**99**	**-4,945**
from temporary differences	9,930	-3,739
from interest carryforwards	-	-
from loss carryforwards	-9,831	-1,182
from tax credits	-	-
from others	-	-24

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

The income tax rate amounted to 35.2% for financial year 2013. For Germany, this includes corporation tax with a tax rate of 15.0% and the solidarity surcharge in the amount of 5.5% on the corporation tax as well as trade income tax with an average assessment rate of 320%. The income tax rate in the previous year was 35.8%[1)].

The following overview explains how the income tax expense reported in the income statement was calculated from the expected income tax expense. The expected income tax expense is calculated by applying the weighted expected Group average tax rate on the earnings before taxes and takes into account for all domestic and foreign companies the respective tax rates depending on their applicable national and legal forms.

in € 000s	2013	2012[1)]
Earnings before taxes	**189,426**	**135,597**
Weighted expected Group average tax rate (in %)	25.2%	19.4%
Expected income tax expense	**47,703**	**26,293**
Adjustments to the expected income tax expense	**-**	**-**
Tax effects from non-deductible impairment on investments and goodwill	1,872	755
Tax effects from loss carryforwards	-1,119	-606
Tax effects from previous years	-4,873	-682
Effects from tax rate changes	-1,135	5,613
Tax effects from non-deductible expenses and tax-free earnings	22,020	18,952
Other tax effects	2,147	-1,716
Income tax expense shown on the income statement	**66,615**	**48,609**
Effective tax rate (in %)	35.2%	35.8%

The non-tax deductible expenses primarily result from the limited deductibility of operating expenses for interest under German tax law (so-called interest barrier).

The actual income taxes and deferred taxes recognized in the balance sheet were as follows:

in € 000s	Dec. 31, 2013	Dec. 31, 2012
Income tax receivables	24,836	31,209
Income tax liabilities	30,569	25,759

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

in € 000s	Dec. 31, 2013	Dec. 31, 2012[1)]
Deferred tax assets	50,618	46,086
Deferred tax liabilities	150,440	82,764
Deferred taxes as of December 31	-99,822	-36,678
Difference compared to previous year	-63,144	-1,315
thereof:		
• recognized in income	-99	4,945
• recognized directly in equity	-940	3,787
• acquisitions / disposals	-62,666	-11,365
• currency translation differences	561	1,318

Deferred taxes result from the following balance sheet items and loss carryforwards:

in € 000s	Dec. 31, 2013 Deferred tax assets	Dec. 31, 2012[1)] Deferred tax assets	Dec. 31, 2013 Deferred tax liabilities	Dec. 31, 2012[1)] Deferred tax liabilities
Intangible assets	1,976	1,696	137,599	79,762
Property, plant and equipment	1,625	2,655	8,816	5,377
Financial assets	1,545	989	0	472
Inventories	14,437	20,338	3,645	4,040
Receivables	6,210	2,728	748	63
Other assets	4,668	4,203	2,574	764
Other non-current provisions	8,659	10,169	98	221
Other provisions	2,006	3,732	107	174
Liabilities	5,206	5,332	5,424	735
Loss carryforwards	12,857	3,088	-	-
Total	**59,189**	**54,930**	**159,011**	**91,608**
Offsetting	-8,571	-8,844	-8,571	-8,844
Deferred taxes as per balance sheet	**50,618**	**46,086**	**150,440**	**82,764**

Deferred tax liabilities reported by STADA result, among other things, from deferred taxes in the context of purchase price allocations carried out under IFRS 3. Deferred tax liabilities increased as compared to the previous year primarily as a result of the acquisition of the British OTC supplier Thornton & Ross as well as the control achieved over the Vietnamese companies Pymepharco and STADA Vietnam.

Tax advantages that are highly probable and expected from the future utilization of tax loss carryforwards are recognized under “Deferred taxes from loss carryforwards”.

1) The previous year’s figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

Tax loss carryforwards are only capitalized if their future utilization is highly probable. Tax loss carryforwards capitalized as of the December 31, 2013 reporting date amounted to € 54.0 million in financial year 2013 (previous year: € 11.5 million).

The deduction of operating expenses for interest, which is limited under German tax law (so-called interest barrier), led to an net interest expense not deductible for tax purposes in the amount of € 25.2 million in 2013 (previous year: € 30.7 million). Deferred taxes could not be recognized, which led to a corresponding additional tax burden of € 6.1 million (previous year: € 7.4 million).

The income taxes paid or owed were reduced by a total of € 0.1 million (previous year: € 0.1 million) through the utilization of previously unrecognized tax loss carryforwards from previous years for which no deferred taxes have been recognized.

The future usable tax loss carryforwards are listed in the following chart according to their expiry date:

in € 000s	Dec. 31, 2013	Dec. 31, 2012
Loss carryforward expiry date within		
• 1 year	465	-
• 2 years	532	-
• 3 years	635	-
• 4 years	-	58
• 5 years	-	-
• more than 5 years	5,352	3,025
• unlimited carryforward	46,996	8,461

No deferred taxes were recognized for the following loss carryforwards and temporary differences as it is not probable that they will be realized in the foreseeable future:

in € 000s	Dec. 31, 2013	Dec. 31, 2012
Loss carryforward expiry date within		
• 1 year	243	-
• 2 years	278	-
• 3 years	332	109
• 4 years	-	-
• 5 years	-	-
• more than 5 years	-	-
• unlimited carryforward	780	5,430
Temporary differences	814	42

21. Income distributable to non-controlling interests

in € 000s	Dec. 31, 2013	Dec. 31, 2012[1)]
Earnings after taxes	122,811	86,988
• thereof distributable to shareholders of STADA Arzneimittel AG (net income)	121,426	86,472
• thereof distributable to non-controlling interests	1,385	516

Shares of non-controlling interests are held in the subsidiaries STADA Thailand, STADA Import/Export International, STADA Vietnam J.V., Pymepharco, Hemomont and Hemofarm Banja Luka. Net income relating to non-controlling interests thus concerns the shares of net income attributable to these minority interests.

22. Earnings per share

The basic and diluted earnings per share are as follows:

Basic earnings per share	2013	2012[1)]
Net income (in € 000s)	121,426	86,472
Adjustment	-	-
Adjusted net income (basic) (in € 000s)	**121,426**	**86,472**
Average number of registered shares with restricted transferability issued (in unit shares)	59,664,983	59,154,470
Average number of treasury shares (in unit shares)	93,024	95,077
Adjusted average number of shares (basic) (in unit shares)	**59,571,959**	**59,059,393**
Basic earnings per share (in €)	**2.04**	**1.46**

Basic earnings per share are calculated by dividing the adjusted net income distributable to the shareholders of STADA Arzneimittel AG by the time-weighted average number of registered shares with restricted transferability outstanding.

Diluted earnings per share	2013	2012[1)]
Adjusted net income (basic) (in € 000s)	121,426	86,472
Dilutive effects on profit from share options (after taxes) (in € 000s)	-	-
Adjusted net income (diluted) in € 000s	**121,426**	**86,472**
Adjusted average number of shares (in unit shares)	59,571,959	59,059,393
Potentially diluting shares from share options (in unit shares)	998,668	885,963
Average number of shares (diluted) (in unit shares)	**60,570,627**	**59,945,356**
Diluted earnings per share (in €)	**2.00**	**1.44**

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

Diluted earnings per share are generally calculated with the formula used to calculate the basic earnings per share. They are also adjusted for the effect of outstanding share options on the basis of the average share price of the financial year. This is carried out based on the assumption that all potentially dilutive share options are exercised. Details on currently valid equity instruments are included in the notes on equity.

23. Number of employees and personnel expenses

The average number of employees at STADA by functional area and functional sub-area is as follows:

	2013	2012[1)]
Marketing / Sales	2,771	2,247
Logistics	359	294
Finance / IT	645	618
Production / Quality management	3,560	2,944
Procurement / Supply chain	302	260
Product development	538	528
Administration[2)]	979	923
Entire Group	**9,154**	**7,814**
Personnel expenses (in € million)	**321.2**	**291.6**

The average number of employees was higher than in the previous year with 9,154 in the reporting year (previous year: 7,814), primarily a result of business combinations in financial year 2013. On the balance sheet date, the STADA Group's number of employees in 2013 totaled 9,825 (previous year: 7,761).

Personnel expenses, which are included in expenses of the individual functional areas according to their functional relevance, increased in financial year 2013 to € 321.2 million (previous year[1)]: € 291.6 million).

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).
2) Including facility management.

24. Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses are included in expenses of the individual functional areas according to their functional relevance and can be attributed to intangible assets, property, plant and equipment as follows:

in € 000s	2013	2012
Depreciation / amortization	**107,762**	**97,402**
Intangible assets	78,137	69,014
Property, plant and equipment	29,625	28,388
Impairment losses	**23,617**	**25,927**
Intangible assets	22,626	19,819
thereof:		
• goodwill	-	3,079
Property, plant and equipment	71	4,917
thereof:		
• land and buildings	-	4,917
• other fixtures and equipment	71	-
Financial assets	920	1,191
thereof:		
• investments	920	1,191

The impairment of intangible assets concerns various drug approvals and trademarks.

The reported impairments on goodwill in the previous year relate exclusively to the Portuguese subsidiary Ciclum Farma, LDA.

The impairments of financial assets in the reporting year primarily relate to the carrying amounts of IIP Institut für Industrielle Pharmazie Forschungs- und Entwicklungsgesellschaft mbH and STADA Pharmaceuticals Australia Pty Ltd. Impairments in the previous year primarily relate to the carrying amount of the Swedish subsidiary STADApharm AB.

Depreciation and amortization increased by 10.6% compared to the previous year. More information on amortization, depreciation and impairment losses is included in the Notes on non-current assets.

Notes to the Consolidated Balance Sheet

25. Intangible assets

Intangible assets developed as follows in financial year 2013:

2013 in € 000s	Regulatory drug approvals, trademarks, software, licenses and similar rights	Goodwill	Payments made and capitalized development costs for current projects	Total
Cost as of Jan. 1, 2013	**1,309,345**	**468,926**	**160,322**	**1,938,593**
Currency translation	-24,085	-16,828	-1,638	-42,551
Changes in the scope of consolidation	-	-	-	-
Additions	21,191	-	29,207	50,398
Additions from business combinations according to IFRS 3	287,360	18,672	6,535	312,567
Disposals	6,738	-	1,625	8,363
Transfers	32,909	-	-32,592	317
Cost as of Dec. 31, 2013	**1,619,982**	**470,770**	**160,209**	**2,250,961**
Accumulated amortization as of Jan. 1, 2013	**459,165**	**13,153**	**49,192**	**521,510**
Currency translation	-7,186	-377	-405	-7,968
Changes in the scope of consolidation	-	-	-	-
Amortization	78,137	-	-	78,137
Impairments	13,425	-	9,201	22,626
Disposals	4,406	-	15	4,421
Write-ups	546	-	-	546
Transfers	650	-	-650	-
Accumulated amortization as of Dec. 31, 2013	**539,239**	**12,776**	**57,323**	**609,338**
Residual carrying amounts as of Dec. 31, 2013	**1,080,743**	**457,994**	**102,886**	**1,641,623**
Residual carrying amounts as of Dec. 31, 2012	**850,180**	**455,773**	**111,130**	**1,417,083**

Additions from business combinations according to IFRS 3, which relate to the fair values determined in the context of the purchase price allocations, result from the control achieved over the Vietnamese pharmaceutical company Pymepharco (€ 29.1 million), as well as to the acquisition of the British OTC manufacturer Thornton & Ross (€ 239.2 million), the control achieved over the Vietnamese subsidiary STADA Vietnam (€ 24.8 million), and the acquisition of the pharmaceutical wholesaling and commercial business of Spirig Pharma (€ 0.8 million).

Included in intangible assets are software and software licenses in the amount of € 2.6 million (previous year: € 5.4 million), which were recognized with the present value of the minimum lease payments in accordance with IAS 17 in the context of a sale-and-leaseback transactions, and which have since been amortized. There is a purchase option at residual value for these assets at the end of the term of the lease contract.

The umbrella brand Hemofarm capitalized in 2006 in the context of the acquisition of the Hemofarm group is included in recognized trademarks as an intangible asset with an indefinite useful life, as STADA intends to make continuing use of it. As at Dec. 31, 2013, it has a carrying amount of € 50.2 million (previous year: € 51.4 million). The change compared to the previous year figure is a result of different exchange rates. In the context of the impairment test of December 31, 2013, a royalty rate of 2% and a discount rate of 14.7% was used. No necessity for impairment was found for the reporting year.

In the context of the control achieved over Pymepharco in the financial year, furthermore, the umbrella brand Pymepharco with a carrying amount of € 8.4 million was capitalized as an intangible asset with an indefinite useful life as a trademark, as STADA intends to continue the utilization of the trademark. As at Dec. 31, 2013, it has a carrying amount of € 8.0 million. The change is a result of different exchange rates. In the context of the impairment test of December 31, 2013, a royalty rate of 2% and a discount rate of 19.1% was used. No necessity for impairment was found for the reporting year.

Borrowing costs capitalized in 2013 for intangible assets and directly attributable to the acquisition or the production of a qualifying asset amounted to € 0.5 million (previous year: € 0.3 million). In financial year 2013, the capitalization rate taken as a basis for determining borrowing costs eligible for capitalization was 3.6% (previous year: 3.9 %).

Development costs of € 20.7 million were capitalized in the reporting year (previous year: € 17.3 million). Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs and external services, together with directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life, generally 20 years. STADA immediately recognizes development costs that do not qualify for capitalization as expense in the period in which they are incurred (see Note 15.). In financial year 2013, these development costs amounted to € 55.7 million (previous year: € 52.2 million).

Amortization on intangible assets mainly relates to regulatory drug approvals as well as trademarks and is recognized in the income statement primarily under cost of sales. In the reporting year, this related to an amount of € 78.1 million (previous year: € 69.0 million).

In financial year 2013, impairments on intangible assets were recognized in the total amount of € 22.6 million (previous year: € 19.8 million).

Details on changes in the scope of consolidation can be found in the note on the scope of consolidation (see Note 5.).

Intangible assets developed as follows in the previous year:

2012 in € 000s	Regulatory drug approvals, trademarks, software, licenses and similar rights	Goodwill	Payments made and capitalized development costs for current projects	Total
Cost as of Jan. 1, 2012	**956,030**	**329,049**	**305,109**	**1,590,188**
Currency translation	-5,220	-2,210	122	-7,308
Changes in the scope of consolidation	-371	-	-	-371
Additions	14,132	-	100,291	114,423
Additions from business combinations according to IFRS 3	78,778	142,087	31,809	252,674
Disposals	10,100	-	913	11,013
Transfers	276,096	-	-276,096	-
Cost as of Dec. 31, 2012	**1,309,345**	**468,926**	**160,322**	**1,938,593**
Accumulated amortization as of Jan. 1, 2012	**388,129**	**9,871**	**45,007**	**443,007**
Currency translation	-734	203	20	-511
Changes in the scope of consolidation	-159	-	-	-159
Amortization	69,014	-	-	69,014
Impairments	11,188	3,079	5,552	19,819
Disposals	4,803	-	52	4,855
Write-ups	4,189	-	616	4,805
Transfers	719	-	-719	-
Accumulated amortization as of Dec. 31, 2012	**459,165**	**13,153**	**49,192**	**521,510**
Residual carrying amounts as of Dec. 31, 2012	**850,180**	**455,773**	**111,130**	**1,417,083**
Residual carrying amounts as of Dec. 31, 2011	**567,901**	**319,178**	**260,102**	**1,147,181**

The following amortization expense is expected for the intangible assets in the next five years:

in € 000s	Expected amortization
2014	88,571
2015	85,877
2016	84,957
2017	85,885
2018	84,552

The subsequent chart shows which cash-generating units the capitalized goodwill can be attributed to:

in € million	Residual carrying amount Generics segment Dec. 31, 2013	Residual carrying amount Branded Products segment Dec. 31, 2013	Residual carrying amount Commercial Business segment Dec. 31, 2013	Residual carrying amount total Dec. 31, 2013
Market region Germany	12.4	15.6	-	28.0
Market region Central Europe	125.7	96.6	0.0	222.3
Market region CIS / Eastern Europe	100.7	91.6	-	192.3
Market region Asia & Pacific	9.6	5.1	0.7	15.4
Total	248.4	208.9	0.7	458.0

In the previous year, the capitalized goodwill for cash-generating units was as follows:

in € million	Residual carrying amount Generics segment Dec. 31, 2012	Residual carrying amount Branded Products segment Dec. 31, 2012	Residual carrying amount Commercial Business segment Dec. 31, 2012	Residual carrying amount total Dec. 31, 2012
Market region Germany	12.4	7.1	-	19.5
Market region Central Europe	123.1	104.8	0.0	227.9
Market region CIS / Eastern Europe	105.9	101.0	-	206.9
Market region Asia & Pacific	0.7	-	0.8	1.5
Total	242.1	212.9	0.8	455.8

For the purposes of impairment tests for capitalized goodwill, STADA defines cash-generating units as the respective market regions within the operating segments in accordance with the strategic planning and control of the Group.

In comparison with the previous year, there were the following significant changes in the carrying amounts of goodwill:

- The increase in goodwill of the cash-generating unit market region Germany, Branded Products segment, resulted from reclassified allocation of goodwill from the cash-generating unit market region Central Europe, Branded Products segment, as a result of a change in management responsibility due to strategic reallocation.

- The increase in goodwill of the cash-generating unit market region Asia & Pacific, Generics segment and Branded Products segment, resulted from the control achieved over the Vietnamese pharmaceutical company Pymepharco as well as the Vietnamese pharmaceutical company STADA Vietnam.

In the context of the impairment test for capitalized goodwill, the discounted cash flow method is used to determine anticipated cash inflows, applying the following parameters defined for the individual cash-generating units according to segment:

Each relating to segments, defined as cash-generating units:	Growth rates of forward-projection phase 2013 in %	WACCs 2013 Generics segment in %	WACCs 2013 Branded products segment in %	WACCs 2013 Commercial Business segment in %
Market region Germany	1.9%	8.9%	9.4%	-
Market region Central Europe	1.9%	11.2%	11.0%	-
Market region CIS/Eastern Europe	5.2%	15.5%	15.1%	-
Market region Asia & Pacific	6.2%	22.1%	22.0%	23.4%

In the previous year, the applied parameters were as follows:

Each relating to segments, defined as cash-generating units:	Growth rates of forward-projection phase 2012 in %	WACCs 2012 Generics segment in %	WACCs 2012 Branded products segment in %
Market region Germany	2.1%	8.6%	8.6%
Market region Central Europe	2.0%	9.9%	9.8%
Market region CIS/Eastern Europe	5.8%	15.3%	15.1%
Market region Asia & Pacific	4.8%	19.5%	19.5%

The discounted cash flow method is used to determine the value in use of the cash-generating units, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. This detailed planning period reflects the assumptions for short and mid-term market developments. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of the expected long-term inflation rate is assumed. The detailed planning period for the determination of the value in use is based on assumptions in light of past experience supplemented by current internal developments and verified through external market data and analyses. The most important assumptions include the development of future sales prices, amounts and costs, the influence of the regulatory market environment, investments, market shares, exchange rates and growth rates. Significant changes to the above-described assumptions would influence the determination of the value in use of the cash-generating units. Possible changes to these assumptions would negatively influence the cash-generating units as a result of continued strong competition and regulatory interventions. The discount rates applied are determined on the basis of external factors derived from the market and adjusted for the respective predominant risks of the cash-generating units.

Changes in the calculation parameters used for the impairment tests may influence the fair values of cash-generating units. The following table shows what impairments would have come as a result of a 1.0 percentage point higher discount rate, a decrease in the growth rate of 0.5 percentage points and a decrease in EBIT of 10.0 percentage points:

Generics segment sensitivity analysis Effects on impairment in € million	WACC +1.0 percentage points	Growth rates -0.5 percentage points	EBIT -10.0 percentage points
Market region Germany	-	-	-
Market region Central Europe	-	-	-
Market region CIS/Eastern Europe	-	-	-
Market region Asia & Pacific	6.4	2.1	8.7

For the Branded Products and Commercial Business segments, there would have been no impairment in any market region as a result of the sensitivity analysis. Even with a reduction in discount rates of 1.0 percentage points, an increase in the growth rate of 0.5 percentage points and an increase in EBIT of 10.0 percentage points, there would have been no impairment.

26. Property, plant, and equipment

Property, plant and equipment developed as follows in financial year 2013:

2013 in € 000s	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other fixtures and fittings, tools and equipment	Advance payment and construction in progress	Total
Cost as of Jan. 1, 2013	**233,658**	**175,441**	**93,954**	**13,915**	**516,968**
Currency translation	-5,382	-6,416	-2,795	-1,062	-15,655
Changes in the scope of consolidation	-	-	-	-	-
Additions	4,043	5,774	6,586	27,013	43,416
Additions from business combinations according to IFRS 3	22,706	23,578	6,807	912	54,003
Disposals	2,350	6,309	4,553	232	13,444
Reclassification to non-current assets held for sale and disposal groups	-	-	-	-	-
Transfers	8,009	7,543	5,511	-21,380	-317
Cost as of Dec. 31, 2013	**260,684**	**199,611**	**105,510**	**19,166**	**584,971**
Accumulated depreciation as of Jan. 1, 2013	**74,239**	**110,977**	**57,930**	**-**	**243,146**
Currency translation	-1,427	-3,838	-1,312	-	-6,577
Changes in the scope of consolidation	-	-	-	-	-
Depreciation	6,848	13,322	9,455	-	29,625
Impairments	8,851	-	71	-	8,922
Disposals	555	4,478	3,540	-	8,573
Write-ups	-	-	-	-	-
Reclassification to non-current assets held for sale and disposal groups	-	-	-	-	-
Transfers	151	-151	-	-	-
Accumulated depreciation as of Dec. 31, 2013	**88,107**	**115,832**	**62,604**	**-**	**266,543**
Residual carrying amounts as of Dec. 31, 2013	**172,577**	**83,779**	**42,906**	**19,166**	**318,428**
Residual carrying amounts as of Dec. 31, 2012	**159,419**	**64,464**	**36,024**	**13,915**	**273,822**

Property, plant and equipment included assets from finance leases, primarily relating to cars and vehicles, in the amount of € 5.8 million (previous year: € 5.5 million), which, in accordance with IAS 17, were recognized at the present value of minimum lease payments and have since then been subjected to depreciation.

No borrowing costs were capitalized in full year 2013 for property, plant and equipment (previous year: € 0.02 million). The capitalization rate taken as a basis for determining borrowing costs eligible for capitalization amounted to 5.1% in the previous year.

Property, plant and equipment developed as follows in the previous year:

2012 in € 000s	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other fixtures and fittings, tools and equipment	Advance payment and construction in progress	Total
Cost as of Jan. 1, 2012	**248,767**	**176,185**	**89,421**	**13,677**	**528,050**
Currency translation	-3,323	-1,674	-727	414	-5,310
Changes in the scope of consolidation	-234	-146	-273	-49	-702
Additions	743	3,442	8,459	17,608	30,252
Additions from business combinations according to IFRS 3	-	-	-	-	-
Disposals	18,092	8,705	6,329	314	33,440
Reclassification to non-current assets held for sale and disposal groups	-203	-	-	-1,679	-1,882
Transfers	6,000	6,339	3,403	-15,742	-
Cost as of Dec. 31, 2012	**233,658**	**175,441**	**93,954**	**13,915**	**516,968**
Accumulated depreciation as of Jan. 1, 2012	**68,004**	**105,733**	**54,833**	**-**	**228,570**
Currency translation	-1,237	-1,113	-812	-	-3,162
Changes in the scope of consolidation	-4	-110	-340	-	-454
Depreciation	7,103	12,355	8,930	-	28,388
Impairments	4,917	-	-	-	4,917
Disposals	4,505	5,648	4,660	-	14,813
Write-ups	244	-	-	-	244
Reclassification to non-current assets held for sale and disposal groups	-56	-	-	-	-56
Transfers	261	-240	-21	-	-
Accumulated depreciation as of Dec. 31, 2012	**74,239**	**110,977**	**57,930**	**-**	**243,146**
Residual carrying amounts as of Dec. 31, 2012	**159,419**	**64,464**	**36,024**	**13,915**	**273,822**
Residual carrying amounts as of Dec. 31, 2011	**180,763**	**70,452**	**34,588**	**13,677**	**299,480**

27. Financial assets

Financial assets developed as follows in financial year 2013:

2013 in € 000s	Shares in associated companies and other investments	Other financial assets	Total
Cost as of Jan. 1, 2013	**27,446**	**3,063**	**30,509**
Currency translation	-323	-131	-454
Changes in the scope of consolidation	215	-	215
Additions	709	-	709
Disposals	1,091	-	1,091
Reclassification from non-current assets held for sale and disposal groups	-	-	-
Transfers	-	-2,918	-2,918
Cost as of Dec. 31, 2013	**26,956**	**14**	**26,970**
Accumulated impairments as of Jan. 1, 2013	**18,043**	**3**	**18,046**
Currency translation	-311	-	-311
Changes in the scope of consolidation	-	-	-
Impairments	920	-	920
Disposals	676	-	676
Write-ups	-	-	-
Reclassification from non-current assets held for sale and disposal groups	-	-	-
Transfers	-	-	-
Accumulated impairments as of Dec. 31, 2013	**17,976**	**3**	**17,979**
Residual carrying amounts as of Dec. 31, 2013	**8,980**	**11**	**8,991**
Residual carrying amounts as of Dec. 31, 2012	**9,403**	**3,060**	**12,463**

Financial assets are primarily the carrying amounts of those shares in non-consolidated investments which are entirely measured at amortized cost for lack of available market prices. There is currently no intention to sell these financial assets. Held-to-maturity financial investments are included under other financial assets.

Financial assets developed as follows in the previous year:

2012 in € 000s	Shares in associated companies and other investments	Other financial assets	Total
Cost as of Jan. 1, 2012	**29,121**	**14**	**29,135**
Currency translation	-781	-	-781
Changes in the scope of consolidation	-230	-	-230
Additions	455	3,049	3,504
Disposals	1,119	-	1,119
Reclassification from non-current assets held for sale and disposal groups	-	-	-
Transfers	-	-	-
Cost as of Dec. 31, 2012	**27,446**	**3,063**	**30,509**
Accumulated impairments as of Jan. 1, 2012	**19,050**	**3**	**19,053**
Currency translation	-764	-	-764
Changes in the scope of consolidation	-26	-	-26
Impairments	1,191	-	1,191
Disposals	1,008	-	1,008
Write-ups	400	-	400
Reclassification from non-current assets held for sale and disposal groups	-	-	-
Transfers	-	-	-
Accumulated impairments as of Dec. 31, 2012	**18,043**	**3**	**18,046**
Residual carrying amounts as of Dec. 31, 2012	**9,403**	**3,060**	**12,463**
Residual carrying amounts as of Dec. 31, 2011	**10,071**	**11**	**10,082**

28. Investments in associates

The disclosure relates to the accounting of shares in the associated companies BIOCEUTICALS Arzneimittel AG, as well as Pharm Ortho Pedic SAS and AELIA SAS, using the equity method. The shares in associated companies developed as follows in financial year 2013 compared with the previous year:

in € 000s	2013	2012
As of January 1	34,885	34,003
Increase in investment share	-	114
Reclassifications due to the changed status of Pymepharco	-26,682	-
Income from associates	771	1,448
Elimination of dividend income	-	-450
Currency translation differences	-	-230
As of December 31	8,974	34,885

In financial year 2013, investments in associates decreased primarily due to the control achieved as of January 1, 2013 of the subsidiary Pymepharco, which was previously included in the consolidated financial statements as an associated company and has been consolidated as a subsidiary as of 2013.

29. Trade accounts receivable

Trade accounts receivable are composed as follows:

in € 000s	Dec. 31, 2013	Dec. 31, 2012
Trade accounts receivable from third parties	717,551	615,360
Trade accounts receivable from non-consolidated companies	134	1,867
Valuation allowances vis-à-vis third parties	-126,007	-125,084
Total	591,678	492,143

As of December 31, 2013, there are no trade accounts receivable due after one year (previous year: € 0.6 million).

Collateral exists for a portion of trade accounts receivable whose value was not impaired in the form of mortgages, bank or corporate guarantees, assignments of receivables as well as pledged inventories. Furthermore, there is commercial credit insurance for certain markets and customers.

The following non-impaired trade accounts receivable were past due at the balance sheet date:

in € 000s	Carrying amount	thereof: neither impaired nor past due as at the balance sheet date	thereof: not impaired as at the balance sheet date and past due in the following time periods:			
			up to 30 days	between 31 and 90 days	between 91 and 180 days	more than 180 days
Dec. 31, 2013	591,678	508,035	36,564	22,590	8,836	15,653
Dec. 31, 2012	492,143	444,633	17,221	8,328	7,881	14,080

There were no recognizable indications as of the balance sheet date that the debtors would not meet their payment obligations. Therefore, the trade accounts receivable neither impaired nor past due are considered to be unconditionally recoverable. There are also no indications of impairment for the overdue receivables that have not been impaired.

Overall, valuation allowances on trade accounts receivable developed as follows:

in € 000s	Dec. 31, 2013	Dec. 31, 2012
As of January 1	125,084	128,555
Added	8,115	10,554
Utilized	2,971	5,565
Reversed	1,585	2,887
Changes in the scope of consolidation	263	-27
Currency translation differences	-2,899	-5,546
As of December 31	126,007	125,084

30. Other financial assets

Other financial assets are composed as follows:

in € 000s	Dec. 31, 2013		Dec. 31, 2012	
	Total	thereof: current	Total	thereof: current
Loan receivables	16,755	1,042	20,297	6,299
Outstanding purchase price receivables	4,025	3,347	3,425	1,700
Derivative financial assets	10,520	10,204	2,265	2,265
Available-for-sale financial assets	46	46	54	54
Other financial assets	46,535	35,457	26,256	25,819
Total	77,881	50,096	52,297	36,137

Loans primarily include loans granted by STADA Arzneimittel AG to BIOCEUTICALS Arzneimittel AG. As of the balance sheet date, € 15.6 million (previous year: € 13.8 million) of the available credit line facility had been used.

The outstanding purchase price receivables in financial year 2013 and the previous year primarilly relate to the still outstanding installments from the sale of a product portfolio in Italy.

The derivative financial assets include the positive market values of cross-currency swaps (see Note 47.7.). Available-for-sale financial assets are shares that are measured at fair value based on market prices.

The remaining financial assets include receivables from German factoring in the amount of € 5.4 million and also comprise many insignificant individual items in the Group companies.

As of December 31, 2013, other financial assets did not include any impairments. The impairment from the previous year in the amount of € 9.4 million no longer exists as the receivable concerned was derecognized in financial year 2013. There were no outstanding amounts for non-impaired other financial assets as in the previous year.

31. Other assets

Other assets are composed as follows:

	Dec. 31, 2013		Dec. 31, 2012	
in € 000s	Total	thereof: current	Total	thereof: current
Other receivables due from the tax authorities	15,910	15,910	19,776	19,776
Prepaid expenses / deferred charges	13,444	11,369	10,929	10,266
Assets from overfunded pension plans	665	-	-	-
Remaining assets	8,026	7,196	22,011	20,997
Total	**38,045**	**34,475**	**52,716**	**51,039**

Remaining assets comprise many insignificant individual items in the Group companies.

Remaining assets are impaired in the amount of € 6.2 million (previous year: € 4.3 million).

32. Inventories

Inventories can be subdivided as follows:

in € 000s	Dec. 31, 2013	Dec. 31, 2012
Materials and supplies	106,133	83,528
Work in progress	27,413	24,970
Finished goods	382,584	360,973
Advance payments	8,244	5,840
Total	524,374	475,311

The increase in inventories primarily results from inventories assumed in the context of business combinations in the sense of IFRS 3.

In financial year 2013, impairments netted with reversals were made on the net realizable value of inventories in the amount of € 29.9 million (previous year: € 31.1 million), which were already deducted from the amounts recognized above through profit and loss. In financial year 2013, reversals here amounted to € 7.7 million.

33. Non-current assets and disposal groups held for sale

In financial year 2013, assets held for sale in the amount of € 1.6 million (previous year: € 2.1 million) included real estate of a STADA subsidiary in Serbia. Thereof € 1.3 million (previous year: € 1.8 million) is allocated to the Generics operating segment and € 0.3 million to the Branded Products operating segment (previous year: € 0.2 million) as well as € 0.0 million to the Commercial Business operating segment (previous year: € 0.1 million).

34. Cash and cash equivalents

Cash and cash equivalents include cash on hand and call deposits as well as short-term and highly liquid financial investments with a maximum term of 90 days from the purchase date. In certain countries, specific transactions are subjected to special monitoring in the context of the requirements of the respective national bank or foreign exchange acts in force. Restrictions on disposal for cash and cash equivalents extending beyond this do not exist.

The increase in cash and cash equivalents from € 92.7 million as of Dec. 31, 2012 to € 126.2 million as of Dec. 31, 2013 is primarily due to balance sheet date effects. Further details on the development of cash and cash equivalents can be found in the consolidated cash flow statement.

35. Equity

Group equity amounted to € 1,010.1 million as of the balance sheet date (previous year[1)]: € 910.3 million). This corresponds to an equity-to-assets ratio of 29.6% (previous year[1)]: 30.5%).

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

35.1. Share capital

As of Dec. 31, 2013, share capital amounted to € 157,150,500.00 (Dec. 31, 2012: € 154,263,876.00) and was divided into 60,442,500 registered shares with restricted transferability (Dec. 31, 2012: 59,332,260), each with an arithmetical share of share capital of € 2.60 per share, and is fully paid.

Each registered share grants one vote in the Annual General Meeting.

The increase in the number of shares in 2013 was due to the exercise of 55,512 options from STADA warrants 2000/2015 in 2013. The number of shares as of Dec. 31, 2013 thereby increased by 1,110,240 to 60,442,500 and the share capital of STADA Arzneimittel AG increased by € 2,886,624.00 to € 157,150,500.00. As of Dec. 31, 2013, 97,386 warrants 2000/2015 for the subscription of 1,947,720 registered shares with restricted transferability continued to be outstanding.

As of Dec. 31, 2013, authorized share capital and conditional capital were comprised as follows:

	Amount in €	Registered shares with restricted transferability	Purpose
Authorized capital	77,134,304.00	29,667,040	Increase of share capital (until June 4, 2018)
Conditional capital 2004/I	5,064,072.00	1,947,720	Settlement of subscription rights from share options (STADA warrants 2000/2015)
Conditional capital 2013	69,188,340.00	26,610,900	Settlement of options and/or conversion rights (until June 4, 2018) in connection with issued bonds with warrants and/or convertible bonds, participation rights and/or participating bonds in the total nominal amount of up to € 1.0 billion, or in the scope of a guarantee assumed for bonds with warrants and/or convertible bonds, participation rights and/or participating bonds issued by subordinate Group companies

35.2. Capital reserve

Changes in the capital reserve of the Group are shown in the consolidated statement of changes in equity and include in particular the capital reserve of STADA Arzneimittel AG. Differences to the capital reserve determined according to the provisions of German commercial law primarily result from the recognition at their market value of the shares of STADA Arzneimittel AG newly issued in 2003 as well as the associated treatment of issuing costs, which were deducted from the capital reserve.

35.3. Retained earnings including net income

Retained earnings including net income contain net income for the financial year as well as earnings generated in previous periods, provided these were not distributed, as well as the amounts transferred to retained earnings. In addition, revaluations of net debt from defined benefit plans that were recognized directly in equity are reported under this item taking deferred taxes into account.

35.4. Other provisions

Other provisions comprise results recognized directly in equity. This relates, among other things, to foreign exchange gains and losses resulting from the currency translation with no effect on income of financial statements of companies included in the Group, which are recognized in the statement of changes in equity under the currency translation reserve. The provisions available for sale and the provisions for cash flow hedges include the results from the measurement at fair value of financial instruments categorized as available for sale, and the measurement results from cash flow hedges from the effective portion of the hedge, allowing for deferred taxes respectively.

The reduction of other provisions as compared to the previous year was predominately a result of the negative development of the Russian ruble to the euro, which reduced equity from the foreign currency translation reserve.

35.5. Treasury shares

As of the balance sheet date, the Company held 91,989 treasury shares (previous year: 93,676), each with an arithmetical par value of € 2.60 per share, which is equivalent to 0.15% (previous year: 0.16%) of the share capital. In financial year 2013, 1,687 treasury shares were thereby sold at an average price of € 34.43 per share.

35.6. Shares relating to non-controlling shareholders

Shares of non-controlling shareholders relate to minority interests of other shareholders in the subsidiaries STADA Thailand, STADA Import/Export International, STADA Vietnam, Pymepharco, Hemomont and Hemofarm Banja Luka.

36. Other non-current provisions

Other non-current provisions made by STADA as of the balance sheet date in Germany and outside Germany include pension provisions and other non-current provisions in the form of anniversary provisions as follows:

in € 000s	Dec. 31, 2013	Dec. 31, 2012[1)]
Germany	37,955	38,004
Outside Germany	13,523	12,482
Total	51,478	50,486

In Germany, STADA has plan assets in the form of a reinsurance policy, which is used to serve the pension entitlements of a small number of former employees. The pension entitlements of all other employees are covered in the scope of the pension provisions recognized. In addition, there are plan assets in a few foreign subsidiaries in the form of, among others, government bonds and securities funds.

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

In financial year 2013, the plan assets of an international subsidiary exceeded their pension obligations, with a result that these assets in excess were reported under other assets as assets from overfunded pension plans in the amount of € 0.7 million.

Plan assets were as follows divided according to investment type:

Share of plan assets in € 000s	2013
Cash and cash equivalents	358
Equity securities	8,827
Debt securities	8,539
Real estate	1,324
Derivatives	-
Shares in investment funds	13,483
Insurance policies	30,106
Other	1,094
Total	63,731

The plan assets, which have a quoted market price, consist of the following:

Share of plan assets (quoted market price) in € 000s	2013
Cash and cash equivalents	358
Equity securities	8,827
Debt securities	8,539
Real estate	1,021
Derivatives	-
Shares in investment funds	10,565
Insurance policies	-
Other	143
Total	29,453

For German Group companies, pension obligations developed as follows:

Projected benefit obligations for pension commitments in € 000s	2013	2012[1)]
As of January 1	**49,035**	**36,806**
Current service cost	969	991
Past service cost	-	-
Plan settlements	-	-
Interest cost	1,754	1,791
Benefits paid from plan assets	-98	-94
Benefits paid by employer	-472	-492
Revaluations:		
• Gains (-)/losses (+) due to changed demographic assumptions	-	-
• Gains (-)/losses (+) due to changed financial assumptions	-974	10,540
• Gains (-)/losses (+) due to experience-based changes	-420	-507
As of December 31	**49,794**	**49,035**

For international Group companies, pension obligations developed as follows:

Projected benefit obligations for pension commitments in € 000s	2013	2012[1)]
As of January 1	**39,745**	**27,127**
Current service cost	1,622	1,017
Past service cost	842	1,025
Interest cost	122	-20
Actuarial gains (-)/losses (+)	1,776	1,501
Benefits paid	-594	-919
Employee contributions	-685	-809
Plan amendments	429	364
Insurance premiums for death and disability benefits	-95	-127
Business combinations	20,396	6,233
Reclassifications	425	112
Revaluations:		
• Gains (-)/losses (+) due to changed demographic assumptions	4	4
• Gains (-)/losses (+) due to changed financial assumptions	-2,961	4,885
• Gains (-)/losses (+) due to experience-based changes	463	-925
Currency changes	61	-100
Other	-155	377
As of December 31	**61,395**	**39,745**

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

The fair value of plan assets underlying the pension obligations developed as follows for German group companies:

Fair value of plan assets in € 000s	2013	2012[1)]
As of January 1	11,051	9,638
Interest income	396	480
Employer contributions	604	979
Employee contributions	-	-
Pension payments	-98	-94
Actuarial gains (+) / losses (-) on plan assets (not included in interest result)	58	48
Other	-	-
As of December 31	12,011	11,051

The fair value of plan assets underlying the pension obligations developed as follows for international Group companies:

Fair value of plan assets in € 000s	2013	2012[1)]
As of January 1	29,828	20,527
Interest income	1,317	1,135
Employer contributions	1,506	1,540
Employee contributions	429	364
Pension payments	-594	-919
Insurance premiums for death and disability benefits	-95	-127
Business combinations	20,102	4,890
Actuarial gains (+) / losses (-) on plan assets (not included in interest result)	-952	2,033
Currency changes	349	-13
Other	-170	398
As of December 31	51,720	29,828

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

The amount of the pension provisions recognized as of the balance sheet date for companies with plan assets is therefore as follows:

in € 000s	2013	2012[1)]
Projected benefit obligations for pension commitments	104,239	83,809
Fair value of plan assets	63,731	40,879
Net obligation	**40,508**	**42,930**
Effect from the limit on a defined benefit asset according to IFRIC 14	251	20
Net liability recognized in balance sheet	**40,759**	**42,950**

The amount of the pension provisions recognized as of the balance sheet date for companies without plan assets is therefore as follows:

in € 000s	2013	2012
Projected benefit obligations for pension commitments	6,950	4,971
Net liability recognized in balance sheet	**6,950**	**4,971**

Expenses for defined benefit plans totaled € 5.4 million in financial year 2013 (previous year[1)]: € 4.7 million) and consisted of the following components:

in € 000s	2013	2012[1)]
Current service cost	2,591	2,008
Past service cost	842	1,025
Plan settlements	122	-20
Net interest expense:		
• Interest expense (DBO)	3,530	3,292
• Interest income (plan assets)	-1,713	-1,615
• Interest income from reimbursement	-	-
• Interest expense (+) / interest income (-) from the limit on an asset	1	-
Administration costs	66	-
Other	-	-
Total	**5,439**	**4,690**

The actual return on plan assets amounted to € 0.5 million in financial year 2013 (previous year: € 0.5 million) for German group companies and € 0.4 million for international group companies (previous year: € 3.2 million).

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

The following actuarial parameters were used as a basis for measuring the German pension obligations and pension costs:

Parameters for pension obligations for German Group companies	Dec. 31, 2013	Dec. 31, 2012
Discount rate	3.7%	3.6%
Salary trend	3.0%	3.0%
Benefits trend	1.8%	1.8%
Inflation	2.0%	2.0%

The following actuarial parameters were used as a basis for measuring the international pension obligations and pension costs:

Parameters for pension obligations for international Group companies (weighted)	Dec. 31, 2013	Dec. 31, 2012
Discount rate	4.25%	3.6%
Salary trend	2.9%	2.9%
Benefits trend	1.7%	0.8%
Inflation	2.2%	2.0%

A sensitivity analysis was carried out in which only one assumption was changed at a time. In the following, the change in the defined benefit obligation of the pension obligations (DBO) for German Group companies is presented according to a change in the discount rate, salary trends and pension trends.

Change in the defined benefit obligation for pension obligations (DBO) as of December 31, 2013 (€ 49,794,000) according to changed assumption	in € 000s
Discount rate +0,5%	-4,449
Discount rate -0,5%	5,150
Salary trend +0,5%	29
Salary trend -0,5%	-21
Pension trend +0,5%	4,409
Pension trend -0,5%	-3,869

In the following, the change in the defined benefit obligation of the pension obligations (DBO) for international Group companies is presented according to a change in the discount rate, salary trends and pension trends.

Change in the defined benefit obligation for pension obligations (DBO) as of December 31, 2013 (€ 61,395,000) according to changed assumption	in € 000s
Discount rate +0,5%	-5,052
Discount rate -0,5%	5,726
Salary trend +0,5%	635
Salary trend -0,5%	-608
Pension trend +0,5%	3,159
Pension trend -0,5%	-2,573

As of December 31, 2013, the weighted duration of the pension obligations amounts to 20 years for German Group companies and 18 years for international Group companies.

In the coming financial years, the following payments from the Company and from plan assets overall are expected for defined benefit plans:

Expected pension payments according to maturity dates in € 000s	Germany	outside Germany
Less than one year	597	1,872
Between 1 and 2 years	641	2,117
Between 2 and 3 years	692	1,573
Between 3 and 4 years	2,049	2,078
Between 4 and 5 years	2,107	1,961
Between 5 and 10 years	12,044	11,262

For the coming financial year, employer contributions, consisting of direct pension payments and contributions to the plan, are expected in the amount of € 0.8 million for German companies and € 2.0 million for international Group companies.

The regulations of the amended IAS 19 require a presentation of the benefit plans that generate obligations for the company. For the STADA Group, pension plans in Germany, the Netherlands, the United Kingdom and Switzerland account for the largest share of total obligations with 85%. Accordingly, the following details focus more on these countries.

In Germany, the legal framework for company pension plans is provided by the Company Pensions Act (Betriebsrentengesetz – BetrAVG) in which minimum legal requirements are attached to company pension plans. Regulation and legal precedents within labor law must also be followed. The pension plans are predominantly based upon the final salary and are concluded with newly hired employees. Plan participants are primarily beneficiaries. Benefits are paid out in the form of a pension.

In Germany, STADA has plan assets in the form of a reinsurance policy. As of December 31, 2013, plan assets amounted to € 12.0 million and were composed of three different plans. There are no plan assets for an additional plan.

In in the context of risk assessment, the life expectancy of plan participants plays a particular role in Germany, as the pension obligation is divided among few plan participants. There is also the common risk, furthermore, of the interest rate development and the risk that the real future salary development exceeds the salary development derived from assumptions taken in the evaluation.

In financial year 2013 in Germany, the method of evaluating a defined benefit obligation of a plan was changed and affects two assumptions. As compared to the previous collective method, more relevant information is provided in the financial statements by way of applying individualized parameters for the widow's share in the retirement that is attributable to the plan participant's wife within the pension obligation. Furthermore, the age of retirement for plan participants has been adapted to the current situation. In accordance with IAS 8, the previous year figures have been retrospectively adjusted accordingly.

Pension legislation in the Netherlands requires pension plans to be backed by assets to the extent that the vested benefits are completely covered. The underlying average career pension plan in the Netherlands is, in part, financed via insurance contributions that are designed to fulfill the aforementioned requirement. The plan is open for new employees and contains benefits that fall due in case of retirement or early death.

In the Netherlands, the pension plan is, in part, financed via contributions to an insurance company. Assets received by the insurance company thereby cannot be allocated to specific participating companies. In particular, the assets cannot be determined by a quoted active market price. In practice, the assets are estimated according to the amount of vested benefit obligations. As of December 31, 2013, plan assets amounted to € 17.6 million.

The Dutch company pays annual pension contributions. In the process, life expectancy risk and interest rate risk are transferred to the insurance company. The insurance company also assumes the risk of investing the contributions. These risks are assumed by the insurance company for the entire term of the contract. If, for example, the discount rate used by the insurance company in its calculations should change, a new contract could be concluded that applies the new discount rate to underly only future contributions received.

Not all risks have been transferred to the insurance company. Dutch law specifies that former employees have the right to transfer their pension entitlements to the pension plan of a new employer. If the evaluation assumptions applied in the transfer differ from the originally applied assumptions of the insurance, the company could be required to pay an additional contribution payment.

In the United Kingdom, STADA provides its employees defined benefit plans that are concluded for new hires. The employees can also no longer earn an additional increase in their entitlements. The pension plan plans are subject to the UK Trust Law and the UK Pension Regulator. The pension plans are monitored by trustees who determine the investment strategy. The trustees are also responsible for fulfilling the legally required pension plan funding and thereby ensure sufficient assets to cover the technical provisions of the plan. The pension plan is subject to risks relating to the discount rate and participant life expectancy as well as inflation risk, if these values develop contrary to expectations. If the discount rate is low, the level of funding decreases which may require the payment of additional contributions. There is a financing risk in plan assets in that plan assets could develop contrary to expectations and plan assets could therefore only compensate in part for changes in the obligations. In addition, the major portion of plan assets is invested in shares or other financial products that ought to be more profitable than corporate bonds, but are nevertheless more volatile in nature. As of December 31, 2013, plan assets amounted to € 19.8 million. All assets have quoted market prices on an active market.

In Switzerland, every employer must offer its employees a pension plan according to federal pension law (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge – BVG). Employees whose salary exceeds the entry limit are obliged to be insured – this is re-determined periodically. The BVG requires a minimum plan (the "BVG minimum") that must always be covered. STADA's Swiss benefit plan includes benefits in case of death, disability and upon reaching retirement age. The annual pension is calculated based on a savings account and conversion rate determined according to the age of retirement. Plan participants can opt for a capital option.

In Switzerland, the benefit plan was connected to a semi-autonomous pension fund by December 31, 2013. The pension fund is equipped with a reinsurance – the risks of death and disability were thereby reinsured until December 31, 2013. As a result, the benefit plan only carried the risk of life expectancy and investment risk. Under IAS 19, however, there is also the discount rate risk, as all Swiss benefit plans are considered defined benefit plans under IFRS.

As of March 1, 2013, the acquired pharmaceutical wholesaling and commercial business was integrated into the benefit plan. The acquired value of the net obligation, i.e. the defined benefit obligation (DBO) net of plan assets, amounted to € 0.3 million.

Furthermore, the pension fund was changed in Switzerland as of January 1, 2014. Up to December 31, 2013, Spirig HealthCare was insured through the personnel pension collective of Spirig Pharma. As of January 1, 2014, a pension collective was entered. Benefits in case of death and disability remain unchanged. Pension payments are slightly higher due to a conversion rate that is still currently higher. Due to the size of the pension collective, the risks of death and disability are not reinsured.

The contributions for defined contribution plans, which are reported as expense in the respective period in the relevant functional areas, amounted to € 27.8 million in financial year 2013.

The other non-current provisions developed as follows:

Other non-current provisions in € 000s	2013	2012
As of Jan. 1	**2,565**	**1,529**
Current service cost	268	138
Past service cost	171	682
Plan settlements	-78	-22
Interest cost	197	116
Benefits paid	-307	-199
Business combinations	85	3
Revaluations		
• Gains (-)/losses (+) due to changed demographic assumptions	27	-
• Gains (-)/losses (+) due to changed financial assumptions	-50	126
• Gains (-)/losses (+) due to experience-based changes	290	265
Currency changes	-127	-73
Other	63	-
As of Dec. 31	**3,104**	**2,565**

The following actuarial parameters were used as a basis for measuring the other long-term provisions:

Parameters for other long-term provisions for international Group companies (weighted)	Dec. 31, 2013	Dec. 31, 2012
Discount rate	7.8%	8.7%
Salary trend	4.5%	5.6%
Inflation	4.1%	3.9%

37. Financial liabilities

Financial liabilities are comprised as follows in accordance with their remaining terms as of the balance sheet date:

	Liabilities promissory notes		Amounts due to banks		Liabilities from bond		Total	
in € 000s	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Remaining terms up to 1 year	98,000	244,000	194,484	84,519	-	-	292,484	328,519
Remaining terms over 1 year to 3 years	238,500	262,500	36,278	21,996	350,000	350,000	624,778	634,496
Remaining terms over 3 years to 5 years	100,000	288,000	65,779	19,059	350,000	-	515,779	307,059
Remaining terms over 5 years	-	-	14	17	-	-	14	17
Financial liabilities	436,500	794,500	296,555	125,591	700,000	350,000	1,433,055	1,270,091

The increase in financial liabilities mainly resulted from the bond placed in the second quarter of 2013 with a volume of € 350.0 million.

The contractually agreed undiscounted cash flows, as of the balance sheet date Dec. 31, 2013, from interest payments and repayment of financial liabilities for the coming years can be seen in the following chart:

	2014			2015			2016–2018		
in € 000s	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment
Cash flows from financial liabilities	37,560	5,130	297,172	31,878	4,642	414,338	35,238	5,935	726,433

The following projection of cash flows from financial liabilities was generated in the previous year:

	2013			2014			2015–2017		
in € 000s	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment
Cash flows from financial liabilities	37,249	9,615	328,393	29,356	7,279	226,094	35,033	9,119	719,226

For the financial liabilities existing as of the balance sheet date, a repayment in accordance with the maturity disclosed in the balance sheet was generally assumed. For current liabilities due to banks, an extension of existing credit lines was partly assumed. The variable interest payments from the promissory notes were determined based on the interest rate last fixed before December 31, 2013.

Internal measures to ensure the necessary liquidity for repayment of financial liabilities are detailed in the notes on the management of liquidity risk (Note 47.5.).

38. Trade accounts payable

Trade accounts payable are composed as follows:

in € 000s	Dec. 31, 2013	Dec. 31, 2012
Trade accounts payable to third parties	263,391	223,909
Trade accounts payable to non-consolidated Group companies	7,112	132
Advances received on orders from third parties	1,950	314
Liabilities from outstanding accounts	59,208	44,618
Total	331,661	268,973

Of the total amount of trade accounts payable, € 0.1 million (previous year: € 0.1 million) are due after one year.

The increase of trade accounts payable was primarily based on balance sheet date effects and the resulting derivable cash flows. Furthermore, there was an increase in the context of the consolidation of the two Vietnamese subsidiaries Pymepharco and STADA Vietnam as well as the British OTC supplier Thornton & Ross.

39. Other financial liabilities

Other financial liabilities are broken down as follows:

in € 000s	Dec. 31, 2013		Dec. 31, 2012	
	Total	thereof: current	Total	thereof: current
Outstanding purchase price liabilities	6,595	5,890	7,923	3,503
Finance lease liabilities	8,467	4,460	10,850	3,308
Liabilities from derivative financial instruments	5,619	405	11,622	2,060
Other financial liabilities	253,374	250,312	216,076	213,072
Total	**274,055**	**261,067**	**246,471**	**221,943**

The outstanding purchase price liabilities primarily result, as in the previous year, from installments which were not yet due for the acquisition of branded products in Russia.

Finance lease liabilities relate to sale-and-leaseback transactions for software and software licenses in the amount of € 3.4 million (previous year: € 6.0 million) as well as other lease liabilities, such as for vehicles and passenger vehicles, in the amount of € 5.1 million (previous year: € 4.8 million). Considering interest in the amount of € 1.7 million (previous year: € 2.5 million), lease installments payable in subsequent years total € 10.2 million (previous year: € 13.3 million). The lease liabilities are due as follows:

in € 000s	Lease installments		Interest		Liabilities finance lease	
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Remaining term up to 1 year	5,197	4,244	737	936	4,460	3,308
Remaining terms over 1 year to 3 years	4,535	7,066	978	1,179	3,557	5,887
Remaining terms over 3 years to 5 years	475	1,994	25	339	450	1,655
Remaining terms over 5 years	-	-	-	-	-	-
Total	**10,207**	**13,304**	**1,740**	**2,454**	**8,467**	**10,850**

In addition, the negative market values of derivatives measured at fair value through profit or loss were reported in liabilities from derivative financial instruments. In financial year 2013, this continued to relate, as in the previous year, to interest rate swaps, which are used as hedging instruments and, in addition, cross-currency swaps (see Note 47.7.). In addition, the previous year included interest rate swaps that were not utilized as hedging instruments. Within the scope of the maturity date analysis, the following contractually agreed remaining terms result for these derivative financial liabilities:

	Derivative financial liabilities	
in € 000s	Dec. 31, 2013	Dec. 31, 2012
Remaining term up to 1 year	405	2,060
Remaining terms over 1 year to 3 years	4,785	4,198
Remaining terms over 3 years to 5 years	429	5,364
Remaining terms over 5 years	-	-
Total	5,619	11,622

Remaining financial liabilities include liabilities from discount agreements of German STADA companies in the amount of € 214.7 million (previous year: € 189.7 million) and furthermore comprise many insignificant individual items in the Group companies. The remaining financial liabilities fall due in the amount of € 250.3 million (previous year: € 213.1 million) within one year, in the amount of € 3.1 million after one year and up to five years (previous year: € 3.0 million).

The contractually agreed undiscounted cash flows, as of the balance sheet date December 31, 2013, from interest payments and repayment of finance lease liabilities and for the liabilities from derivative financial instruments for the coming years can be seen in the following chart:

	2014			2015			2016–2018		
in € 000s	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from liabilities finance leases	737	-	4,460	511	-	1,241	492	-	2,766
Cash flows from derivatives	3,079	-	-	2,088	-	-	1,103	-	-

The following projection of cash flows from finance lease liabilities as well as derivatives was generated in the previous year:

	2013			2014			2015–2017		
in € 000s	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment	Interest rate fixed	Interest rate variable	Repay-ment
Cash flows from liabilities finance leases	936	-	3,308	669	-	4,274	849	-	3,268
Cash flows from derivatives	10,338	-	-	7,448	-	-	9,607	-	-

Included were all financial instruments used by STADA which existed as of December 31, 2013 and for which payments had already been contractually agreed.

Further details on liabilities from derivative financial instruments can be found in the notes on financial instruments (Note 46. and Note 47.7.).

40. Other liabilities

Other liabilities were comprised as follows:

	Dec. 31, 2013		Dec. 31, 2012[1)]	
in € 000s	Total	thereof: current	Total	thereof: current
Tax liabilities	17,031	17,031	14,040	14,040
Personnel related liabilities	48,919	47,968	40,762	38,073
Other liabilities	48,339	46,353	62,620	61,748
Total	114,289	111,352	117,422	113,861

Personnel-related liabilities relate to € 1.0 million in accruals in connection with partial retirement agreements as of December 31, 2013. The previous year's figures have been adjusted in accordance with the amended standard IAS 19 (see "Notes to the Consolidated Financial Statements – 3.").

Remaining liabilities comprise many insignificant individual items in the Group companies.

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

41. Other provisions

Other provisions are composed as follows:

in € 000s	Dec. 31, 2013	Dec. 31, 2012
Provisions set aside for damages	604	1,024
Warranties	16,932	9,514
Total	**17,536**	**10,538**

Provisions set aside for damages include possible utilization from pending legal disputes including the associated legal costs and developed as follows:

in € 000s	Dec. 31, 2013	Dec. 31, 2012
As of January 1	**1,024**	**1,950**
Added	340	66
Utilized	-	980
Reversed	731	-
Currency translation differences	-29	-12
As of December 31	**604**	**1,024**

Provisions for warranties developed as follows:

in € 000s	Dec. 31, 2013	Dec. 31, 2012
As of January 1	**9,514**	**9,885**
Added	12,966	3,790
Utilized	1,879	4,085
Reversed	3,669	4
Changes to the scope of consolidation	-	-72
As of December 31	**16,932**	**9,514**

Other disclosures

42. Notes to the cash flow statement

Cash flow from operating activities consists of changes in items not covered by capital expenditure, financing, changes in exchange rates from the conversion of foreign financial statements or transactions in foreign currencies or through changes in the scope of consolidation and measurement. Cash flow from operating activities amounted to € 205.4 million in the reporting year (previous year: € 212.7 million). The change of € 7.3 million as compared to the previous year primarily resulted from the significantly higher cash-effective decrease in other financial liabilities as well as the higher cash-effective increase of trade accounts receivable. In opposition, there was a substantially lower cash-effective increase in inventories as compared to the previous year period as well as a higher cash-effective increase in trade accounts payable, which could not fully compensate for the decrease in cash flow from operating activities, however.

Cash flow from investing activities reflects the cash outflows for investments reduced by the inflows from disposals. This amounted to € -312.4 million in the reporting year (previous year: € -468.4 million).

In financial year 2013, payments for investments in intangible assets in the amount of € 53.0 million (previous year: € 115.3 million) were made, of which € 13.5 million (previous year: € 77.4 million) related to significant investments in intangible assets for the short-term expansion of the product portfolio. Acquisition-related sales growth was generally associated with these investments in the reporting year. Proceeds from the disposal of non-current assets in the financial year amounted to € 5.4 million (previous year: € 14.0 million). Proceeds from the disposal of shares in consolidated companies in the previous year particularly resulted – in the course of the implementation of the "STADA – build the future" project – from the sale of the Irish subsidiary STADA Production Ireland Limited, Clonmel, Ireland, the engineering companies that are not part of the Group's core business, as well as both Russian production facilities OOO Makiz Pharma, Moscow, Russia, and OOO Skopin Pharmaceutical Plant, Ryazanskaya obl., Russia. In financial year 2013, on the other hand, there have not been any proceeds from the disposal of shares in consolidated companies.

In financial year 2013, the cash flow from investing activities was, as in the previous year, especially affected by high payments for investments in business combinations in accordance with IFRS 3. The payments for investments in business combinations in the reporting period primarily relate to the purchase price payments made for the acquisition of the British OTC supplier Thornton & Ross as well as the final purchase price payments for the additional shares and the control achieved over the Vietnamese pharmaceutical company Pymepharco and for the pharmaceutical wholesaling and commercial business acquired from Spirig Pharma, in each case following the deduction of acquired cash and cash equivalents. In the previous year, payments for investments in business combinations according to IFRS 3 primarily related to the acquisition of the Grünenthal branded product portfolio including the related sales companies as well as the purchase of the generics business of Spirig Pharma including the respective sales structures.

Cash flow from financing activities amounted to € 147.3 million in financial year 2013 (previous year: € 30.6 million) and encompasses payments from changes in financial liabilities, dividend distribution payments and payments for treasury shares as well as additions to shareholders' equity. This development was primarily a result of the bond placed by STADA in the second quarter of 2013. In opposition, the repayment of financial liabilities increased as compared to the prior-year period.

Dividend distribution payments of € 29.6 million primarily related to the dividend paid to the shareholders of STADA Arzneimittel AG for financial year 2012.

Proceeds from the capital increase are the result of the exercise of STADA warrants 2000/2015 (see Note 35.1.).

Free cash flow as the sum of cash flow from operating activities and cash flow from investing activities amounted to € -107.0 million in financial year 2013 (previous year: € -255.8 million) and is therefore still significantly characterized by the high volume of acquisitions.

Free cash flow, adjusted for effects from payments for significant investments and effects of proceeds from significant disposals in relation to intangible assets, business combinations and additions and disposals of shares in consolidated companies, is calculated as follows:

in € 000s	2013	2012
Cash flow from operating activities	205,416	212,656
Cash flow from investing activities	-312,371	-468,414
+ Payments for investments in shares in consolidated companies	-	-
+ Payments for investments in business combinations according to IFRS 3	230,068	333,299
+ Payments for significant investments in intangible assets for the short-term expansion of the product portfolio	13,450	77,430
⁄. Proceeds from the disposal of shares in consolidated companies	-	4,369
⁄. Proceeds from the disposal of intangible assets in significant disposals	1,700	1,050
Adjusted free cash flow	**134,863**	**149,552**

43. Segment Information

The measurement approaches for segment reporting are in accordance with the financial reporting methods used in the IFRS consolidated financial statements. Services between the segments are charged based on market prices.

Segmentation within the STADA Group is based on sales differentiation. Thus, the allocation to the individual segments is determined to a large extent by the sales positioning. If this positioning changes for parts of the product portfolio, associated sales are reallocated.

Generally, STADA's operating segments are divided into the two core segments, Generics and Branded Products, as well as into the non-core segment Commercial Business.

Pursuant to STADA's segment definition, which has been used since 2006, Generics are products for the health care market – usually with a drug character – which contain one or several active ingredients whose commercial property rights have expired or will expire shortly and whose sales positioning complies with one of the two following criteria:

- The product is offered by emphasizing its low price, usually in contrast to the product of another supplier which contains the identical active pharmaceutical ingredient,
  or
- the product is an integral part of a marketing concept targeting more than one product and indication for primarily prescription products with active ingredients whose commercial property rights have usually expired.

According to STADA's segment definition, which has been used since 2006, Branded Products are products for the health care market which contain one or several active ingredients whose commercial property rights have usually expired and whose sales positioning complies with one of the two following criteria:

- The product is sold under a product-specific brand name and with emphasis on specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products,
  or
- the product is part of a marketing concept for primarily non-prescription products which are mainly sold under a product-specific brand name and with emphasis on different specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products.

STADA also conducts business and has equity interests in fields outside the core segments. As a rule, the objective of these activities is to supplement and support the Group's activities in the core segments. Transactions that mainly involve trading and selling – such as in wholesaling activities – are grouped together in the Commercial Business segment. All other income, expenses and assets, which cannot be directly allocated to the segments, as well as the elimination of sales between segments are recognized under the reconciliation Group holdings / other and consolidation.

Disclosures on significant non-cash items include impairments on inventories and receivables; they do not, however, include depreciation and amortization as well as the offsetting of impairments and write-ups. In addition, further non-cash items, particularly non-cash effects from accruals for health insurance organization billings are included here. Reporting of the segment liabilities and non-current segment assets is waived, as this is without relevance for Group monitoring and for Group reporting.

43.1. Information by operating segment

in T €		2013	2012[1)]
Generics	**External sales**	**1,234,835**	**1,213,082**
	Sales with other segments	888	2,632
	Total sales	1,235,723	1,215,714
	Operating profit	156,728	138,108
	Depreciation / amortization	46,222	44,058
	Impairment losses	5,103	9,987
	Reversals	-	913
	Other significant non-cash items of operating result	-225,251	-214,614
Branded Products	**External sales**	**708,531**	**596,175**
	Sales with other segments	-	2,265
	Total sales	708,531	598,440
	Operating profit	161,070	123,652
	Depreciation / amortization	50,824	45,529
	Impairment losses	5,000	5,793
	Reversals	176	104
	Other significant non-cash items of operating result	2,128	-13,763
Commercial Business	**External sales**	**40,438**	**18,240**
	Sales with other segments	-	301
	Total sales	40,438	18,541
	Operating profit	1,327	167
	Depreciation / amortization	226	196
	Impairment losses	1	8
	Reversals	-	-
	Other significant non-cash items of operating result	-561	-183
Reconciliation Group holdings / other and consolidation	**External sales**	**30,607**	**10,047**
	Sales with other segments	-888	-5,198
	Total sales	29,719	4,849
	Operating profit	-67,576	-59,877
	Depreciation / amortization	10,490	7,619
	Impairment losses	13,513	10,139
	Reversals	370	4,432
	Other significant non-cash items of operating result	22,312	-4,312
Group	**External sales**	**2,014,411**	**1,837,544**
	Sales with other segments	-	-
	Total sales	2,014,411	1,837,544
	Operating profit	251,549	202,050
	Depreciation / amortization	107,762	97,402
	Impairment losses	23,617	25,927
	Reversals	546	5,449
	Other significant non-cash items of operating result	-201,372	-232,872

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

43.2. Reconciliation of segment results to net profit

in € 000s	2013	2012[1)]
Operating segment profit	319,125	261,927
Reconciliation Group holdings / other and consolidation	-67,576	-59,877
Result from associated companies	771	1,448
Investment income	340	2,365
Financial income	6,845	3,935
Financial expenses	70,079	74,201
Earnings before taxes, Group	**189,426**	**135,597**

43.3. Reconciliation of segment assets to Group assets

in € 000s	Dec. 31, 2013	Dec. 31, 2012[1)]
Segment assets	1,890,259	1,488,504
Reconciliation Group holdings / other and consolidation	78,783	214,864
Other non-current assets	90,947	98,808
Current assets	1,353,193	1,180,645
Total assets, Group	**3,413,182**	**2,982,821**

43.4. Information by country

	Development of sales by the company's registered office		Non-current assets	
in € 000s	2013	2012	Dec. 31, 2013	Dec. 31, 2012
Germany	483,120	519,640	641,858	669,052
Russian Federation	436,015	356,630	225,447	263,464
Italy	169,106	153,815	54,767	54,701
Belgium	147,736	141,940	9,264	9,760
United Kingdom	114,585	86,095	324,690	58,676
Other regions	663,849	579,424	704,025	635,252
Total, Group	**2,014,411**	**1,837,544**	**1,960,051**	**1,690,905**

In the presentation of sales by the company's registered office, sales to third parties are shown according to the invoicing company's registered office of the countries listed.

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

Disclosures on assets by country relate to non-current assets (intangible assets, property, plant and equipment).

43.5. Information about major customers

In accordance with IFRS 8.34, a company must provide notification when sales revenues from business activities from a single external customer amount to at least 10% of the company's total sales revenues. As in the previous year, this related to no customers.

44. Contingent liabilities

Contingent liabilities describe possible obligations with respect to third parties which result from past events and which may lead to a future outflow of resources depending on specific events. As of the balance sheet date, these contingent liabilities were considered improbable and are therefore not recognized.

STADA has contingent liabilities in connection with, among other things, legal risks from the pending proceedings. This primarily relates to patent risks for certain active pharmaceutical ingredients. The resulting possible obligations amounted to approx. € 11.1 million (previous year: € 14.9 million). Contingent liabilities reported in the Annual Report 2012 from residual risks in the amount of € 4.0 million relating to legal proceedings regarding the violation of competition law in Serbia, as well as relating to the outstanding decision on an approval extension of a product in Germany in the amount of € 2.6 million, no longer exist as the claim for this is now excluded. Provisions were not created for these, as the probability of an outflow of assets is under 50%. Outflows potentially resulting from these risks would generally be short-term.

In the first quarter of 2014, furthermore, the insolvency administrator of Velefarm Holding and Velefarm VFB submitted a lawsuit to Belgrade's commercial court against Hemofarm A.D., a subsidiary of STADA Arzneimittel AG, and Velefarm Prolek, a company of the Velefarm group.[1)] The statement of claim names potential repayments to the insolvent assets, which could result from this claim, with amounts quantified at approx. € 54.2 million (in local currency). However, it has to be taken into consideration that Hemofarm as creditor of the insolvent assets would retrieve a quota of the insolvent assets in a significant amount. Hemofarm and STADA believe that the lawsuit is unfounded, and for this reason no provisions were made for this purpose.

45. Other financial obligations

In addition to the contingent liabilities, there were other future financial obligations, which can be broken down as follows:

in € 000s	Dec. 31, 2013	Dec. 31, 2012
Operating lease liabilities	70,973	50,623
Remaining financial obligations	166,705	32,048
Total	237,678	82,671

1) See the Company's ad hoc release of February 14, 2014.

Liabilities from operating leases relate particularly to IT equipment and vehicles. In addition, there are liabilities from long-term rental agreements for office buildings with an average contract term of four years.

A significant new lease agreement concluded in the reporting year is a license agreement and relates to the back-licensing of an intangible asset sold in the reporting year for further exclusive utilization in sales. The agreement provides for an annual license fee of 10% of net sales, which were generated with the corresponding products in the European Union, but at least a pre-specified minimum license fee. The license agreement took effect on December 1, 2013 and has a base term of 85 months. Both during and after the base term, STADA has a contractually fixed pre-emption right as well as a buy-back option after the completion of the initial term.

The total of future minimum lease payments under operating leases amounted to € 71.0 million as of the end of the financial year (previous year: € 50.6 million) and can be broken down according to remaining term as follows:

	Operating lease	
in € 000s	Dec. 31, 2013	Dec. 31, 2012
Remaining term up to 1 year	22,370	15,495
Remaining terms over 1 year to 5 years	33,120	28,049
Remaining terms over 5 years	15,483	7,079
Total	70,973	50,623

Lease payments in the amount of € 29.5 million (previous year: € 25.3 million) were recognized as an expense in financial year 2013.

Remaining financial obligations primarily relate to an obligation of OAO Nizhpharm amounting to € 131.0 million toward Butterwood Holdings Limited, Cyprus for the purchase of the Russian branded product portfolio Aqualor®, whereby the completion of the contract was subject to comprehensive completion conditions as of December 31, 2013.[1)]

Furthermore there is still a guarantee amounting to € 25.0 million towards Hospira Inc., Lake Forest, Illinois, USA, in connection with a supply agreement between Hospira and the shares in the associated company BIOCEUTICALS Arzneimittel AG which are recognized under the equity method.

STADA, as guarantor, has recognized these guarantees in the reporting year as financial guarantees in accordance with IAS 39 at their fair value in the amount of € 0.3 million (previous year: € 0.3 million). Utilization of these guarantees granted is currently not expected.

Furthermore, the remaining financial liabilities included, among other things, further guarantees assumed by the STADA Group.

1) See the Company's ad hoc release of October 18, 2013 and ad hoc update of February 28, 2014.

46. Disclosures about financial instruments

46.1. Carrying amounts, valuation rates and fair values according to valuation categories

The following disclosures are made on carrying amounts, valuation rates and fair values by valuation category, whereby the following abbreviations are made pursuant to IAS 39: LaR (loans and receivables), HtM (held-to-maturity investments), AfS (available-for-sale financial assets), FAHfT (financial assets held for trading), FLHfT, (financial liabilities held for trading) and FLAC (financial liabilities measured at amortized cost).

in € 000s	Carrying amount Dec. 31, 2013	Valuation category pursuant to IAS 39	Valuation rate balance sheet in accordance with IAS 39			Valuation rate in accordance with IAS 17	
			Amortized cost	Fair value not included in the income statement	Fair value included in the income statement		
Assets							
Cash and cash equivalents	126,163	LaR	126,163				
Trade accounts receivable	591,678	LaR	591,678				
Held-to-maturity financial assets	11	HtM	11				
Available-for-sale financial assets	9,026	AfS	8,980	46			
Derivative financial assets without hedging relationship	10,520	FAHfT			10,520		
Other financial assets	67,315	LaR	67,315				
Equity and liabilities							
Trade accounts payable	329,711	FLAC	329,711				
Amounts due to banks	301,991	FLAC	301,991				
Promissory notes	434,943	FLAC	434,943				
Bonds	696,121	FLAC	696,121				
Liabilities financial leasing	8,467	n/a				8,467	
Derivative financial liabilities with hedging relationship	4,748	n/a		4,748			
Derivative financial liabilities without hedging relationship	871	FLHfT			871		
Other financial liabilities	259,969	FLAC	259,969				
Thereof aggregated according to valuation categories in accordance with IAS 39:							
Loans and receivables	785,156	LaR	785,156				
Held-to-maturity investments	11	HtM	11				
Available-for-sale financial assets	9,026	AfS	8,980	46			
Financial assets held for trading	10,520	FAHfT			10,520		
Financial liabilities measured at amortized cost	2,022,735	FLAC	2,022,735				
Financial liabilities held for trading	871	FLHfT			871		

		Valuation rate balance sheet in accordance with IAS 39					
	Fair Value Dec. 31, 2013	Carrying amount previous year	Amortized cost	Fair value not included in the income statement	Fair value included in the income statement	Valuation rate in accordance with IAS 17	Fair value Dec. 31, 2012
	126,163	92,730	92,730				92,730
	591,678	492,143	492,143				492,143
	11	11	11				11
	9,026	9,457	9,403	54			9,457
	10,520	2,265			2,265		2,265
	67,315	49,978	49,978				49,978
	329,711	268,659	268,659				268,659
	305,168	129,488	129,488				130,615
	471,285	791,507	791,507				836,330
	714,042	349,096	349,096				369,257
	8,467	10,850				10,850	10,870
	4,748	7,996		7,996			7,996
	871	3,711			3,711		3,711
	259,969	223,999	223,999				223,999
	785,156	634,851	634,851				634,851
	11	11	11				11
	9,026	9,457	9,403	54			9,457
	10,520	2,265			2,265		2,265
	2,080,175	1,762,749	1,762,749				1,828,860
	871	3,711			3,711		3,711

Since cash and cash equivalents as well as trade accounts receivable mainly have short remaining terms, their carrying amounts as of the closing date correspond approximately to the fair value.

Deviations of the fair values from the carrying amounts occur as shown in the following chart in the case of promissory notes, bonds, as well as non-current liabilities to banks. The cash flows calculated by means of the current yield curve were discounted to the measurement date to determine the fair values.

Available-for-sale financial assets are, in addition to a smaller portion of shares measured at fair value, primarily the carrying amounts of those shares in non-consolidated investments which are entirely measured at amortized cost for lack of available market prices.

The fair values of remaining financial receivables as well as of held-to-maturity financial investments with remaining terms of more than a year correspond to the present values of the payments connected with the assets taking into consideration the respectively current interest parameters that reflect market and partner-related changes in the conditions and expectations. Trade accounts payable as well as remaining financial liabilities also regularly have short remaining terms so that the recognized values approximate the fair values.

For the disclosures according to class of financial instrument necessary in accordance with IFRS 7, STADA defines each valuation category as a class.

The chart below shows how the valuation rates of financial instruments measured at fair value were determined for the respective classes of financial instruments:

	Level 1 Quoted prices in active markets		Level 2 Valuation methods with input parameters observable in the market		Level 3 Valuation methods with input parameters not observable in the market	
Fair values by levels of hierarchy in € 000s on a recurring basis	**Dec. 31, 2013**	**Dec. 31, 2012**	**Dec. 31, 2013**	**Dec. 31, 2012**	**Dec. 31, 2013**	**Dec. 31, 2012**
Available-for-sale financial assets (AfS)						
• Securities	46	54	-	-	-	-
Financial assets held for trading (FAHfT)						
• Currency forwards	-	-	-	-	17	-
• Interest rate / currency swaps	-	-	-	2,265	10,503	-
Financial liabilities held for trading (FLHfT)						
• Currency forwards	-	-	-	85	405	-
• Interest rate / currency swaps	-	-	-	1,830	466	-
• Interest rate swaps	-	-	-	1,796	-	-
Derivative financial liabilities with a hedging relationship						
• Cash flow hedges	-	-	-	7,996	4,748	-

In the context of the preparation of the financial closing, STADA reviews the allocation to the respective hierarchy levels according to information available on the determination of the fair values. If the need for reclassification is determined, the reclassification is carried out at the beginning of the reporting period. In the reporting year, interest rate/currency swaps, currency forwards as well as interest rate swaps were reclassified from hierarchy level 2 to hierarchy level 3. This reclassification resulted from a clarification in the context of the annex to IFRS 13, which has been applicable since 2013.

The fair values are analyzed in the context of the preparation of the financial closing. For this purpose, market analyses and change analyses are carried out.

Available-for-sale financial assets (AfS) relate to shares for which market prices are available for measurement. Derivative financial assets (FAHfT) and derivative financial liabilities (FLHfT) include positive or negative market values of derivative financial instruments (interest rate swaps or interest rate / currency swaps and foreign exchange swaps) not part of a hedging relationship. The fair values were determined using appropriate valuation models by external third parties. This includes the application of the discounted cash flow methods, which are largely based on input parameters observable in the market. The cash flows, which are already fixed or calculated by means of the current yield curve are discounted to the measurement date with the discount factors determined by means of the yield curve valid on the balance sheet date. The same applies for the calculation of the fair values of the derivative financial liabilities with a hedging relationship, which reflect the negative market values of the interest rate swaps used as hedging instruments.

The subsequent table shows how the valuation rates of assets measured at fair value were determined:

Fair values by levels of hierarchy in € 000s on a non-recurring basis	Level 1 Quoted prices in active markets		Level 2 Valuation methods with input parameters observable in the market		Level 3 Valuation methods with input parameters not observable in the market	
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Non-current assets and disposal groups held for sale	-	-	1,571	2,076	-	-

The assets held for sale comprise real estate held by a STADA subsidiary in Serbia. The non-recurring basis for the determination of fair value is based on an appraisal prepared by an independent expert and was largely determined on input parameters observable in the market.

As STADA utilizes pricing information from external third parties without further correction in the determination of the fair value, and therefore does not produce any quantitative, non-observable input factors, the option of IFRS 13 to waive the disclosure of quantitative information on such input factors is taken.

in € 000s	Financial assets measured at fair value	Financial liabilities measured at fair value
as of Jan. 1, 2013	**0**	**0**
Reclassification from level 2	2,265	-11,707
Currency changes	-	-
Total income	8,504	1,029
• through profit and loss	8,504	-2,219
• directly in equity	-	3,248
Additions	-	-
Realizations	-249	5,059
Reclassification in level 2	-	-
As of Dec. 31, 2013	**10,520**	**-5,619**
Income recognized through profit and loss	**8,504**	**-2,219**
Other earnings / other expenses	8,504	-4,015
• thereof attributable to assets/liabilities held as of the balance sheet date	8,504	959
Financial result	-	1,796
• thereof attributable to assets/liabilities held as of the balance sheet date	-	-

46.2. Net earnings from financial instruments by valuation category

Net earnings recognized in income from financial assets and liabilities can be broken down as follows:

	from subsequent measurement					Net earnings	
Net earnings by valuation category in € 000s	**from interest and dividends**	**at fair value**	**currency translation**	**valuation allowance**	**from disposals**	**Dec. 31, 2013**	**Dec. 31, 2012**
Loans and receivables (LaR)	3,464	-	-3,886	-9,388	-	-9,810	-8,475
Available-for-sale financial assets (AfS)	340	-	-	-920	-	-580	1,543
Financial assets held for trading (FAHfT)	-	8,260	-	-	-5	8,255	2,265
Financial liabilities measured at amortized cost	-68,064	-	-18,048	-	-	-86,112	-67,708
Financial liabilities held for trading (FLHfT)	-	-2,219	-	-	5.059	2,840	-661
Total	**-64,260**	**6,041**	**-21,934**	**-10,308**	**5,054**	**-85,407**	**-73,036**

The disclosure of interest from financial instruments is made in financial income and financial expenses in the interest result, dividends received are disclosed in investment income. With the exception of the effect of the disposal of the financial assets held for sale and valuation results from interest rate and currency swaps recognized at fair value with an effect on income, which are reported under financial income or financial expenses and regarding the interest rate/currency swap sometimes also in the currency translation result, disclosure of the remaining components of net earnings is made in other income or other expenses. Earnings from the disposal of financial instruments relate to currency swaps that expired in financial year 2013.

Valuation results from financial assets held for sale and cash flow hedges, which are reported under other comprehensive income in equity, are not included in this presentation as they had no effect on income.

47. Risk management, derivative financial instruments and disclosures on capital management

47.1. Principles of risk management

The basic principles of financial policy and of financial risk management are determined or confirmed at least once annually by the Executive Board in the context of the budget process. Furthermore, all transactions above a certain limit determined to be relevant by the Executive Board must first be approved by the Executive Board. The Executive Board is also regularly informed of the nature, scope and amount of current risks. With a view to assets, liabilities and planned transactions, these risks relate in particular to changes in exchange rates and interest rates. It is the objective of financial risk management to limit these market risks from 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.

47.2. Currency risks

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

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

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

In addition to natural hedges, STADA generally employs different financial derivatives to hedge assets, liabilities and anticipated future cash flows denominated in foreign currency. In the reporting year 2013, STADA made particular use of foreign-exchange futures contracts and interest/currency swaps among other things. The maturity dates of futures contracts are thereby selected to match the Company's anticipated cash flows. These contracts are currently valid for up to four years.

In the context of consolidated financial statements, on the other hand, exchange rate fluctuations lead to an accounting effect as a result of the conversion of a balance sheet item as well as the conversion of earnings and expenses of international Group companies with a different

functional currency than euro (translation risk). The appreciation of the euro as compared to the other currencies is generally negative and depreciation is generally positive. Exchange rate risks primarily result from activities in the following currencies: Russian ruble, pound sterling, Serbian dinar, Swiss franc and Vietnamese dong. This risk is not hedged.

It cannot be ruled out, however, that hedging strategies against currency risks turn out to be insufficient, wrong or suboptimal.

STADA determines quantitative disclosures on risks in connection with currency changes by means of aggregating all of the Group companies' foreign currency items that are not denominated in the respective Group company's functional currency. In case of hedging transactions they are compared with the positive or negative balances from the aggregation. This results in the subsequent material outstanding foreign currency items as of the respective balance sheet dates, which in case of a change to the foreign currency item due to a 10% appreciation or a 10% depreciation of the euro are as follows:

	Dec. 31, 2013			Dec. 31, 2012		
in € 000s	Russian ruble	US dollar	Kazakhstani tenge	Russian ruble	Serbian dinar	US dollar
Outstanding foreign currency item	-65,032	-31,319	-9,445	-43,275	+35,718	-16,134
Income (+) / expense (-) from an appreciation of the euro by 10%	-4,616	-3,132	-945	-4,616	+3,544	-1,613
Income (+) / expense (-) from a depreciation of the euro by 10%	+4,616	+3,132	+945	+4,616	-3,544	+1,613
Equity increase (+) / equity reduction (-) from an appreciation of the euro by 10%	-5,221	0	-59	-483	-8,219	+2
Equity increase (+) / equity reduction (-) from a depreciation of the euro by 10%	+5,221	0	+59	+483	+8,219	-2

Here, any currency risk is isolated, i.e. it is taken into account without mutual dependencies.

The outstanding foreign currency item in US dollar recognized in the reporting year exclusively relates to foreign currency reserves at international Group companies in US dollar.

The outstanding foreign currency items in Russian ruble relate to the balance from foreign currency reserves at foreign Group companies in euro and outstanding foreign currency reserves in Russian ruble. The outstanding foreign currency item in Kazakhstani tenge exclusively relates to foreign currency reserves at international Group companies in euro. The risk in connection with the outstanding foreign currency reserves in euro from the Group's perspective results from the functional currency of the respective international Group company.

47.3. Interest rate risks

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

In order to minimize the effects of significant interest rate fluctuations, STADA manages the interest rate risk, to the extent possible, for the financial liabilities denominated in euro with hedging transactions. In financial year 2013, 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. Taking into account these hedging transactions, an average of 72% (previous year: 84%) of financial liabilities denominated in euro and 100% (previous year: 100%) of those denominated in ruble had fixed interest rates in 2013.

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. The following factors are included in the calculation:

- changes in the market interest rate of interest rate derivatives designated as hedging instruments in the context of cash flow hedges,
- changes in the market interest rate of original financial liabilities with variable interest rates that are not hedged against interest rate risks, and
- changes in the market interest rate of interest rate derivatives not part of a hedging relationship.

in € million	Dec. 31, 2013	Dec. 31, 2012
Income (+) / expense (-) from an increase in the market interest rate level of 100 basis points	-2.1	+0.1
Income (+) / expense (-) from a decrease in the market interest rate level of 100 basis points	+2.0	-1.6
Equity increase (+) / equity reduction (-) from an increase in the market interest rate level of 100 basis points	+2.2	+3.7
Equity increase (+) / equity reduction (-) from a decrease in the market interest rate level of 100 basis points	-2.2	-2.6

47.4. Default risks

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.

Risks of default exist as a result of the supply of goods and services. In addition, there is the risk that in a difficult economic and financial environment, national health care systems delay or fail to make payments to STADA or business partners of STADA and that, as a result, directly or indirectly increased default risks arise.

STADA therefore strives to maintain business relations only with business partners of impeccable financial standing and in addition, partly uses suitable measures to safeguard itself against default risk, such as guarantees, letters of credit, credit insurance or the transfer of assets. However, it cannot be ruled out that these measures are insufficient and non-payments of individual debtors, and therefore burdens from one-time special effects, arise to a significant extent. Past due receivables in the operating area are continuously monitored and potential default risks are anticipated through the creation of valuation adjustments.

The supply of goods and services to international wholesalers is subject to special monitoring. Concentrations of risk are assumed if debtors exceed a particular credit volume, for which no securities were transferred. As of the balance sheet date however, there are no significant concentrations of risks at STADA exceeding the value adjustments for receivables with respect to local wholesalers in CEE countries classified as a special effect in previous years.

STADA's maximum credit default risk is calculated from the carrying amounts of the financial assets recognized. In addition, STADA granted guarantees, which amounted to a total nominal volume of € 156.4 million (previous year: € 25.4 million) as of the balance sheet date (see Note 45.). STADA has various forms of collateral for credit securities such as mortgages, bank or corporate guarantees, assignments of receivables and pledged inventories.

47.5. Liquidity risks

The Group's liquidity was guaranteed at all times in financial year 2013. In the context of continuous liquidity planning, the cash flows of all companies are regularly monitored. In order to secure the financial flexibility and financial security of STADA, a liquidity reserve in the form of cash is held and supplemented by free credit lines. For this purpose, STADA regularly concludes bilateral credit contracts for a period of at least 12 months with various banks. The refinancing of the financial liabilities is consequently monitored in the context of continuous liquidity planning.

47.6. Other price risks

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

47.7. Derivative financial instruments and hedging instruments

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

In financial year 2013, there are cash flow hedges exclusively in the form of payer interest rate swaps. Here, variable interest payments are transformed into fixed interest payments and the cash flow risk of variable interest liabilities is thus hedged. In the context of these hedging relationships, interest rate related cash flow changes of the hedged items are netted with cash flow changes of interest rate swaps.

In financial year 2013, no new payer interest-rate swaps were designated as cash flow hedges in order to secure interest payments from promissory notes.

Foreign currency derivatives are generally held to hedge the fair value of assets or liabilities. As of the balance sheet date, there are four currency swaps, which serve to hedge foreign currency loans, but which were not designated as fair value hedge.

	Start	Term	Swap from nominal value	Swap to nominal value
Currency swap	Dec. 12, 2013	105 days	kRUB 1,088,000	kEUR 23,687
Currency swap	Dec. 17, 2013	31 days	kGBP 2,500	kEUR 2,958
Currency swap	Dec. 17, 2013	31 days	kGBP 18,000	kEUR 21,295
Currency swap	Dec. 18, 2013	21 days	kCHF 4,000	kEUR 3,278

The loss from the measurement of these hedging transactions in the total amount of € 0.4 million was netted under currency translation result, recognized under other expenses.

As of the balance sheet date, furthermore, there are four interest rate / currency swaps in the form of cross-currency swaps, which serve to hedge foreign currency loans, but which were not designated as fair value hedge.

	Start	End	Swap from nominal value	Swap to nominal value
Interest rate / currency swap	Mar. 27, 2012	Apr. 25, 2016	kRUB 296,500	kEUR 7,661
Interest rate / currency swap	Apr. 23, 2012	Jan. 25, 2017	kRUB 2,088,100	kEUR 53,817
Interest rate / currency swap	Oct. 11, .2012	Dec. 12, 2016	kRUB 390,800	kEUR 9,746
Interest rate / currency swap	Dec. 12, 2012	Dec. 11, 2017	kCHF 29,000	kEUR 23,927

The earnings from the measurement of these hedging transactions were netted under currency translation result in other expenses in the total amount of € 8.0 million (previous year: € 2.1 million) and in the amount of € 1.6 million under other financial income. In the previous year, the valuation resulted in expenses in the amount of € 1.7 million recognized in other financial expenses. The currency translation effects of the individual hedged items as well as the cross-currency swaps balance out in the currency translation result.

The total volume of currency and interest rate related derivatives is comprised as follows:

in € 000s	Dec. 31, 2013		Dec. 31, 2012	
	Nominal value	Fair value	Nominal value	Fair value
Derivatives without hedging relationship				
Interest rate / currency swaps	95,151	10,037	97,740	435
Interest rate swaps	-	-	60,000	-1,796
thereof				
• fixed rate payer	-	-	60,000	-1,796
• fixed rate recipient	-	-	-	-
Other derivatives	51,218	-388	56,634	-85
Derivatives with hedging relationship				
Interest rate swaps	117,000	-4,748	146,500	-7,996
thereof				
• fixed rate payer	117,000	-4,748	146,500	-7,996
• fixed rate recipient	-	-	-	-
Other derivatives	-	-	-	-
Total	**263,369**	**4,901**	**360,874**	**-9,442**

The terms of the cash flow hedges existing as of the balance sheet date end between 2014 and 2016.

The effectiveness of hedging relationships is retrospectively and prospectively reviewed on the basis of effectiveness tests. As of the balance-sheet date, all of the hedging relationships presented above were effective. All changes in the fair value of the derivative hedging instruments were therefore recognized directly in equity under “Provisions for cash flow hedges”. In financial year 2013, the resulting earnings amounted to € 2.3 million after consideration of deferred taxes (previous year: € 1.3 million in expenses).

47.8. Disclosures on capital management

The objectives of the STADA capital management are the safeguarding of the business operation, the creation of a solid equity base for financing profitable growth and guaranteeing attractive dividend payments and the capital service. The STADA capital management consistently aims for the Group companies to have an equity basis that corresponds to the local requirements. When implementing and checking the Group’s capital and liquidity the legal requirements are taken into account.

Capital is monitored on the basis of net debt, which results from current and non-current financial liabilities minus cash and cash equivalents as well as available-for-sale securities. As an important key figure for capital management at STADA, the net debt to adjusted EBITDA ratio amounted to 3.1 in financial year 2013 (previous year[1)]: 3.2).

1) The previous year’s figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

In this connection, the net debt and net debt to adjusted EBITDA ratio were as follows:

in € 000s	Dec. 31, 2013	Dec. 31, 2012[1)]
Non-current financial liabilities	1,140,571	941,572
Current financial liabilities	292,484	328,519
Gross debt	**1,433,055**	**1,270,091**
Cash, cash equivalents and available-for-sale securities	126,209	92,784
Net debt	**1,306,846**	**1,177,307**
EBITDA (adjusted)	**415,205**	**367,411**
Net debt to adjusted EBITDA ratio	**3.1**	**3.2**

48. Related party transactions

In the scope of the ordinary course of business, STADA Arzneimittel AG and/or its consolidated companies have entered into related party transactions. In accordance with IAS 24, "related parties" refers to directly or indirectly controlled subsidiaries that are not consolidated due to lack of material significance, associates and joint ventures as well as persons in key positions and their close relatives. In principle, all trades are settled with related companies and natural persons at market-rate conditions.

48.1. Transactions with related persons

Persons in key positions are the board members of STADA Arzneimittel AG, the remuneration of whom, including further information on the principles of the remuneration system, is presented in detail in the Management Report (see "Business and General Conditions – Remuneration Report"), as well as the summary in Note 49. in relation to quantitative disclosures.

In the course of their normal professional activities, individual members of the Supervisory and Advisory Boards who are self-employed have business dealings with STADA. These are not significant as regards volume and nature.

In financial year 2013, Steffen Retzlaff, the son of the Chairman of the Executive Board, Hartmut Retzlaff, was appointed Managing Director of Hemopharm GmbH Pharmazeutisches Unternehmen, STADAvita GmbH, PharmaSwyzz Deutschland GmbH and STADA PHARMA Bulgaria EOOD as well as member of the Board of Directors of STADA MENA DWC-LLC.

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).

48.2. Transactions with related companies

Within assets and liabilities, the following amounts are primarily related to transactions involving affiliated companies:

in € 000s	Dec. 31, 2013	Dec. 31, 2012
Trade accounts receivable		
Non-consolidated subsidiaries / joint ventures	94	1,827
Associated companies	40	40
Joint venture	-	168
Other investors	165	-
Trade accounts payable		
Non-consolidated subsidiaries / joint ventures	7,034	122
Associated companies	480	502
Joint venture	-	677
Other investors	551	10

Expenses and income essentially relate to related party transactions as follows:

in € 000s	2013	2012
Sales		
Non-consolidated subsidiaries / joint ventures	-	-
Associated companies	-	-
Joint venture	722	97
Other investors	1,635	-
Interest income		
Non-consolidated subsidiaries / joint ventures	144	68
Associated companies	868	1,350
Joint venture	20	22
Other investors	-	-
Interest expense		
Non-consolidated subsidiaries / joint ventures	-	3
Associated companies	-	-
Joint venture	-	-
Other investors	-	-

In addition, the following disclosures on related party transactions are made:

STADA continues to provide the associated company BIOCEUTICALS Arzneimittel AG with a credit line facility with an interest rate that is partly usual for risk capital and of which a total of € 15.6 million (previous year: € 13.8 million) had been used as of December 31, 2013.

There is a service contract with BIOCEUTICALS Arzneimittel AG, as well as semi-exclusive distribution rights for Epo-zeta in Germany granted by BIOCEUTICALS Arzneimittel AG to, among others, cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH. In some other European countries (such as Serbia or Russia, for example), a local STADA-owned subsidiary can receive or has already received at the same time a semi-exclusive local sales license as well. BIOCEUTICALS Arzneimittel AG has so far not made use of any own personnel – except for the company's boards according to stock corporation law – but has exclusively assigned companies from the STADA Group with this, which invoice at normal market conditions.

In financial year 2013, STADA also had various business relations with its fellow partners formerly included in the consolidated financial statements as joint ventures of STADA Import/Export, British Virgin Islands, which was deconsolidated as of November 30, 2013, as well as STADA Vietnam, Vietnam, which has been included as a subsidiary in the consolidated financial statements since the fourth quarter in the context of the control achieved. The fellow partners of STADA Import/Export and STADA Vietnam received appropriate management remuneration for their activities as general managers of the joint venture companies, which proportionately amounted to € 75,000 in financial year 2013 (previous year: € 137,000). In financial year 2013 up until control was achieved, STADA generated total sales of € 9.3 million with its fellow partner STADA Vietnam (previous year: € 12.8 million)

Furthermore, STADA also had business relations with its fellow partner Hetmak FZCO, Dubai, a non-consolidated joint venture. As of the balance sheet date, outstanding receivables in the amount of € 0.1 million resulted from this business relationship.

49. Remuneration of the Executive Board and the Supervisory Board

The aggregate remuneration of the Executive Board and the Supervisory Board including further information on the principles of the remuneration system are presented in detail in the Management Report (see "Business and General Conditions – Remuneration Report").

In summary, the following disclosures regarding the remuneration of the Executive Board and Supervisory Board at STADA Arzneimittel AG are made according to IAS 24 in consideration of the disclosure requirements of Section 314 (1) no. 6a sentence 1–4 of the German Commercial Code:

	Fixed and variable current remuneration		Termination benefits		Post-employment benefits		Expenses for pension commitments earned in the current year		Other remuneration planned for the longer-term		Total remuneration in accordance with IFRS	
in € 000s	2013	2012	2013	2012	2013	2012	2013	2012[1]	2013	2012	2013	2012[1]
Members of the Executive Board	6,266[2]	5,979[3]	2,753	-	-	-	940	963	-	-	9,959	6,942
Members of the Supervisory Board	1,062	868	-	-	-	-	-	-	-	-	1,062	868

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.).
2) Thereof progress payments on variable long-term special remuneration in the total amount of € 1,206,250.00 as a result of achieving the annual interim goals in the respective individual contracts for financial year 2013.
3) Thereof progress payments on variable long-term special remuneration in the total amount of € 1,306,250.00 as a result of achieving the annual interim goals in the respective individual contracts for financial year 2012.

Remuneration to former members of the Executive Board in financial year 2013amounted to a total of € 3,040,000 of which € 2,753,000 was attributable to the former Executive Board member Dr. Axel Müller. The fair value of pension commitments for former Executive Board members amounted to € 9,598,000 as of December 31, 2013.

There were no loans granted to members of the Executive Board and Supervisory Board at STADA Arzneimittel AG as of the balance sheet date. Nor has STADA taken on any contingent liabilities for the benefit of the Board members of STADA Arzneimittel AG.

50. Fees for the auditor

In financial year 2013, the following professional fees were recognized as expenses for services rendered by the auditor of the consolidated financial statements, PKF Deutschland GmbH:

in € 000s	2013	2012
Fees for the auditor	471	496
• thereof for audits	328	320
• thereof for other confirmation services	82	85
• thereof for other services	61	91

The fees for audits relate to payment for the audit of the consolidated financial statements as well as the audit of the financial statements of STADA Arzneimittel AG and its German subsidiaries, each at the end of the financial year.

Other confirmation services include the review of the interim consolidated financial statements of June 30 of the corresponding financial year.

Other services primarily relate to the provision of a comfort letter.

51. Corporate Governance

The declaration on the German Corporate Governance Code prescribed by Section 161 of the German Stock Corporation Act (AktG) was last issued by the Executive Board and Supervisory Board on November 12, 2013. The declaration is publicly available via the Company's website (www.stada.de in German or www.stada.com in English) and is also presented in the Annual Report under "Additional Information".

52. Events after balance-sheet date

The events that occurred between the end of financial year 2013 and the date of the signing of the Group Management Report and the Group financial statements for 2013 and have a significant or possibly significant effect on the business, financial and earnings position of the STADA Group were as follows:

- In the first quarter of 2014, STADA was able to secure promissory notes in the total amount of € 200 million with a term of five years. A fixed interest rate of 2.30% thereby applies for € 124 million. A variable interest rate of currently 1.51% applies for € 76 million.

- In the first quarter of 2014, the insolvency administrator of Velefarm Holding and Velefarm VFB submitted a lawsuit to Belgrade's commercial court against Hemofarm A.D., a subsidiary of STADA Arzneimittel AG, and Velefarm Prolek, a company of the Velefarm group.[1)] In the lawsuit, the insolvency administrator demands that certain agreements and statements from the years 2010 and 2011 reached between Hemofarm and the Serbian wholesale group Velefarm with regard to the insolvent assets of Velefarm Holding and Velefarm VFB be declared invalid and demands repayments to the insolvent assets. In the statement of claim, these amounts are quantified with approximately € 54.2 million (in local currency). However, it has to be taken into consideration that Hemofarm as creditor of the insolvent assets would retrieve a quota of the insolvent assets in a significant amount. Hemofarm and STADA believe that the lawsuit is unfounded.

- In the first quarter of 2014 – after fulfillment of extensive completion conditions – the contract for the purchase of the Russian branded product portfolio Aqualor® was completed as planned.[2)] The Aqualor® product sales have been consolidated in the STADA Group since March 1, 2014.

53. Dividend

According to the German Stock Corporation Act, the distributable dividend is determined according to the distributable profit reported by STADA Arzneimittel AG in its annual financial statements prepared in accordance with the rules and regulations of the German Commercial Code. This amounted to € 116,578,257.14 as of December 31, 2013. The Executive Board of STADA Arzneimittel AG proposes that a dividend of € 0.66 per common share be appropriated from this distributable profit for financial year 2013. In financial year 2013, a dividend in the amount of € 0.50 per common share was distributed to shareholders from the distributable profit of financial year 2012.

Bad Vilbel, March 24, 2014

H. Retzlaff
Chairman
of the Executive Board

H. Kraft
Chief Financial Officer

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

1) See the Company's ad hoc release of February 14, 2014.
2) See the Company's ad hoc release of October 18, 2013 and ad hoc update of February 28, 2014.

RESPONSIBILITY STATEMENT

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

Bad Vilbel, March 24, 2014

H. Retzlaff
Chairman
of the Executive Board

H. Kraft
Chief Financial Officer

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

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by STADA Arzneimittel Aktiengesellschaft, Bad Vilbel, comprising the balance sheet, the income statement, statement of comprehensive income, statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the legal representatives of the company. Our responsibility is to express an opinion on these consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report.

We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt, March 24, 2014

PKF Deutschland GmbH
Wirtschaftsprüfungsgesellschaft

Roman Brinskelle
German Public Accountant

Santosh Varughese
German Public Accountant

GLOSSARY FROM A TO Z

Active pharmaceutical ingredient: In the pharmaceutical market: the pharmaceutically effective component of a drug (also API).

Approval: Permission under drug laws to market a drug in a national market.

Audit: In the pharmaceutical market: control of equipment and documentation of manufacturers or their suppliers.

Biosimilar: A biosimilar is a drug with a protein produced by biotechnological process as an active pharmaceutical ingredient and developed in comparison to an original product which is already on the market, and that is so similar to this original product that the biosimilar has proven therapeutic equivalence.

Commercial Business: Purchase and subsequent sale of third-party products; in the pharmaceutical market this frequently refers to wholesale business or parallel imports.

Commercial property rights: Provide inventors or companies with protection against competition for an invention for a limited time period. The best-known commercial property right is the patent. In addition, Supplementary Protection Certificates (SPC) play an important role in the pharmaceutical market.

Dossier: Documentation required in an application for drug approval that describes the quality, safety, and efficacy of that drug.

GMP: Good Manufacturing Practice – international production standard in the pharmaceutical industry.

Indication: Diseases for which a certain drug is used.

Monoclonal antibodies: Monoclonal antibodies are immunologically active proteins which are used against an individual epitope (surface structure) of an antigen (infectious substances or certain molecules) and specifically bind to that substance. Monoclonal antibodies are generated with molecular biological methods and produced biotechnologically through genetically engineered cell lines.

Nephrology: Branch of internal medicine dealing with diagnostics and non-surgical therapy of kidney diseases.

Oncology: Branch of internal medicine dealing with cancer.

Patent: In the pharmaceutical market: commercial property right granting active pharmaceutical ingredients market exclusivity for a limited period (in the EU 20 years, for example).

Prescription obligation: The legal requirement specifying that, depending on the potential risk involved, drugs may be dispensed to patients on prescription only.

Rituximab: Rituximab is a monoclonal antibody used in the treatment of various forms of cancer, such as non-Hodgkin lymphomas, as well as various auto-immune diseases, such as rheumatoid arthritis.

Trastuzumab: Trastuzumab is a monoclonal antibody used in the treatment of specific forms of breast and stomach cancer.

FINANCIAL CALENDAR

2014

March 27, 2014	Publication of 2013 results with analysts' and press conference
May 8, 2014	Publication of the results of the first three months of 2014
June 4, 2014	Annual General Meeting
August 7, 2014	Publication of the results of the first six months of 2014
November 13, 2014	Publication of the results of the first nine months of 2014

2015

March 26, 2015	Publication of 2014 results with analysts' and press conference
May 7, 2015	Publication of the results of the first three months of 2015
June 3, 2015	Annual General Meeting
August 6, 2015	Publication of the results of the first six months of 2015
November 12, 2015	Publication of the results of the first nine months of 2015

Status at time of going to print; STADA reserves the right to change these dates. The current financial calendar can be found on the Internet at: www.stada.de and www.stada.com.

The Annual Report and the interim reports will be published on the dates listed above on the Company website (www.stada.de and www.stada.com), usually before trading begins on the Frankfurt Stock Exchange. Shareholders may receive printed copies of the reports on request.

PUBLISHING INFORMATION

Publisher
STADA Arzneimittel AG
Stadastraße 2–18
61118 Bad Vilbel, Germany
Phone: +49 (0) 61 01/6 03-0
Fax: +49 (0) 61 01/6 03-2 59
E-mail: info@stada.de
Website: www.stada.de and www.stada.com

Contact
STADA Arzneimittel AG
STADA Corporate Communications
Phone: +49 (0) 61 01/6 03-1 13
Fax: +49 (0) 61 01/6 03-5 06
E-mail: communications@stada.de

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

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

Design and Realization
wagneralliance Kommunikation GmbH, Offenbach am Main, Germany

Translation
MBETraining & Translations, Wiesbaden, Germany

Photography
Andreas Pohlmann, Munich, Germany

Printing
Grafik & Druck Steiner oHG, Alzenau

Forward-looking-statements

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

Rounding

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

OVERVIEW OF SALES

Group sales in € million	2013	2012
Total Group sales	**2,014.4**	**1,837.5**
• Core segment Generics	1,234.8	1,213.1
• Core segment Branded Products	708.5	596.2
• Commercial Business	40.5	18.2
• Group holdings / other	30.6	10.0

Sales by market regions in € million	2013	2012
Germany	**454.1**	**470.0**
• Germany	420.2	442.0
• Export sales of the market region Germany	33.9	28.0
Central Europe	**858.7**	**816.0**
• Italy	169.5	154.0
• Belgium	147.7	141.8
• Spain	107.7	108.7
• France	95.0	92.2
• United Kingdom	79.1	54.8
• Switzerland	51.3	34.0
• The Netherlands	37.6	44.3
• Ireland	23.0	20.9
• Poland	20.3	22.0
• Denmark	19.7	23.0
• Other / rest of Central Europe	86.3	95.0
• Export sales of the market region Central Europe	21.5	25.3
CIS / Eastern Europe	**629.2**	**526.5**
• Russia	418.8	343.0
• Serbia	86.0	80.9
• Ukraine	36.7	30.5
• Kazakhstan	21.3	15.5
• Bosnia-Herzegovina	13.9	13.3
• Other / rest of CIS / Eastern Europe	42.2	34.2
• Export sales of the market region CIS / Eastern Europe	10.3	9.1
Asia & Pacific	**72.4**	**25.0**
• Vietnam	62.5	14.6
• China	2.7	3.6
• The Philippines	2.6	2.1
• Thailand	2.5	2.5
• Other / rest of Asia & Pacific	1.9	2.2
• Export sales of the market region Asia & Pacific	0.2	0.0

FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

Financial key figures in € million	2013	2012[1]	2011[1]	2010[1]	2009[1]
Total Group sales	2,014.4	1,837.5	1,715.4	1,627.0	1,568.8
• Core segment Generics	1,234.8	1,213.1	1,188.3	1,124.2	1,115.6
• Core segment Branded Products	708.5	596.2	471.9	425.0	392.6
Operating profit	251.5	202.1	120.1	161.8	191.9
EBITDA	383.5	323.7	223.2	268.8	280.1
Adjusted EBITDA	*415.2*	*367.4*	*337.2*	*315.9*	*287.5*
EBIT	252.7	205.9	121.2	162.1	192.5
Earnings before taxes (EBT)	189.4	135.6	69.5	109.0	141.5
Net income	121.4	86.5	22.0	68.4	100.4
Adjusted net income	*160.6*	*147.9*	*146.6*	*133.3*	*115.8*
Cash flow from operating activities	205.4	212.7	169.0	194.8	250.5

Asset/capital structure in € million	2013	2012[1]	2011[1]	2010[1]	2009[1]
Balance sheet total	3,413.2	2,982.8	2,799.8	2,506.7	2,451.7
Non-current assets	2,060.0	1,802.2	1,532.7	1,381.4	1,406.6
Current assets	1,353.2	1,180.6	1,267.1	1,125.3	1,045.1
Equity	1,010.1	910.3	863.9	868.5	869.7
Equity-to-assets ratio in percent	29.6%	30.5%	30.9%	34.6%	35.5%
Non-current liabilities	1,358.4	1,102.9	1,254.9	910.5	683.5
Current liabilities	1,044.7	969.6	681.0	727.7	898.5
Net debt	1,306.8	1,177.3	900.3	864.1	899.0

Capital expenditure/depreciation and amortization in € million	2013	2012	2011	2010	2009
Total capital expenditure	365.1	401.0	286.6	109.3	124.8
• on intangible assets	285.4	367.1	237.3	70.5	73.9
• on property, plant and equipment	78.8	30.3	31.7	30.8	50.8
• on financial assets/associates	0.9	3.6	17.6	8.0	0.1
Total depreciation and amortization	131.4	123.3	107.4	107.8	90.3
• on intangible assets	100.8	88.8	73.5	67.7	57.6
• on property, plant and equipment	29.7	33.3	29.3	36.0	32.4
• on financial assets	0.9	1.2	4.6	4.1	0.3

Employees	2013	2012	2011	2010	2009
Average number per year[2]	9,154	7,814	7,826	8,080	8,064
Number as of the balance sheet date	9,825	7,761	7,900	8,024	7,981

Key figures per STADA share	2013	2012[1]	2011[1]	2010[1]	2009[1]
Market capitalization (year-end) in € million	2,171.7	1,448.3	1,135.1	1,494.3	1,424.2
Year-end closing price ordinary share in €	35.93	24.41	19.25	25.38	24.20
Average number of shares (without treasury shares)	59,571,959	59,059,393	58,830,209	58,763,492	58,662,392
Basic earnings per share in €[3]	2,04	1.46	0.37	1.16	1.71
Adjusted earnings per share in €	*2,70*	*2.50*	*2.49*	*2.27*	*1.97*
Diluted earnings per share in €[4]	2,00	1.44	0.37	1.14	1.70
Adjusted diluted earnings per share in €	*2,65*	*2.47*	*2.44*	*2.22*	*1.96*
Dividend per ordinary share in €	0.66[5]	0.50	0.37	0.37	0.55
Total dividend payments in € million	39.8[5]	29.6	21.8	21.7	32.3
Distribution ratio in percent	33%[5]	34%	99%	32%	32%

1) The previous year's figures have been adjusted in the context of a change in methodology implemented in financial year 2013 as well as in accordance with the changed standard IAS 19 in connection with IAS 8 as well as in connection with IAS 1 (see Notes to the Consolidated Financial Statements – 3. and 4.). For reasons of the practicability caveat as specified under IAS 8.43 ff., the previous year figures for financial year 2011 and earlier were not adjusted.

2) Employees of companies consolidated at only 50% have been included in accordance with their respective consolidation rate.
3) In accordance with IAS 33.10.
4) In accordance with IAS 33.31.
5) Proposed.

www.stada.de
www.stada.com